TRANSPORT AND TRADE FACILITATION ISSUES IN SOUTH ASIA: PROBLEMS AND SOLUTIONS

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10th October 2014

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South Asia - Demographics

**Area:** 4.5 mn sq km (3% of world)

**Countries:** Afghanistan, Pakistan, India, Maldives, Sri Lanka, Bhutan, Nepal and Bangladesh

**Population:** 1.8 bn (25% of world)

**GNP:** 1080bn$ (2012) – 2.1% of world GNP

**Trade:** 1.2% of world trade

**Poverty:** 400 mn below 1$/day (39% of world)
# Human Development

<table>
<thead>
<tr>
<th>HDI rank</th>
<th>HDI human development</th>
<th>Trade</th>
<th>Financial flows</th>
<th>Human mobility</th>
<th>Countries</th>
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<tr>
<td></td>
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<td>Remoteness</td>
<td>International trade</td>
<td>Foreign direct investment, net inflows</td>
<td>Private capital flows</td>
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<td></td>
<td></td>
<td>(kilometres)</td>
<td>(% of GDP)</td>
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<td>Regions</td>
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<td>Arab States</td>
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<td>1.5</td>
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<td>East Asia and the Pacific</td>
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[UNDP, Human Development Report, 2014]

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Trade Performance
ANCIENT SILK ROUTE
The route has around 35,000 ships per year.
Suez capacity is around 25,000 ships per year.
Northern Sea Route is navigable 2 months a year.
TRANSPORT LEGACY IN SOUTH ASIA

- Inherited a well integrated transport infrastructure from the British
- But this was fractured by other problems which led to the partition of India, then Pakistan and other issues.
- However across the mainland of South Asia the original transport infrastructure is already in place.

- But there is no integration now: Some examples
  - Bangladesh imports cotton from Pakistan, but it can take anywhere up to 40 days to move from West Punjab to Chittagong via Karachi, with transshipment in either Colombo or Singapore.
    - If a container of cotton could be put on a freight train leaving Lahore moving across India, this could possibly reach Dhaka within 4 days.
  - To fly from Colombo to Kathmandu a flight through Bangkok or Dubai takes nearly 12-16 hrs. Direct flying time would be 5 hours.
SAARC created in 1985 is nearly 30 years.

It has 8 members and 9 observers:

(i) Australia (ii) China (iii) European Union
(iv) Iran (v) Japan (vi) Republic of Korea
(vii) Mauritius (viii) Myanmar and (ix) USA

The foreign ministers of the region signed a framework agreement on SAFTA in 2004 to reduce customs duties of all traded goods to (0-5%) by the year 2016.

SAFTA has led to bi-lateral trade agreements between India and many of the other countries within SAARC.
Performance of FTAs in SA

- Intra-regional trade in SAARC is only 5% compared to 55% in the EU, 52% in NAFTA, 32% in Asia Pacific region and 22% in ASEAN. Inter-regional trade in services is just 0.2%.

- After 10 years, the trade volumes have been only ‘encouraging’.

- Argument that countries in the region produces same goods and commodities. May not be a reason.

- There are many items still on the Sensitive List entitled to each country which does not include tariff concession.

- A deliberate shift from "independence" to "interdependence" is needed in the region.

- Existing literature points out to a number of factors for this scenario in the SAARC: (1) the uneasy political situation between India and Pakistan; (2) heavy bureaucratic layers and non-tariff barriers; (3) poor connectivity among SAARC member countries;
TRADE AND TRANSPORT

- Poor physical connectivity is a stumbling block in the region where the cost of trading across borders is one of the highest in the world.

- High regional growth rates (which was over 5% p.a. before GFC) cannot be sustained without efficient and integrated global and regional transport & logistics systems.

- However, system efficiency must be balanced with equity issues which is a challenge in a high poverty incidence region.

- **High transportation costs, poor institutions, inadequate cross-border infrastructure, and absence of a regional transit trade are some major factors penalising the region’s trade and integration. Development of cross-border infrastructure, especially transportation linkages and energy pipelines, across the region, will contribute to the regional integration by reducing transportation costs and facilitating intraregional trade.**

  FCCI, New Delhi Jan 2014
Transport Issues in South Asia

Transport Issues are:

- Two small land locked countries - Bhutan and Nepal located at high altitudes

- Two sea-locked small countries - Sri Lanka and the Maldives located south of the mainland

- British India that is now partitioned to Pakistan and thereafter to Bangladesh having a number of issues still to be fully resolved.

- Since ‘Independence’ the transport system of South Asia has developed only in a national context, with little consideration given to cross border issues of compatibility, uniformity of standards in infrastructure and equipment design.
There is no bilateral (or regional) transport agreement to facilitate uninterrupted movement of goods and vehicles across the borders between India and its neighbours.

As a result, goods are required to be trans-shipped at the border between the trucks of neighbouring countries.

In almost all cases this means loading and unloading of cargo and in most cases transport on a different truck.

Most of the LCSs suffer from limited warehouse capacity and the lack of banking and foreign exchange facilities. In some cases, banks are located several kilometres from the border.

Other issues of lack of harmonizing in regards to documentation, holidays, working hours, truck licensing, insurance etc are problems.
Bhutan and Nepal are almost totally dependent on road transport for bilateral trade and for much of their third country trade.

10 Road Corridors have been chosen for development connecting the northern mainland.

‘Last mile’ development in each country to be responsibility of each country.

Due to limited scope of present agreements for inter-country direct bus passenger movements, the full potential of this mode has not been exploited.

SAARC Regional Multimodal Transport Study, ADB, 2007
South Asia has one of the largest railway networks in the world, spreading over 77,000 route km of which Indian railway alone covers 63,465 route km.

About 70% of this network is broad gauge largely in India, Pakistan and Sri Lanka, while in Bangladesh it is only about 25% of its network. There is no standardization of technologies, operation and maintenance practices including different types of gauges, braking systems, incompatibility of rolling stock.

Other major physical barriers include inadequate loop lengths, missing links in the borders areas, lack of physical infrastructure at interchange points, load restrictions on bridges, and capacity constraints in certain sections.

Among the non-physical barriers identified, the most crucial one was the lack of a multilateral rail transport agreement, the manual handling of documentation, duplication of customs checks, limited working hours, and the suspension of rail-cum-ferry services between Sri Lanka and India.

Although the railway network historically played a significant integrating role in the socio-economic development of this part of the world, over the years it has been losing its market share to the road transport.
Rail is ideal for longer lead freight traffic given its strong market share in carriage of bulk and semi-bulk products between the countries of the region like Bangladesh, Pakistan and Nepal.

This has been achieved by Indian Railways for internal containerized cargo movement.

The absence of a multilateral agreement is a constraint.

This trend is being reversed by infusion of huge investments in railway development plans in India, Bangladesh and Pakistan.

Around 8 Railway Corridors have been identified for urgent development.

On an integrated transport system of South Asia, rail should be able to capture most of its lost traffic, particularly the long distance.

Due to lack of bilateral agreements, long distance inter-country passenger movement has not developed to the desired levels as yet.
With regard to *regional inland waterways corridors*, it serves the interest of only Bangladesh and India, where it is recognized that inland waterways transport has great potential to provide a cost effective transport service.

Some of the major physical barriers identified in the regional inland waterways include high rates of siltation, bank erosion, inadequate navigational aids and draft restriction, as well as poor condition of jetties, piers, lack of sufficient storage, cargo handling equipment and support craft.

In addition there is no container handling capability along inland water transport system. Cargo carrying vessels were also old, repair facilities inadequate and hinterland connectivity of the inland ports was found to be poor.
To this end, one of the most crucial non-physical barriers identified was the renewal of the protocol between India and Bangladesh only on a monthly basis.

Plan to have regular dredging.

IWT has great potential for carrying intra-country traffic that needs to be explored by removing all physical and non-physical barriers.
South Asia is endowed with about 25 major ports, which handled nearly 500 mn tonnes, including 7 million TEUs of containers. Container throughput growth for Bangladesh, India and Sri Lanka has been impressive.

The major barriers identified in regional maritime gateways included capacity constraints, together with heavy siltation at channels. Cargo and ship handling equipment, were found to be quite old in many gateways.

Poor road and rail connectivity, lack of ICDs and CFS were other major physical barriers.

Non-physical barriers found to impact port performances include lack of professional management and computerisation, as well as EDI/IT.

Customs procedures were too complicated, cumbersome port documentation was still in use and labour unrest were also noted in some maritime gateways.
Measures to address non-physical barriers: (a) Improve Port administration, (b) Introduction of EDI/IT to link up customs, ports and stakeholders; (c) Introducing reforms (d) Bilateral agreements to re-launch ferry service between Colombo and India.

Measures required to address physical barriers are: (a) Regular Dredging of Ports (b) Procuring cargo and ship handling equipment (c) Revitalizing railway system for improved access (d) Improving road connectivity (e) Expanding port capacities (f) Construction of storage (g) Encouraging private sector involvement;
**AVIATION**

- There are around 300 weekly flights operating between different regional destinations. The overall passenger growth in intra-regional travel has been one of the highest in the world at 8% per annum, while for freight it has been an equally impressive 5% per annum.

- Air freight charges are considered low on many routes. Almost all intraregional airfreight movements are carried on passenger aircraft as underbelly cargo, with few all-freighter movements.

- Barriers that could have major impact are runways, parking areas for aircrafts, passenger handling areas, cargo processing facilities (green channel, cold storage, etc), as well as security and baggage handling facilities. It was also observed that in some countries many of the aircraft were quite old and needed replacement.

- The non-physical barriers included the limited number of direct flights resulting in the need for transfers and involvement of travel even outside the region, the low use of air travel compared to economic conditions, the high air fare and airport charges compared to other regions and visa restrictions.
Improvements to Aviation Gateways

- The trend of falling airline fares through competition and ‘Open Sky’ policies has made air travel much more affordable.

- SAARC countries are also working towards removing or lessening the infrastructural and institutional hurdles inhibiting inter-country air transport links.

- Encouraging the formation of a true international aviation hub in South Asia.
INSTITUTIONAL DEVELOPMENT STRATEGIES

- Modal Development: Out of the seven SAARC countries, two are islands (Maldives and Sri Lanka) and the remaining five are mainland countries. Besides air transport that serves all SAARC countries, maritime transport directly serves only 5 countries, since Nepal and Bhutan are landlocked.

- Choice of Modes: Within certain overlapping ranges of distances, two or more modes could be alternative options.

- Institutional Framework: The institutional framework for handling international traffic is generally well-developed in respect of air travel but less so in respect of other modes.
Global Competiveness

- Lessons from other regions........
Transport Corridor Europe-Caucasus-Asia (TRACECA) Route

Armenia  Azerbaijan  Bulgaria  Georgia  Iran  Kazakhstan  Kyrgyzstan  Moldova  Romania  Tajikistan  Turkey  Ukraine  Uzbekistan

Central Asia Regional Economic Cooperation, (CAREC)

Afghanistan, Azerbaijan, Kazakhstan, Kyrgyz Republic, Mongolia, Pakistan, People's Republic of China, Tajikistan, Turkmenistan and Uzbekistan

It is supported by 6 multilateral institutions.
**TRI LATERAL HIGHWAY**

- Markets in Myanmar are actively sought by India and Thailand.
- This will connect Thailand (also Malaysia/Singapore) to India (also most of SA)
TRANSPORT DEVELOPMENT

Transport Sector developments that are pre-requisites for SA’s trade development are:

- Modernise infrastructure
- Standardize or make different facilities compatible
- Regional Transport agreements
- Elimination of border crossing formalities
- Improve multi modalism for choice and consolidation to reduce costs and travel times
- Develop institutional efficiencies
Thank You

Questions?