
CHAPTER 6

Connectivity 2.0
for
South Asia
Economic Union

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Trade has always been at the forefront of South Asia's economic policies. However, progress has been undermined by excessive costs and lengthy time associated with the export and import of goods and services. Connectivity, therefore, emerges as central to South Asia's regional economic integration, especially while dealing with the barriers hampering progress in trading. There is no doubt that South Asia can achieve substantial productivity gains and cost reductions through improvements in transport connectivity. International experiences reveal that success in transport connectivity depends on two broad measures: first, development of transport infrastructure, primarily the cross-border type; and second, reduction of non-tariff trade costs, particularly at the border. These important measures are also seen as a way to stimulate regional integration of South Asia.¹

A deepening of the regional integration process under the South Asian Association for Regional Cooperation (SAARC) would take it towards the formation of a common market with a customs union. This means having a common external trade policy, *ceteris paribus*. Thereafter, an economic union may emerge as a natural consequence. In other words, an efficient, secure and integrated transport network is essential to support the realization of a South Asia Economic Union.

While South Asian regional trade has grown with the support of the Agreement on South Asian Free Trade Area (SAFTA), the

required attention to regional transportation has been missing. South Asia connectivity has moved from a trans-Asian architecture, such as Asian Highway and Trans-Asian Railway, in the first two decades of SAARC. Instead, the focus is on sectoral and region-specific connectivity, such as development of corridors, border development, customs cooperation, coastal shipping, digital connectivity and the like (Table 6.1). South Asian countries have been taking measures to improve their transport connectivity at the national level. However, the region as a whole is yet to make substantial progress in the field of collective transport connectivity. Nevertheless, the benefits to be derived from comprehensive connectivity measures towards a common market are significant.

Table 6.1

Transition of South Asia connectivity

Connectivity	Focus	Agreement
1985–2005	<ul style="list-style-type: none"> • Road and rail connectivity • Border development 	<ul style="list-style-type: none"> • Asian Highway • Trans-Asian Railway
2006–2011	<ul style="list-style-type: none"> • Corridors • Road, rail and waterways • Customs cooperation 	<ul style="list-style-type: none"> • E-customs • SAARC Regional Multimodal Transport Study
2011–2014	<ul style="list-style-type: none"> • Digital connectivity • Border development • Customs cooperation 	<ul style="list-style-type: none"> • Integrated Check Post (ICP) • Border haats • E-customs
2015–to date	<ul style="list-style-type: none"> • Corridors • Digital connectivity • Paperless trade • Coastal shipping and inland water transport 	<ul style="list-style-type: none"> • BBIN Motor Vehicles Agreement • UNESCAP paperless trade agreement • India-Bangladesh Coastal Shipping Agreement (IBCSA)

Source: Author.

The purpose of this chapter is to define the broad perspective and approach that South Asia should adopt as it works to enhance its intraregional transport connectivity. South Asia Connectivity 2.0, therefore, presents the basic principles that should guide South Asia's transport connectivity over the next decade. This chapter outlines the connectivity needed to facilitate the next phase of the South Asian integration process. It also provides the rationale for moving towards an economic union, and highlights the key policy issues thereof.

Transport and economic corridors

Transport corridors are a set of routes that connect the economic centres within and across countries. They encompass several centres of economic activity. Subregional corridors connect to a regional transport system. Transport and energy infrastructure bring in investment into sectors with the potential to develop projects. Subsequently, connectivity and growth attract investments in related sectors. Thus, a transport corridor grows into an economic corridor. The economic corridor approach emphasizes the integration of infrastructure improvement with economic opportunities, such as trade and investment. It includes efforts to address social and other outcomes of increased connectivity.

The approach gained attention when the Asian Development Bank (ADB) came in to support the Greater Mekong Subregion (GMS). A major achievement of the GMS programme is exemplified by the main economic corridors—the East-West, the North-South and the Southern. The 1992 GMS Ministerial Meeting sought to focus on investments in transport, energy and telecommunications in that region. The ADB devised a set of three characteristics that typified an economic corridor:

- It covers a small geographical space straddling a transport artery, such as road, rail or canal;
- It emphasizes bilateral, rather than multilateral, initiatives focusing on strategic nodes at border crossings between two countries;

- It highlights physical planning so that infrastructure development yields positive benefits. In a national context, the concept is now increasingly used for development programmes.

An economic corridor is a public capital—a sum of transportation networks, human resources, communication facilities, energy grids and institutional infrastructure. An economic corridor can be national (for example, the Delhi-Mumbai Industrial Corridor), regional (for example, the GMS corridors), or even international (for example, submarine telecommunications cables). Trade facilitation and logistics services are the main catalysts in its development.

Srivastava (2012) argues that there are five stages in the transformation of a transport corridor into an economic corridor—Stage 1: transport corridor; Stage 2: transport and trade facilitation corridor; Stage 3: logistics corridor; Stage 4: urban development corridor; and Stage 5: economic corridor. A framework for regional corridor development is based on the extent of regionality of corridors and their area of influence or width. On this basis, four zones are demarcated with inter-zone sequencing—Zone 1: narrow national corridor; Zone 2: broad national corridor, including area development and railroads; Zone 3: narrow regional corridor, including trade facilitation and logistics; and Zone 4: broad regional corridor, including cross-border economic zones.

The development of a national corridor to a regional one, that is, the movement from Zone 2 to 3, may involve the linking of national corridors. It includes reducing barriers at national boundaries to enable moving people and goods at least cost. The growth of logistics companies has to be supported while procedures are standardized.

The private sector has a critical role in corridor development in Zone 3. And, for movement to Zone 4, regional plans for seamless integration are required and national plans have to remain well-coordinated.

There are large opportunities for trade, investment and economic growth in the region, particularly due to low regional in-

tegration. Each country in the region has national plans and priorities for corridor development, which include developing rural roads and rural growth centres. Transforming this into Zone 3 requires the linking of national plans and corridors, a process that may not have a high priority in national plans.

India is uniquely placed in South Asia, connecting most of the countries of the region that do not have contiguous borders. It also serves as a vital link between East and West Asia. There are various studies that have identified the important transport corridors in the region. They include the ADB-supported SAARC Regional Multimodal Transport Study (SRMTS), the BIMSTEC Transport Logistics Study and the Asian Land Transport Infrastructure Development project, endorsed by UNESCAP in 1992. The latter includes plans for an Asian Highway. Developing the road corridors identified by SRMTS could be a first step towards creating economic corridors in the region.

Regional connectivity

A common set of region-wide facilitation measures are yet to be undertaken targeting connectivity and compliance with a single standard. Progress in this area has been limited to individual-country initiatives undertaken mainly as a part of the national agenda (e.g., electronic customs). Figure 6.1 illustrates the steps needed to move towards a South Asia Economic Union. It warrants a common template of trade transactions in the region for the eventuality when the region will apply common external tariffs to non-members. Therefore, South Asian countries must unite to implement a regional trade facilitation and connectivity agenda which consists of regional corridors, a regional single window, regional transit and coordinated border management. These are prerequisites for a customs union and an economic union.

Coordinated border management: It is based on measures such as collocation of facilities, close cooperation between agencies, delegation of administrative authority, cross-designation of officials and effective information sharing.

Figure 6.1

Steps to South Asia Economic Union



Source: De (2015).

Regional single window: This is a digital interface that allows traders to submit all import, export and transit information required by regulatory agencies only once, via a single electronic gateway, instead of submitting essentially the same information numerous times to different government entities.

Regional transit: Goods and services move freely in compliance with certain rules and regulations in a given region.

One-stop border post: One-stop border post allows neighbouring countries to coordinate import, export and transit processes to ensure that traders are not required to duplicate regulatory formalities on both sides of the same border.

On the hardware side, South Asia needs an economic corridor involving a regional transport network. Since an economic union cannot be achieved without a monetary union, a currency arrangement is another requisite. Thus, the three pillars of an economic union in South Asia are a customs union, a monetary union and an economic corridor.

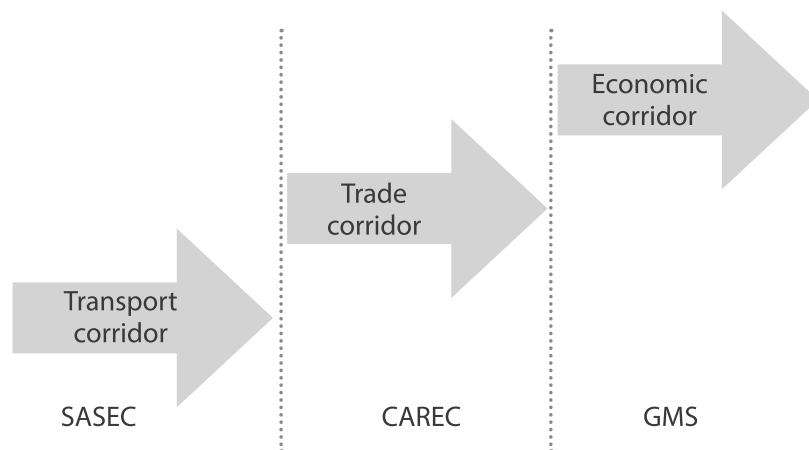
South Asia has already identified 10 regional road corridors, five regional rail corridors, two regional inland waterways corridors, 10 maritime gateways and 16 aviation gateways for implementation in Phase I (SAARC Secretariat, 2006). Besides, building regional infrastructure through economic corridors has been planned to help facilitate international and national transportation

and promote industrialization in the hinterland. The Delhi-Mumbai Industrial Corridor, a national economic corridor with regional implications, the Mekong-Ganga Economic Corridor and the India-Myanmar-Thailand Trilateral Highway are examples. The latter two are cross-border corridors linking South Asia and South-east Asia. South Asia may have to pass through trade corridors to move to an economic corridor. The region has transport corridors. In Central Asia, these have been turned into trade corridors (ADB, 2012). A similar transformation of transport corridors into economic corridors in South Asia will depend on the volume, types and pattern of corridor trade and how it encourages a certain level of development in the areas surrounding the corridors.

Spatial planning that goes beyond national policies is needed to support the development of corridors in South Asia. Figure 6.2 illustrates the transformation of corridors in a geographic space. At the same time, the development of one area of the corridor is conditional upon the trading conditions along the entire area of the

Figure 6.2

Moving towards economic corridor



Source: Author's illustration.

Note: SASEC—South Asia Subregional Economic Cooperation;
CAREC—Central Asia Regional Economic Cooperation Program;
GMS—Greater Mekong Subregion.

corridor across countries. Building corridor nodes and gateways and linking the nodes along the corridor would help the region move towards an economic corridor.

Table 6.2 shows the sequencing of transformation of transport corridors into economic corridors, and the requisite policies for South Asia. The tasks are primarily three-fold: (i) developing a transport corridor, (ii) building corridor nodes, and (iii) linking corridor nodes and gateways.

Key policy priorities

South Asian regional cooperation programmes have to be much stronger than they are now to address regional infrastructure needs

Table 6.2

Corridor development policy

Stage	Corridor	Policy	Measure	Role
1	Transport corridor	Trade facilitation	<ul style="list-style-type: none"> • Integrated trade facilitation • Customs cooperation 	<ul style="list-style-type: none"> • Government • Private sector
2	Trade corridor	Trade liberalization	<ul style="list-style-type: none"> • Border policies • Behind-the-border policies 	Government
3	Economic corridor	Economic development	<ul style="list-style-type: none"> • Corridor value chains • Corridor township development • Cross-border investments 	<ul style="list-style-type: none"> • Government • Private sector

Source: Adapted from ADB (2012).

and to cultivate enabling institutions and policies. The region has to undertake certain policies to support the regional trade facilitation agenda while aiming for an economic union. Box 6.1 presents key policies to be implemented for the purpose.

South Asian countries should continue to implement trade facilitation projects in the region. This will help them to streamline border transactions and improve competitiveness. Box 6.2 presents some suitable projects to be implemented in the region.

Box 6.1

Key policies

- Accept subregional, and subsequently regional, transit.
 - Fast-track lane and priority of goods in transit to cross the border and move towards one-stop border post.
 - Set up SAARC Single Window (pilot run of an authorized economic operator; and mutual recognition agreement).
 - Simplify and harmonize trade procedures, particularly at the border.
 - Introduce modern corridor management techniques in select corridors.
 - Promote multimodal transportation (with rail transit, regular container trains in the region).
 - Improve efficiency of border corridors (both sides of the border in integrated check post projects).
 - Effective project coordination among government stakeholders.
 - Strong institution (public-private interface) for trade facilitation.
 - On-arrival visa, SAARC Business Travellers Card for facilitation of trade and investment, etc.
 - Intermodal connectivity—Air Services Agreement (single ticket to fly between SAARC nations).
 - Enforce electronic payment system.
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Box 6.2

Key trade facilitation priorities in South Asia

- Reduce lengthy customs and cargo handling time at ports of Chittagong, Karachi, Kolkata and Haldia through automation and modernization.
- Faster opening of L/C accounts in banks with the help of information and communication technology (ICT) in Bangladesh and Nepal.
- Faster cargo insurance with the help of ICT, process reengineering and competition among service providers in Nepal.
- Use of ICT to obtain permits and certificates in Bhutan.
- Synchronize cross-border customs.
- Accept regional transit.
- Develop border infrastructure.
- Cross-border electronic customs transit document.
- National single window for paperless trade.
- Develop one-stop border posts.

Source: ADB-ESCAP (2014).

Develop interior infrastructure and a project development facility

All efforts at South Asian connectivity and trade facilitation will be incomplete if the backend linkages into South Asia's interior are not strengthened. Joint feasibility studies for connectivity projects may be encouraged. A project development facility (PDF) may be set up to facilitate planning and implementation of cross-border connectivity projects. Among others, this new PDF vehicle should aim at mobilizing finance to accelerate the speed of project delivery. It should focus on high-impact regional projects in energy, transport, ICT, small and medium-sized enterprises, special economic zones, education, health and water. Some of its major activities would be (i) advisory services; (ii) identification of projects through technical studies; (iii) mobilization of funding, etc. Innovative financing

should be explored along with greater financial cooperation for cross-border projects.

Paperless trade, national and regional single windows

Preparation of documents and exchange of information among various parties involved account for the largest share of the import or export process time. There are documents before the goods start moving from the factory, or before they even arrive at the port as in the case of imports. Hence, single-window facilities for submission and processing of information and documents are essential, given the importance of private sector actors in the transaction chain. Single-window facilities include enabling not only submission of information to regulatory and control agencies, but also making available relevant transaction information to both public and private actors along the transaction chain. Such “extended” national single windows are now operating in Korea and some Association of South-east Asian Nations (ASEAN) countries. The success of ICEGATE in India also offers good lessons for other South Asian countries.

More generally, various process analyses have pointed out that there is limited use of modern ICT and a heavy reliance on paper documents throughout the import or export processes. Increased use of ICT and development of paperless trade should therefore be pursued more vigorously in South Asia. Electronic acceptance of cross-border bill of lading, or customs transit document (CTD), would certainly lead to paperless trade and effective implementation of the single window in the region. Countries should form an exclusive wing for trade facilitation. Bhutan has decided to accede to the Revised Kyoto Convention to modernize its customs.

Remove regulatory burden on exports and imports, streamline NTMs

South Asian countries must remove the regulatory burden they impose on exports and imports and streamline their non-tariff

measures (NTMs) on a priority basis. For example, Bhutan can simplify, merge and automate its Integrated Human Requirement certificate and other processes. The process requiring a Bhutanese customs inspector to travel to Burimari/Changrabanda to clear imports, which often causes delays, should also be removed. Similarly, the documentation requirements imposed by the ports of Kolkata and Haldia and customs in India on Nepal-bound cargo must become automated.

Minimum physical inspections

Inspection and testing procedures often account for a significant amount of the average transaction time. Inspections were actually found to affect the timeliness and predictability of the trade transaction process, a key factor in enabling firms to participate in international production networks. Inspection may be required at various times, typically at the border or port for imports, but also often during the preparation of documents for exports. Inspections may be minimized through the use of appropriate risk management techniques.

While customs often have some form of risk management system in place, other regulatory agencies often do not. Building the capacity of these non-customs agencies and developing inter-agency risk management systems should be considered, along with joint (multi-agency) inspections when needed. Setting up certification programmes where the quality and other characteristics of goods can be ensured through the control of the production process at the factory, rather than for every shipment, may also be promoted as a way to reduce the need for inspections.

National and regional trade facilitation monitoring

Regulatory authorities have a limited view of the entire trade process. Often, they are only aware of their own internal efficiency—or inefficiency. Traders also have limited awareness of and information on the procedural bottlenecks. It is the intermedi-

aries that hold most of the information on the time and cost of specific procedures. Whether the inefficiencies are actually due to the intermediaries, or other parties, such as, regulatory authorities, and their impact, would need to be assessed independently, and regularly, in order to identify the priorities for reform. Governments, therefore, may consider the establishment of national trade facilitation performance monitoring mechanisms or measurement systems.

The same may also be applicable to the region as a whole. Regular and systematic conduct and update of business process analyses of import and export processes may be considered. Such analyses are the basis for the monitoring mechanism. The methodology in the World Customs Organization's Time Release Study, which focuses on a narrower set of procedures, can be helpful here. Embedding the performance measurement and monitoring function in ICT paperless systems should also be considered. These systems provide real-time information and detailed records on the time taken to move goods, including the exchange of electronic documents for all transactions. There are international examples of instruments used for the simplification of trade-related procedures which can safely be emulated by South Asia.

Harmonize documentary requirements

Different documentation is needed for exporting to different destinations along the South Asian corridors. This means confusion and delays. Besides simplification of documentary requirements, a continuous effort to align national procedures and documents with international standards and conventions is required. It is worth noting that differences in documentation stem not only from differing regulations across importing countries, but also from different requirements by individual buyers. The buyer may ask for different types of quality certificates, or require relevant information to be sent in different formats. Thus, the involvement of international private sector associations in the harmonization efforts is needed.

Synchronize cross-border customs

Customs must operate round the clock to facilitate South Asian trade. At present, there are differences even in the working hours between customs of two neighbouring countries. For example, Birgunj Customs in Nepal opens at 8 am, whereas Raxual Customs in India opens only at 10 am. A full automation and link-up between customs will reduce transaction time and cost.

Electronic submission of all trade documents

E-filing of documents can be made mandatory through legislation. Apart from a few initial hiccups, the application of modern ICT is manageable. For example, India's ICEGATE could lead South Asia from a semi-electronic to a fully electronic system. Excessive documentation will disappear in a fully electronic system.

Facilitate intra- and inter-regional multimodal transportation

Multimodal connectivity would encourage production networks in South Asia and provide substantial benefits to landlocked countries—Afghanistan, Bhutan and Nepal. It would lower the costs of access to the South Asian market. Similarly, an intermodal link between maritime and land routes should also be encouraged. Multimodal links would eventually lead to stronger and more effective industrial networks between South Asia and Southeast Asia.

Accession to international conventions

International conventions related to transport facilitate the movement of goods, especially at border crossings, by reducing procedures and formalities, and saving time. South Asian transport networks require appropriate legal frameworks to define the rights of passage for goods, people and vehicles, and to decide on permits,

licences and other measures, as well as mechanisms for consultation, and dispute settlement. Transport facilitation at the national and international levels is a prerequisite for enhancing international trade. South Asian countries must accede to international conventions on land transportation networks—road and rail.

There are seven international transport conventions which they should focus on. Originally developed under the auspices of the Economic Commission for Europe (ECE)², they are: the Convention on Road Traffic, 1968; the Convention on Road Signs and Signals, 1968; the Customs Convention on the International Transport of Goods under Cover of Transport International Routier (TIR) Carnets (TIR Convention), 1975; the Customs Convention on the Temporary Importation of Commercial Road Vehicles, 1956; the Customs Convention on Containers, 1972; the International Convention on the Harmonization of Frontier Controls of Goods, 1982; and the Convention on the Contract for the International Carriage of Goods by Road, 1956.³ The Revised Kyoto Protocol, in operation since 2006, is another tool that facilitates the development of an economic corridor.⁴ While some South Asian countries are members of international conventions on the intercontinental movement of vehicles, progress on other international conventions has been uneven. Afghanistan, Pakistan and India have signed some conventions. Accession to different versions of the conventions undermines facilitation objectives.

Multimodal transport, transit and logistics

Transit and trade facilitation are pivotal to economic corridors. South Asia's lack of transit agreements is a major reason for the low level of economic exchanges. South Asia must revive transportation networks and establish region-wide multimodal transport and transit to reduce transportation costs. The region should have its own regional transit arrangement. BBIN countries (Bangladesh, Bhutan, India and Nepal) have signed a Motor Vehicles Agreement. This is a step in the right direction for cross-border trans-

port and transit. South Asia should do the same for its economic corridor development. A door-to-door logistics approach should be pursued. There should be no distinction between transnational and domestic connections. Coordination among key players to achieve efficiency throughout the logistics chain is a must. Not all sides benefit equally from seamless development (e.g., India bears the cost of the road between Bangladesh and Nepal).

Harmonize rules, regulations and standards

For the infrastructure of a South Asia-wide transport network to function effectively, the necessary soft infrastructure, such as relevant rules, regulations and standards, has to be in place. Rules, regulations and standards must meet a common regional benchmark or, more preferably, an international one. Trade facilitation initiatives in the area of standards and conformance focus on addressing the differences between national laws, standards and conformity assessment procedures. These aim for a broader horizontal approach at the regional level.

Therefore, South Asian countries should harmonize national standards with international standards and develop mutual recognition arrangements among themselves. Further, to make such an agreement effective, South Asian countries need to incorporate such provisions into their national laws, regulations and standards. There is a need for a higher level of coordination among the stakeholders and agencies concerned, such as transport, customs, immigration and quarantine authorities. At the same time, the capacity of national institutions has to be enhanced for effective implementation of these agreements. There is also a need for a uniform or compatible standard for developing cross-border transport networks that is beneficial for all stakeholders. The establishment of an efficient management system and capacity building to look after the harmonization of standards would pave the way for developing regional economic corridors. This would ultimately help achieve single-stop and single-window customs offices across South Asian economic corridors.

Engage SAARC Observers

SAARC has to constructively engage its Observers in the trade facilitation project. ASEAN has set up a Connectivity Coordinating Committee to coordinate with its dialogue partners in connectivity projects. For eventualities when resources are scarce, SAARC should constitute a committee at the Secretariat to coordinate with its Observers. This will help the region to source valuable technology and capital to finance connectivity projects, technical assistance, training and capacity building, among others.

Broad facilitation agenda

The development of trade infrastructure has to be commensurate with the growth of the region. South Asia could unleash its full potential if it improved infrastructure facilities, which are at present not sufficient to meet the growing demand of the region. Failing to narrow the infrastructure gap, the region's growth and development will slow down. In other words, this also indirectly indicates high investment potentials in South Asia's roadways, railways, power and the associated components. South Asian regional cooperation should, therefore, aim to reduce both intra- and inter-regional trade facilitation gaps. The process of South Asian regional integration has to contribute to narrowing the gaps by providing resources for the development of trade infrastructure. The resource requirements for bridging these gaps are substantial, but manageable if we take a concerted approach to utilize the region's financial resources. Finally, South Asia has to enact its own connectivity and trade facilitation arrangement to take the agenda of South Asia Economic Union forward.

Connectivity and trade facilitation measures such as the simplification, harmonization and automation of procedures and documents and streamlining NTMs involve interagency coordination and collaboration. Their successful implementation requires not only political and governmental support in terms of policy directives and human and financial resources, but also an

in-depth understanding about existing business processes, including their related information flows, laws, rules and regulations. To move ahead with the connectivity agenda, South Asian countries may consider conducting a study to devise a South Asia regional connectivity strategy for regional economic union with the participation of SAARC member states, Observers and international organizations.

Notes

- ¹ Refer to, for example, ADB et al. (2018).
- ² Currently, there are 56 transport-related international legal instruments initiated by the ECE aimed at facilitating the movement of goods, people, and vehicles across international borders.
- ³ For details of select international conventions on transport facilitation, see UNESCAP (2007).
- ⁴ The revised Kyoto Convention promotes trade facilitation and effective controls through legal provisions that detail the application of simple yet efficient procedures. The revised Convention also contains new and obligatory rules which all Contracting Parties must accept without reservation.

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