

Trade and Transport Facilitation Audit in South Asia - A Regional Perspectives

Presentation by

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in

Trade and Transport Facilitation Audit in south Asia: Dissemination of Study Findings

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Defining trade facilitation

- No consensus on the standard definition and the components of trade facilitation,
- In narrow sense, trade facilitation is associated with the reduction of **on-the-border transaction costs** other than tariff cuts, which essentially involves the simplification and standardization of customs formalities and administrative procedures related to international trade.
- In broad sense, trade facilitation not only includes at-the-border issues, but **also beyond-the-border issues**, dealing for instance with the business environment, the quality of infrastructure, transparency, and domestic regulations.
- **Trade facilitation is about the set of policies aiming at easing trade transaction and reducing export and import costs by improving efficiency in the transaction cycle.**

Objectives

- To assess the state of trade facilitation in SAARC countries,
- To identify trade- and transport-related bottlenecks in the region,
- To assess the benefits of removing trade and transport bottlenecks based on the regional benchmark, and
- To identify the priority areas for trade facilitation intervention,

Methodology

- Methodology developed by the World Bank is adapted to conduct perception survey,
- Questionnaire developed, piloted and administered covering the following issues:
 - publication and administration of policies related to trade issues,
 - rules and procedures for import and exports,
 - trade related infrastructure and services,
 - use of ICT for export and imports, and
 - measures for goods in transit

Methodology- sample size and respondents

<u>Country</u>	<u>No. of respondents</u>	<u>No. of ports/ customs point covered</u>	<u>Name of the ports/ customs points</u>
Afghanistan	60	2	Torkhum, Spin Boldak
Bangladesh	150		
Bhutan	40	1	Phuntsholing
India	432	11	Attari, Agartala, Kolkota, Changrabandha, Chennai, Cochin port Jaigon, Mumbai port, Panitanki, Petrapole, Phulbari, Raxual
Maldives	30	1	Male
Nepal	180	6	Bhairahawa, Biratnagar, Birgunj, Kakarbhitta, Nepalgunj, Tribhuvan International Airport
Pakistan	148	4	Tokhum (Pesewar), Wagha (Lahore), Karanchi Port, Chaman
Sri Lanka	121	2	Colombo, Bandranaike International Airport
Respondents: Forwarder/ Agent/ Broker/ Multimodal Transporter, Exporter, Importer, Shipping Line Agent, Road Carrier, Airline Operator, Port Authority, Customs Authority, Ministry of Commerce, Chamber of Commerce.			

Methodology- calculation of Trade Facilitation Index (TFI) and assessment of benefits

- Use of Principle Component Method to calculate Trade Facilitation Index based on survey data
- Use of augmented Gravity Equation ((Moise and Sorescu (2013), Bergstrand et. al (2013), Portugal-Perez and Wilson (2012), De (2011) Wilson et. al (2005) Duval and Utoktham (2012), Khan and Kalirajan (2011), Chen and Novy 2011)Anderson and Wincoop (2004)).) to estimate benefits of improving trade facilitation.
- The impact of the trade facilitation on trade costs and export are also simulated.

Key survey findings

- Existence of national customs website and inquiry points, but poor effectiveness,
- Existence of border management agencies, but lack coordination,
- Varying number of documents required for export and imports,
- Very low use of advance ruling and pre-arrival processing,
- Most of the customs is determined on the basis of transaction value,
- Not satisfactorily transparent customs procedures and need to pay bribes or irregular payments,
- Poor quality of infrastructure-warehouse, equipment to handle cargo, road quality, port quality, railway quality etc.,
- Varying perception on the efficiency and cost of logistics,
- Poor use of ICT despite provision of on-line submission,
- No transit passage fees, but requires additional documentary requirements and sometimes escorts for goods in transit.

Trade Facilitation Index

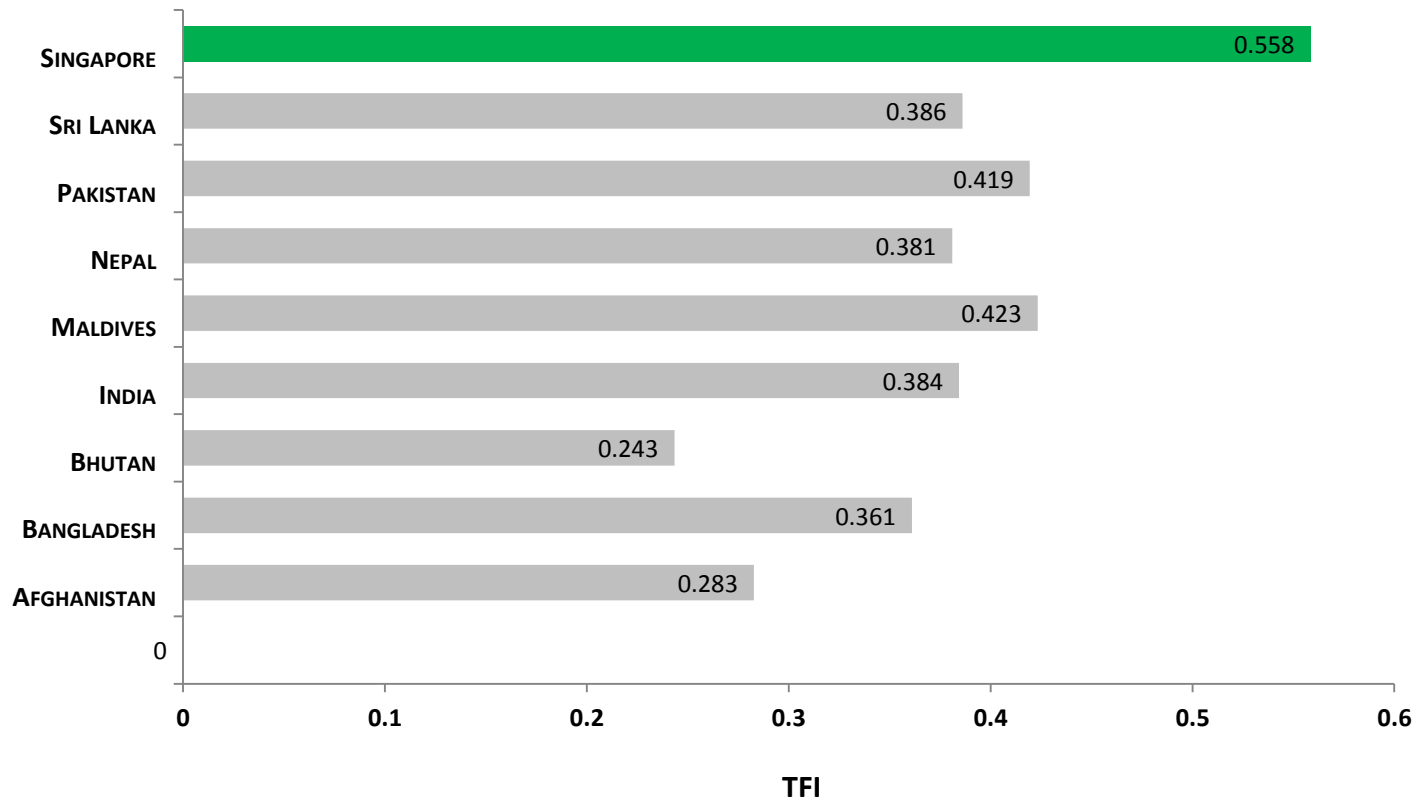
- Trade Facilitation Index (TFI) is calculated using Principle Component Analysis based on the information related with transparency, export-import procedures and documentation, processing time, infrastructure, logistics services and use of information and communication technology (ICT) collected from a survey for each of the south Asian countries. 'Transit' dropped due to selection bias.
- The principal component captures over 90 % of total variance using 3rd principal components.

Trade Facilitation Index *contd...*

Country	Transpare ncy	Documents and procedures	Processing time/efficien cy	Infrastruct ure	ICT	TFI
Afghanistan	0.066	0.067	0.072	0.075	0.003	0.283
Bangladesh	0.049	0.099	0.060	0.137	0.017	0.361
Bhutan	0.092	0.042	0.015	0.089	0.005	0.243
India	0.092	0.082	0.031	0.105	0.074	0.384
Maldives	0.080	0.084	0.105	0.150	0.004	0.423
Nepal	0.091	0.062	0.101	0.098	0.029	0.381
Pakistan	0.078	0.096	0.094	0.130	0.022	0.419
Sri Lanka	0.083	0.076	0.080	0.125	0.022	0.386

Trade facilitation index *contd...*

TFI of SA countries: a comparison with Singapore



Source: Calculation based on survey data for 8 countries, and for Singapore it is calculated to know the close value based on the relationship between TFI and LPI index

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TFI and Trade costs

Very Preliminary Results from Random Effect Estimation

$$\text{Lncost} = 4.49 + 0.19\text{Indist} - 1.31\text{TFI} - 0.36\text{contig} - 0.04\text{comlang} - 0.02\text{saarc}$$

(0.00***) (0.00***) (0.03**) (0.00**) (0.48) (0.82)

Reported value in the parenthesis are p-value

Key results:

- On average, one percent increase in distance increase trade cost by nearly 20% (all else constant).
- One index point increase in TFI, on average, decreases trade costs by more than 1.3 percent.

Benchmarking TFI and trade costs

Simulation of South Asian countries' trade costs Scenarios (US\$- Ln)

Countries	Present Costs	Costs at Singapore's level of TFI	Decrease in cost %
Afghanistan	5.92	5.56	30.45
Bangladesh	6.17	5.91	22.95
Bhutan	5.95	5.53	33.95
India	6.20	5.97	20.55
Maldives	5.83	5.65	16.39
Nepal	6.06	5.82	20.90
Pakistan	6.12	5.94	16.82
Sri Lanka	6.17	5.94	20.37

Note: Assumption is the regression relationship remains the across region

Benchmarking TFI and exports

Random Effect Estimation Results: Dependent variable lnexport

	(1)	(2)	(3)
Product of exporter & importers' GDP (log)	0.966*** (0.055)	0.910*** (0.054)	0.912*** (0.051)
Product of exporter & importer' populations (log)	0.247*** (0.053)	0.136** (0.064)	0.208*** (0.049)
Distance between business cities (log)	-0.428*** (0.146)	-0.494*** (0.140)	-0.577*** (0.136)
Proximity (Dummy)	-0.095 (0.553)	0.392 (0.528)	0.253 (0.510)
Common official language (Dummy)	0.988*** (0.267)	0.469* (0.272)	0.825*** (0.246)
SAARC (Dummy for South Asian Partner)	1.595*** (0.438)	1.471*** (0.421)	1.383*** (0.405)
Trade facilitation index	11.805*** (2.206)		
Transparency component		40.004*** (13.495)	
Governance component		51.600*** (16.736)	
Processing time component		-15.784*** (4.888)	
Trade infrastructure component		20.601** (9.690)	
Information & communication component		6.317 (9.232)	
Landlockedness of exporter (Dummy)			-2.413*** (0.203)
<i>Observations</i>	635	635	635
<i>R-squared</i>	0.690	0.710	0.720

Note: .01 - ***; .05 - **; .1 - *;

Benching TFI and Exports *contd...*

Results suggest that:

- One index point increase in the TFI causes exports to increase by about 12%.
- The other gravity variables, such as, GDP, population and distance have significant results with expected signs,
- Having common official language seems more important than the proximity for exports,
- Quality of the governance is the most important indicator, however, transparency and infrastructure are also statistically significant.

Benchmarking TFI and exports

Simulation Results of SA's export Scenario (US\$- ln)

<u>Details</u>	<u>Exports from South Asia</u>
Present export predicted	57
Singapore level's TFI in each SA countries	75
<u>If TFI is 1 for each SA country</u>	<u>117</u>

Benchmarking TFI and exports contd..

Simulation of South Asian countries' exports Scenarios (US\$- ln)

Countries	Present Export	Singapore's level of TFI	Increase %
Afghanistan	21	25	96
Bangladesh	24	27	90
Bhutan	18	22	98
India	27	29	87
Maldives	20	21	80
Nepal	22	24	88
Pakistan	25	27	81
Sri Lanka	23	25	87

Note: Assumption is the Regression relationship remain same as of Regional

Top 5 Priority Areas for Trade Facilitation

Country	Priority 1	Priority 2	Priority 3	Priority 4	Priority 5
Afghanistan	Coordination between border agencies	Irregular payments/ bribes	Transit	Export/ import documentation	Time to clear inward/ outward goods
Bangladesh	Quality/ Efficiency of port	Quality/ efficiency of roads	Export/ import documentation	Time to clear inbound goods	Quality of warehouse/ trans-loading facilities
Bhutan	Single window	Pre-arrival processing	Quality of warehouse/ trans-loading facilities	Quality/ efficiency of roads	Time to clear inbound goods
India	Single window	Time to clear inward/ outward goods	Quality/ efficiency of roads	Cost of logistic services	Quality of warehouse/ trans-loading facilities
Maldives	Quality/ Efficiency of port	Cost of logistic services	Efficiency of quality/ standard inspection agencies	Quality of warehouse/ trans-loading facilities	Quality efficiency of airport
Nepal	Quality/ efficiency of roads	Single window	Quality/ efficiency of rail (transit)	Quality efficiency of airport	Electronic submission of documents
Pakistan	Efficiency of quality/ standard inspection agencies	Single window	Quality of warehouse/ trans-loading facilities	Quality/ Efficiency of port	Physical inspections by customs
Sri Lanka	Irregular payments/ bribes	Single window	Electronic submission of documents	Time to clear inward/ outward goods	Quality/ efficiency of rail

Way forward

- Create awareness among the private sector stakeholders on trade related services provided by the government,
- Develop a regional framework for road transport to improve the quality of road transport,
- Harmonize customs procedures, documentation and classification of goods in the region,
- Conclude Regional Transit Agreement,
- Promote investment in infrastructure,
- Establish Single Window in all SAARC countries and advance towards SAARC Single Window,
- Develop trade facilitation related human resources

Roads ahead

- Robustness check with addition of variables,
- Robustness check with alternative estimation methods,
- Comparison with LPI,
- Analysis of transit issue for 3 landlocked countries,

Thanks for
your kind attention

Suggestions/ comments

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