Indo-Pacific Economic Corridor (IPEC)

Phase I: Coordinated Regional Trade Analysis

Assessment Report
Asia and the Middle East Economic Growth Best Practices (AMEG) Project
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INDO-PACIFIC ECONOMIC CORRIDOR (IPEC)

PHASE I: COORDINATED REGIONAL TRADE ANALYSIS

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CONTENTS

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ACRONYMS

ACTI	ASEAN Connectivity through Trade and Investment
ADB	Asian Development Bank
ADBI	Asian Development Bank Institute
AEC	ASEAN Economic Community
AEIM	Asian Economic Integration Monitor
AFTA	ASEAN Free Trade Area
AHN	ASEAN Highway Network
AIIB	Asian Infrastructure Investment Bank
AMEG	Asia and Middle East Economic Growth Best Practices Project
APEC	Asia Pacific Economic Cooperation
ASAM	ASEAN Single Aviation Market
ASEAN	Association of Southeast Asian Nations (Members are: Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam)
ASEAN+3	ASEAN plus the People's Republic of China, Japan, and the Republic of Korea
ASEAN+6	ASEAN+3 plus Australia, India, and New Zealand
ASEAN+9	ASEAN+6 plus the Russian Federation and the United States
BFS	Bureau for Food Security
BIMP-EAGA	Brunei Darussalam-Indonesia-Malaysia-The Philippines East ASEAN Growth Area
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (Members are Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, and Thailand)
BIT	Bilateral Investment Treaty
BTFA	Bangladesh Trade Facilitation Activity
BTILS	BIMSTEC's Transport Infrastructure and Logistics Study
CADP	Comprehensive Asia Development Plan
CBTA	Cross Border Transport Agreement
CECA	Comprehensive Economic Cooperation Agreements
CII	Confederation of Indian Industry
CPS	Country Partnership Strategy
DfID	U.K. Department for International Development
E3	U.S. government Enhanced Economic Engagement
ERA	Economic Reform and ASEAN Integration
ERIA	Economic Research Institute for ASEAN and East Asia
EU	European Union
EWEC	East West Economic Corridor (connecting across Vietnam, Cambodia, Thailand, and Burma)
FTA	Free Trade Agreement
FY	Fiscal Year
GATT	General Agreement on Tariffs and Trade

GDP	gross domestic product
GIZ	Deutsche Gesellschaft fur Internationale Zusammenarbeit
GMS	Greater Mekong Subregion
GSM	Geographical Simulation Model
GSP	Generalized System of Preferences
IFC	International Finance Corporation
IFI	international financial institution
IMF	International Monetary Fund
IMT-GT	Indonesia, Malaysia, Thailand Growth Triangle
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IPEC	Indo-Pacific Economic Corridor
IPR	Intellectual Property Rights
JBIC	Japanese Bank for International Cooperation
JICA	Japanese International Cooperation Agency
LPI	Logistics Performance Index
MFN	Most Favored Nation
MIEC	Mekong India Economic Corridor
MPAC	Master Plan on ASEAN Connectivity
NSW	National Single Window
NTB	Nontariff Barrier
PTA	Preferential Trade Agreements
PPP	Purchasing Power Parity
RCEP	Regional Comprehensive Economic Partnership
RIS	Research and Information System for Developing Countries
RKC	Revised Kyoto Convention
RDMA	Regional Development Mission for Asia
SACRI	South Asia Regional Cooperation and Integration (World Bank's Unit)
SAARC	South Asia Association for Regional Cooperation (Members are: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka)
SAARC-TPN	SAARC Trade Promotion Network
SARSO	South Asian Regional Standards Organization
SARTIC	South Asia Regional Trade and Integration Programme
SASEC	South Asia Subregional Economic Cooperation (ADB initiative working with Bangladesh, Bhutan, India, Maldives, Nepal, and Sri Lanka)
SAFTA	the South Asian Free Trade Area
SAPTA	South Asian Preferential Trading Arrangement
SATIS	The SAARC Agreement on Trade in Services
SCA	Bureau of South and Central Affairs at the State Department
SE Asia	Southeast Asia
SME	Small and Medium Enterprise
SPS	Sanitary and Phytosanitary Measures
STFP	SASEC Trade Facilitation Program
STFSF	SASEC Trade Facilitation Strategic Framework 2014 – 2018

TA	Technical Assistance
TBT	Technical Barriers to Trade
TF	Trade Facilitation
TIFA	Trade and Investment Framework Agreement
TIS	Trade in Services
TPP	Trans-Pacific Strategic Economic Partnership
TNC	Trade Negotiating Committee
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development Commission for Asia and the Pacific
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
USAID	United States Agency for International Development
USTR	Office of the United States Trade Representative
WB	World Bank
WCO	World Customs Organization
WTO	World Trade Organization

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EXECUTIVE SUMMARY

Although historically trade and transit links between South and Southeast Asia have existed for centuries, modern trade between these two regions has been hindered due to poor infrastructure, regulatory barriers, and limited regional cooperation. But recent developments have spurred renewed optimism. Burma's political and economic opening has created new opportunities with enormous potential, and its strategic location between India, China, and Southeast Asia makes it an ideal transit route for goods to Southeast and East Asia. Indian efforts to improve bilateral relations with its South Asian neighbors — Bangladesh, Bhutan and Nepal in particular — as well as Indian and Bangladeshi efforts to increase engagement with Southeast Asia, are also positive signs. Specifically, India Prime Minister Narendra Modi ran on a platform of economic reform and has elevated India's Act East policy.

The countries in South and Central Asia have made considerable progress encouraging the expansion of northward trade and infrastructure connectivity along historic trade routes into Pakistan, Afghanistan, and into Central Asia. The U.S. Department of State believes that it is now the opportune time to increase the scope of this engagement eastward from India into Bangladesh, Burma, and Southeast Asia to enhance integration with the greater Asia-Pacific region. While trade among South Asian countries remains far below its potential, current political and economic conditions in the region have created a political window of opportunity to strengthen the economies and economic prosperity of Bangladesh, Burma, and India through enhanced economic engagement with other Southeast Asian neighbors — namely a strong Indo-Pacific Economic Corridor (IPEC). Governments, consumers, producers, and exporters will benefit significantly from greater trade integration in the region. In addition to welfare gains, lower costs, and better quality products for consumers, exporters will gain access to much bigger markets and sourcing opportunities and better quality for key inputs. Strong leadership and sustained political will — from leaders in both the public sector and private sector — are key to achieving trade integration in the region.

Research methods. This study aims to support IPEC by conducting an initial analysis of barriers to trade, challenges, and potential opportunities for the U.S. government to support enhanced trade across an Indo-Pacific Economic Corridor. To collect information, a research team reviewed existing literature and conducted extensive consultations with U.S. government officials, private industries, think tanks, donors, and other stakeholders.

Constraints to trade. This study argues that focus on non-tariff barriers (NTBs) and trade facilitation will have the most meaningful impact for enhanced trade integration in the South Asian context. Trade facilitation is not only the logistics of moving goods through ports or customs at the border, but also the environment in which trade takes place, including harmonization of standards and regulations. Various regional agreements aimed at reducing tariff rates have tried and failed to achieve trade cooperation; indeed, South Asia remains the least integrated regional bloc on the globe, with only 5.7 percent of exports from South Asian countries going to other countries in the region.

Recommendations. The assessment team identified several key interventions that may yield profound benefit to regional connectivity in the Indo-Pacific region. In selecting these recommendations, the study considered impact, feasibility, U.S. comparative advantage, ability to address immediate and prohibitive gaps in trade integration in the region, and cost and/or cost-sharing potential. The assessment team's five primary recommendations, listed below, are presented in order of least resource-intensive to the most resource-intensive. In other words, incorporating IPEC into internal U.S. government initiatives is presented first and a more costly, staff-intensive flagship initiative, the Borderless Alliance, is presented last.

1. Incorporate IPEC trade facilitation component into USAID and State Department activities. In the short-term, the assessment team recommends pinpointing a South Asia trade focal point (either an individual or small group of individuals) at USAID and integrating a South Asia trade facilitation component into the Feed the Future Initiative.

2. Enhance donor coordination on regional integration and trade activities. There are several donors who are actively working on issues of trade integration within IPEC countries and across the region. The assessment team recommends that the U.S. government partner with the World Bank Group to (1) co-host dialogues with the World Bank's South Asia Regional Connectivity Unit on soft connectivity initiatives with an initial focus on East India-Bangladesh connectivity and (2) partner in a Doing Business Initiative in South Asia to promote accountability. In addition, the U.S. government should participate in the U.K. Department for International Development-led (DfID) Coordination Working Group on South Asia Regional Connectivity and co-host conferences on NTBs in IPEC countries with the International Finance Corporation (IFC) where specific deliverables could be agreed to by participating countries.

3. Focus on SPS/TBT harmonization and development of standards. Existing research and stakeholder interviews indicate that SPS and TBT harmonization would have substantial impact on regional trade in South Asia. The U.S. government should pursue investments in capacity building in the recently created SAARC Regional Standards Organization (SARSO) in the short-term and pursue a joint-partnership with the Asian Development Bank on country-specific SPS/TBT initiatives in the longer term.

4. Explore opportunities to provide capacity building to the Bay of Bengal Initiative for Multi-Sectorial Technical and Economic Cooperation (BIMSTEC). BIMSTEC is the regional institution best situated to support inter-regional trade between South and Southeast Asia. Yet the recently created BIMSTEC Secretariat has weak organizational capacity and has been ineffective thus far. The U.S. government should explore opportunities for capacity building and provide technical assistance, if BIMSTEC proves its viability.

5. Launch a U.S. government–led "Borderless Alliance" among South and Southeast Asian countries. A lack of accountability is one of the main reasons that South Asian nations have not adhered to and realized the benefits of regional trade agreements. The reasons for this are complex, but include a lack of public-private dialogue and transparent information to identify priorities. A potential flagship initiative, a U.S.-led Borderless Alliance would improve public-private dialogue on trade issues, increase the quality and amount of data to hold governments accountable, and help promote an integrated Indo-Pacific Economic Corridor.

CHAPTER ONE

INTRODUCTION

A. UNITED STATES VISION OF AN INDO-PACIFIC ECONOMIC CORRIDOR (IPEC)

The U.S. economic future is inextricably linked to South and Southeast Asia. In 2014, the United States exported more than $100 billion worth of goods and services to South and Southeast Asia, and about seven percent of our imports (valued at $179 billion dollars) come from the regions.[1] The U.S. is committed to increasing our economic relationship with South and Southeast Asia and ensuring that the benefits are broadly shared. This shared prosperity is founded on sustainable inclusive growth, which cannot happen without increased trade, investment, and integration throughout the region.

The purpose of this study is to support the United States' vision of an Indo-Pacific Economic Corridor (IPEC) that bridges South and Southeast Asia to promote regional stability and economic prosperity. As part of the IPEC vision, the U.S. government will undertake activities to promote greater regional economic connectivity in Asia: USAID in collaboration with the State Department — which funded this activity with its centrally managed funds for advancing regional cooperation in South Asia — will implement a 2-year, $1.86 million activity to do the following:

- Foster economic growth and regional trade in South Asia;
- Increase private sector competitiveness in the region by enhancing the business environment;
- Engage the private sector on economic issues, particularly regional trade, in South Asia and trade between South and Southeast Asia; and
- Encourage stronger economic integration between South and Southeast Asia, engaging with regional institutions and international financial institutions as appropriate.

The IPEC vision includes physical infrastructure, energy, trade integration, and increased people-to-people ties. This activity will focus solely on economic integration through trade, investment, and private sector engagement. Through a coordinated analysis with other U.S. government departments — such as the Department of State, U.S. Agency for International Development (USAID), the Office of the United States Trade Representative (USTR), and the Department of Commerce — we aim to develop the foundation for IPEC and future long-term programming.

[1] http://www.trademap.org/

B. ABOUT IPEC PHASE 1

This assessment is Phase 1 of the trade component of the larger IPEC activity, which aims to support the United States' vision of an Indo-Pacific Economic Corridor that bridges South and Southeast Asia to promote regional stability and economic prosperity. This particular study focuses exclusively on trade integration and considers various ways that the U.S. government can play a more influential role in fostering regional trade integration in South and Southeast Asia. To conduct this assessment, USAID engaged the Asia and Middle East Economic Growth Best Practices project (AMEG) to conduct a literature review, hold consultations with key stakeholders, and analyze relevant trade data. All stakeholder consultations were either held in Washington D.C. or remotely via telephone. This report presents the findings from this research, including recommendations for U.S. government interventions that could help facilitate increased trade in the region. IPEC Phase 2 is expected to refine and begin implementation of these recommendations through field work.

C. ORGANIZATION OF THIS REPORT

This report begins with a summary of the key regional groupings in South and Southeast Asia — focusing on the South Asia Association for Regional Cooperation (SAARC), the Association of Southeast Asian Nations (ASEAN), and the Bay of Bengal Initiative for Multi-Sectorial Technical and Economic Cooperation (BIMSTEC) — providing a description of those institutions and their respective potential for affecting regional trade integration in the near term. The report then provides analytical data on regional and bilateral trade flows; this section is intended to provide an objective sense of the type and scope of inter-regional trade. The report then discusses key regional free trade arrangements, summarizing their potential and the reasons why more free trade agreements without accountability or implementation is unlikely to alter the regions' fundamental trade dynamics or capitalize on the potential for greater economic integration. The report then summarizes relevant U.S. government activities and dialogues as well as some key activities of other donors. Finally, the report recommends targeted interventions: a few of these interventions are internal to the U.S. government and some involve forging or enhancing partnerships with other donors or international financial institutions.

D. ASSESSMENT TEAM AND ACKNOWLEDGEMENTS

This desk assessment, Phase 1 of the IPEC activity, was conducted during the period starting at the end of November until the end of February. The Mission-oriented and DC-based interviews took place between February 2 and February 6, 2015. A presentation was given to USAID at the beginning of March and a final report was submitted at the end of March. We would like to thank our USAID, State Department, and U.S. government colleagues for their valuable input

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during the meetings/interviews and for providing guidance and support during all the phases of this report. In particular, we thank Lori Rakoczy from USAID's Asia Bureau and Olivier Garaud from the State Department's Bureau of South and Central Asian Affairs (SCA) for their guidance and support throughout the assessment.

E. ABOUT AMEG

The Asia and Middle East Economic Growth Best Practices (AMEG) project is designed to support USAID missions in developing effective and efficient economic growth programs that address technical and strategic challenges that are specific to countries in which USAID operates in Asia and the Middle East. Through AMEG, USAID is able to conduct rapid and strategic economic growth assessments, pilot innovative approaches in economic growth programming, and consolidate and disseminate best practices in economic growth projects learned from USAID implementation throughout the world.

CHAPTER TWO

SOUTH AND SOUTHEAST ASIA AND REGIONAL GROUPINGS

Both South Asia and Southeast Asia are major regions of the world. South Asia is the more populous region of the two with a total population is 1.69 billion versus Southeast Asia's 622 million. Southeast Asia's population is only 37 percent of South Asia's population. However, the Gross Domestic Product (GDP) of the two regions are almost identical. Hence Southeast Asia's per capita income is more than two and half times the per capita income of South Asia.

A. SOUTH ASIA

The map below shows the geographical location of the eight countries of South Asia: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka, all of which are members of the South Asia Association for Regional Cooperation (SAARC). South Asia has total population of 1.69 billion and a regional GDP of $2.37 trillion in 2013. As can be seen in table 2.1 three of the countries are classified as low income (Afghanistan, Bangladesh and Nepal), four are lower middle income countries (Bhutan, India, Pakistan, and Sri Lanka), and one is an upper middle income country (Maldives).

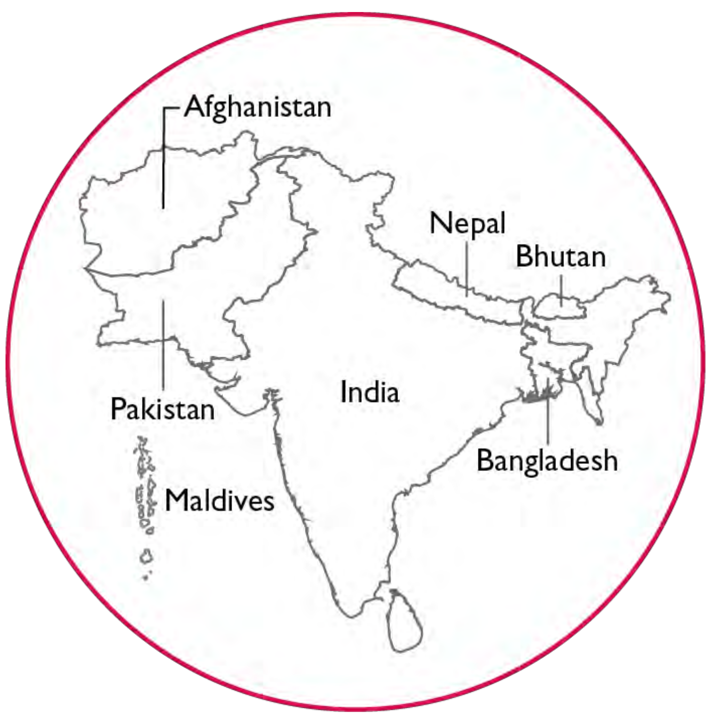


Table 2.1 South Asia

Country	Population 2014 Millions	% of S.A. Population	GDP 2013 USD Billions	% of S.A. GDP	Income Classification	Per Capita Income USD
Afghanistan	31.3	1.8%	$20.3	0.9	Low	690
Bangladesh	185.1	9.4%	$150	6.3	Low	1,010
Bhutan	0.8	0.05%	$1.8	0.08	Lower Middle	2,330
India	1,267	74.9%	$1,877	79.2	Lower Middle	1,570
Maldives	0.4	0.02%	$2.3	0.1	Upper Middle	5,600
Nepal	28.1	1.7%	$19.3	0.8	Low	730
Pakistan	185.1	10.9%	$232	9.8	Lower Middle	1,360
Sri Lanka	21.3	1.3%	$67.2	2.8	Lower Middle	3,170
South Asia	**1,692**	**100.0%**	**2,370**	**100.0**		**1,400**

Source: World Development Indicators
S.A. = South Asia

Note that India overwhelmingly dominates South Asia with 75 percent of the population and almost 80 percent of the regional economy. The next two biggest countries Pakistan and Bangladesh are substantially smaller with respectively 11 and 9 percent of population and 10 and 6 percent of the regional economy. Together the other five members account for less than 5 percent of the population and the economy.

B. SOUTHEAST ASIA

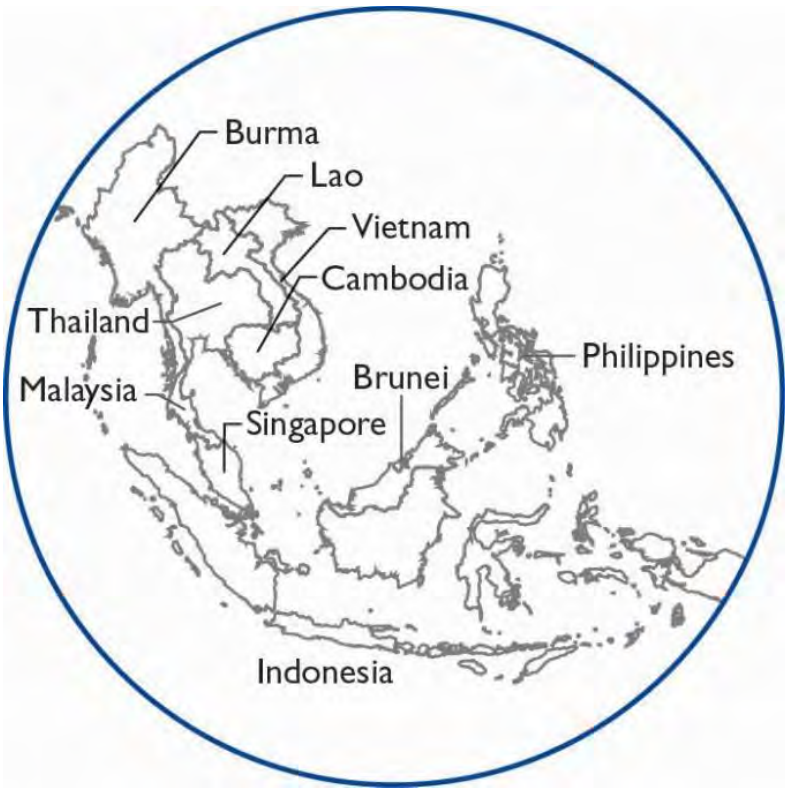
As shown in the map on the following page, Southeast Asia consists of ten countries: Brunei, Burma, Cambodia, Indonesia, Lao, Malaysia, Philippines, Singapore, Thailand, and Vietnam. All of these countries are members of the Association of Southeast Asia Nations (ASEAN). The following table provides some key data about these countries.

Table 2.2 Southeast Asia

Country	Population 2014 Millions	% of SEA Population	GDP 2013 USD Billions	% of SEA GDP	Income Classification	Per Capita Income USD
Brunei	0.4	.07%	16	0.7	High	$31,590
Burma	53.7	8.6%				
Cambodia	15.4	2.5%	15	0.6	Low	$950
Indonesia	252.8	40.6%	868	36.9	Lower Middle	$3,580
Lao	6.9	1.1%	11	0.5	Lower Middle	$1,450
Malaysia	30.2	4.9%	313	13.3	Upper Middle	$10,430
Philippines	100.1	16.1%	272	11.6	Lower Middle	$3,270
Singapore	5.5	0.9%	298	12.7	High	$54,040
Thailand	67.2	10.8%	387	16.5	Upper Middle	$5,340
Vietnam	90.2	14.5%	171	7.3	Lower Middle	$1,740
Southeast Asia	**622.4**	**100.0**	**2353**	**100.0**		**$3,780**

Source: World Development Indicators
SEA = Southeast Asia

Within Southeast Asia, Indonesia is by far the most populous with 41 percent of the population of Southeast Asia and the largest economically with 37 percent of the regional economy. In population terms, Philippines with 16 percent, Vietnam with 14 percent, and Thailand with 11 percent provide balance. In the regional economy, Thailand with 16 percent of GDP, Malaysia with 13 percent, Singapore with 13 percent, and Philippines with 12 percent provide balance. Southeast Asia has two countries: Brunei and Singapore in the high income classification; two in the upper middle income group: Malaysia and Thailand; three in the lower middle income category: Indonesia, Lao, and Vietnam; and two in the low income class: Cambodia and, even without an official label, Burma.



C. REGIONAL GROUPINGS / ASSOCIATIONS

This section discusses the regional associations that aim to facilitate economic cooperation and integration in South Asia, Southeast Asia, and across the two regions. The membership of these associations is graphically depicted in a map, Exhibit 1, on the following page.

C1. THE SOUTH ASIAN ASSOCIATION FOR REGIONAL COOPERATION (SAARC)

SAARC was founded in Dhaka, Bangladesh in 1985 with the following main objectives: promoting the welfare of people of South Asia; accelerating economic growth and social progress; promoting active collaboration in economic growth and social progress; promoting active collaboration in the economic, social, cultural, technical and scientific fields; strengthening cooperation in international forums on matters of common interest; and cooperating with international and regional organizations with similar aims and purposes. SAARC's member countries are Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.

SAARC Summits, held every two years, serve as a key organizational platform for heads of state to discuss regional issues and negotiate regional agreements. A SAARC Standing Committee includes all ministers of foreign affairs (or equivalent counterparts) and is tasked with pushing regional initiatives forward in between summits or annual SAARC meetings. These groups are supported by Technical Committees and ad hoc Action Committees. [2] The SAARC Secretariat was established in Kathmandu, Nepal in 1987 and is led by a Secretary General, appointed by the Council of Ministers on a three-year rotational basis.[3]

Although SAARC is generally perceived as ineffective relative to other regional economic blocs, it has a few notable achievements. The South Asian Preferential Trade Area (SAPTA) was operational by 1995 and the South Asian Free Trade Area (SAFTA) became operational in 2006 with the notion of becoming a fully functional Free Trade Agreement in 2015.[4] Unfortunately, the free trade agreement is unlikely to be fully enforced in 2015 and loopholes has minimized SAPTA and SAFTA's impact on intra-regional trade. As a result, SAARC has yet to realize its potential for intraregional trade (see box). More detail about the challenges facing SAARC is provided in Chapter 5.

Room for Intra-Trade Improvements

The proportion of intra-regional trade in South Asia to SAARC countries' exports to all other countries trade is estimated to be 5.69 percent in 2013. This figure appears to be the lowest among major regional integration schemes, and is far lower than that of ASEAN, with intra-regional trade making up 25 percent of all ASEAN exports.

B. THE BAY OF BENGAL INITIATIVE FOR MULTI-SECTORAL TECHNICAL AND ECONOMIC COOPERATION (BIMSTEC)

The Bay of Bengal Initiative for Multi-Sectorial Technical and Economic Cooperation (BIMSTEC) is a cross-region initiative with Bangladesh, Bhutan, India, Nepal, Sri Lanka, Burma, and Thailand as member countries. Its priority sectors are: trade and investment; infrastructure; transport and communication; energy; and people to people contact, among others. According to the World Bank, infrastructure is the most important priority to date and the Asian Development Bank (ADB) has provided assistance in BIMSTEC's Transport Infrastructure and Logistics Study (BTILS), which is intended to "enhance transport infrastructure, improve logistics, reduce transport time, and lower transport costs."[5]

BIMSTEC is a sub-regional cooperation group that was formed in Thailand in 1997. Myanmar joined slightly after its initial founding in December 1997 and Bhutan and Nepal joined in February 2004. BIMSTEC includes five members of SAARC (India, Bangladesh, Bhutan, Nepal,

[2] Saez, 42.
[3] Saez, 47.
[4] Razeen Sally, 9.
[5] Bhattacharaya, 58.

and Sri Lanka) and two members of ASEAN (Thailand, Myanmar) and therefore has the potential to link the two key groupings in the region, SAARC and ASEAN. The chairmanship of BIMSTEC rotates among the member countries and it is currently being chaired by Nepal. In 2014, BIMSTEC established a permanent secretariat headquartered in Dhaka.[6] While a promising step, the BIMSTEC Secretariat has yet to build needed organization capacity.

During the 11th Senior Official Meeting in August 2006, 13 sectors of cooperation were agreed to and it was further agreed that each of these areas of cooperation will be "voluntarily" led by members. The areas of cooperation are: Trade & Investment (Bangladesh); Technology (Sri Lanka); Energy (Myanmar);Transport & Communication (India); tourism (India); Fisheries (Thailand); Agriculture (Myanmar); Cultural Co-operation (Bhutan); Environment and Disaster Management (India); Public Health (Thailand); People-to-People Contact (Thailand); Poverty Alleviation (Nepal); and Counter-Terrorism and Transnational Crimes (India).

C. ASSOCIATION OF SOUTHEAST ASIAN NATIONS (ASEAN)

ASEAN is a political and economic organization of ten countries in Southeast Asia; its aims include accelerating economic growth, social progress, and sociocultural evolution, protection of regional peace and stability, and opportunities for member countries to discuss differences peacefully. It has a population of approximately 617 million people, or 8.8 percent of the world's population. In 2012, its combined nominal GDP had grown to more than US$2.3 trillion. As a single entity, it would rank as the seventh largest economy in the world, behind the U.S., China, Japan, Germany, France, and the United Kingdom.[7]

ASEAN was established on August 8, 1967 in Bangkok by Indonesia, Malaysia, Philippines, Singapore, and Thailand. It has grown to 10 countries and includes Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. India is one of the four "Summit level Dialogue Partners" of ASEAN. ASEAN's Declaration states its purposes:

1. To accelerate economic growth, social progress, and cultural development in the region
2. To promote regional peace and stability
3. To promote collaboration and mutual assistance on matters of common interest
4. To provide assistance to each other in the form of training and research facilities
5. To collaborate for the better utilization of agriculture and industry to raise the living standards of the people
6. To promote Southeast Asian studies
7. To maintain close, beneficial co-operation with existing international organizations with similar aims and purposes.[8]

[6] Nyunt Oo.
[7] http://www.asean.org
[8] http://www.asean.org

With USAID support, ASEAN has made impressive strides in terms of economic integration and increased trade. The regional body has established a Common Effective Preferential Tariff and has made impressive strides on trade facilitation issues, such as steps towards establishing a region-wide ASEAN Single Window. Partly as a result, intra-regional trade constitutes 25 percent of all ASEAN exports, much higher than SAARC's 5.6 percent share of total exports. However, ASEAN also possesses much more sophisticated supply chains that its neighboring region.[9]

[9] Razzaque, p. 11.

CHAPTER THREE

REGIONAL TRADE FLOWS

SUMMARY AND ANALYSIS OF REGIONAL TRADE DATA AND FLOWS

This chapter exams the existing goods or product export flows between South Asia and Southeast Asia. Annex B provides spreadsheets with additional charts and data calculations.

The focus of the data analysis is on goods exports (rather than total exports which include service exports) because information on goods exports is readily available, unlike for service exports. While total service exports is known (see box), additional data such as sources, destinations, and types are not easily accessible. Goods exports also make up the bulk of exports. For South Asia in 2013 goods exports constituted more than 70 percent of the region's total exports. For Southeast Asia the goods export total was more than 80 percent of total exports.

Regional Trade in Services

Although not a primary focus of this study, available data suggest that service exports are relatively more important to South Asia, where they comprise 29 percent of total exports, than Southeast Asia (18 percent). Service exports grew by 11.1 and 12.6 percent in SAARC and ASEAN, respectively, between 2010 and 2013. Tab 4 in Annex B provides more detailed data and analysis about trade in services.

The section begins by presenting data on South Asia exports to Southeast Asia, continues with Southeast Asia exports to South Asia, and concludes with an overview and analysis. This section includes detailed data for each region including (1) the overall picture of that region's exports to the world; (2) exports to the other region, including sources and destinations; (3) those exports in the context of the other region's imports; (4) major exports; (5) the fastest growing exports; and (6) trends in intraregional exports for each of the two regions.

A. SOUTH TO SOUTHEAST ASIA TRADE FLOWS

For thousands of years trade has existed between South and Southeast Asia. Even today Indo influences are still quite noticeable in Southeast Asia. However, from the end of World War II until 1990, the two regions were relatively isolated from each other.[10] Since 1990, trade between the regions has increased nearly 25 times from $4 billion in 1990 to $98 billion in 2013. The data and analysis below focus on inter-regional trade in 2013.

A1. SOUTH ASIA GOODS EXPORTS

South Asia's trade is much more oriented to Europe, the Middle East, and the United States compared to intraregional trade or trade with Southeast Asia. This is due to a number of factors.

[10] Asian Development Bank and the Asian Development Bank Institute, Connecting South Asia and Southeast Asia: Interim Report, 2013, p. ix.

Preferred trade destinations are centers of demand, and countries of both South and Southeast Asia tend to compete against each other in products, not customers.[11]

Table 3.1 presents the 2013 value of South Asia exports to various regions in the world as well as internal within South Asia. In 2013, South Asia exports totaled around $405 billion, but this was only 2.3 percent of total world exports and only equaled 17 percent of South Asia's Gross Domestic Product (GDP). South Asia's largest export market was the European Union with almost 21 percent of total South Asia exports, followed closely by the Middle East with almost 20 percent. South Asia intra-regional trade constituted only 5.7 percent of total exports.

Table 3.1 South Asia 2013 Goods Export Flows

Destination	Value (USD Thousands)	Percent of Total South Asia Exports
South Asia	$23,030,450	5.7%
Southeast Asia	$39,619,427	9.8%
China	$19,822,964	4.9%
East Asia*	$31,084,132	7.7%
European Union	$83,508,941	20.6%
Middle East	$79,854,459	19.7%
USA	$53,909,817	13.3%
Rest of the World	$73,797,864	18.2%
Total	$404,628,054	100.0%

*Japan, Republic of Korea, and Hong Kong
Source: Trade Map with added calculations

A2. SOUTH ASIA GOODS EXPORTS TO SOUTHEAST ASIA

South Asia exported approximately $40 billion worth of commodities to Southeast Asia in 2013. This represented 9.8 percent of South Asia's total exports and around 0.22 percent of world exports. But South Asia exports to Southeast Asia only amounted to 3.1 percent of Southeast Asia's total imports.

Over the last three years South Asia exports to Southeast Asia have been growing at an average annual rate of 4.7 percent. This was above South Asia's overall rate of increase of exports of 3.9 percent and the overall world export growth rate of 2.4 percent. Table 3.2 shows the total 2013 exports to Southeast (SE) Asia from South Asia countries.

Table 3.2 South Asia 2013 Goods Exports to Southeast Asia by Country Exporting

Source	Value of Exports in USD (Thousands)	% South Asia Exports to SE Asia	% Country's Overall Exports to SE Asia
Afghanistan	$2,436	0.0%	0.3%
Bangladesh	$1,128,852	2.9%	3.6%
Bhutan	$379	0.0%	0.2%
India	$37,885,468	95.6%	11.3%
Maldives	$62,699	0.2%	37.2%

[11] Asian Development Bank Institute, Policies to Enhance Trade Facilitation in South Asia and Southeast Asia by Anthony Bayley, ADBI Working Paper Series No. 489, July 2014, p. 3.

Nepal	$11,179	0.0%	1.3%
Pakistan	$968,919	2.5%	3.9%
Sri Lanka	$294,895	0.7%	2.9%
Total	$39,619,427	100.0%	9.8%

Source: Trade Map with added calculations

Among South Asia countries, India overwhelmingly dominates exports to Southeast Asia with more than 95 percent of total South Asia exports to Southeast Asia. However, as Table 3.2 shows, India's exports to Southeast Asia make up only 11.3 percent of India's total exports. Although a very small economy, Maldives is the one South Asia country for which exports to Southeast Asia are a substantial part of its exports, with 37 percent of its exports going to Southeast Asia.

Table 3.3 presents the specific destination of South Asia's exports to Southeast Asia.

Table 3.3 Destination of South Asia 2013 Goods Exports to Southeast Asia

Destination	Value of Received South Asia Exports in USD (Thousands)	% of South Asia Exports to Southeast Asia	% of Imports from South Asia
Brunei	$41,282	0.1	1.1
Burma	$756,940	1.9	4.1
Cambodia	$194,508	0.5	2.1
Indonesia	$5,827,943	14.7	3.1
Lao	$62,642	0.2	1.0
Malaysia	$5,840,620	14.7	2.8
Philippines	$1,583,138	4.0	2.4
Singapore	$14,500,879	36.6	3.9
Thailand	$4,508,256	11.4	1.8
Vietnam	$6,295,842	15.9	4.3
Total	$39,612,050	100.0	3.1

Source: Trade Map with added calculations

South Asia goods exports to Southeast Asia are scattered over the region, especially remembering that Singapore serves as a preeminent trans-shipping point. Vietnam, Malaysia, Indonesia, and Thailand all receive large shares of South Asia's exports to Southeast Asia. In addition, South Asia exports to Southeast Asia constitute a small portion of each country's total imports. Vietnam has the largest percentage of its imports coming from South Asia at 4.3 percent. In overall terms, only 3.1 percent of Southeast Asia's imports come from South Asia.

Table 3.4 presents the major South Asia goods export categories at the two digit level of the Harmonized System. The top 10 categories are listed along with (1) the total U.S. dollar value of exports in 2013, (2) the product category/label's share of all South Asia exports to Southeast Asia, (3) the share of total South Asia exports for a product category/label that are exported to Southeast Asia[12], and (4) the percentage of Southeast Asia imports from South Asia by category or product.

[12] This is calculated by dividing (1) total South Asia exports to Southeast Asia for a given product code by (2) the total South Asia exports for that same product code to the entire world.

Table 3.4 Major South Asia Goods Exports to Southeast Asia

Product Code	Product Labels	South Asia Exports to SE Asia (Thousands)	% of Total South Asia Exports to SE Asia	% of Total South Asia Product Exports	% SE Asia Imports from South Asia by Product
27	Mineral fuels, oils, distillation products, etc.	$11,100,938	28.0%	15.8%	4.0%
02	Meat and edible meat offal	$2,869,491	7.2%	57.5%	57.3%
29	Organic Chemicals	$2,039,784	5.2%	15.2%	7.6%
89	Ships, boats and other floating structures	$1,875,649	4.7%	50.7%	25.5%
84	Machinery, nuclear reactors, boilers, etc.	$1,767,502	4.5%	13.1%	1.1%
71	Pearls, precious stones, metals, coins, etc.	$1,594,877	4.0%	3.5%	4.7%
72	Iron and steel	$1,582,577	4.0%	15.0%	3.7%
03	Fish, crustaceans, mollusks, aquatic invertebrates nes	$1,516,615	3.8%	23.7%	18.2%
10	Cereals	$1,452,004	3.7%	10.5%	16.0%
52	Cotton	$1,055,502	2.7%	6.3%	12.0%
Total – Top 10 Products		$26,854,939	67.8%	13.5%	4.7%

Source: Trade Map with added calculations

Each of the ten listed product categories had exports from South Asia to Southeast Asia worth more than one billion dollars in 2013. Together they account for more than two thirds of South Asia exports to Southeast Asia, 13.5 percent of South Asia exports in these categories, and 4.7 percent of Southeast Asia imports in these categories. The largest category by far is Product Code 27 Mineral fuels, oils, distillation products (overwhelmingly crude petroleum oil being exported by India to Singapore and Indonesia) which makes up more than 28 percent of all South Asia exports to Southeast Asia, but only four percent of Southeast Asia imports in this category. Four of the categories are agriculture and fishery, mounting to over one third in value of South Asia's exports to Southeast Asia and 16 percent of Southeast Asia imports.

While South Asia's exports to Southeast Asia overall are almost 10 percent of total exports, for a number of the categories, South Asia's exports to Southeast Asia represents a substantial part of South Asia's total exports in that category. In two cases — product codes 89 Ships, boats and other floating structures and 02 Meat and edible meat offal — the exports to Southeast Asia are more than 50 percent of South Asia's exports in that category.

While overall South Asia's exports to Southeast Asia only amount to three percent of Southeast Asia imports, in product code 02 Meat and edible meat offal exports from South Asia amounted to more than 57 percent of Southeast Asia imports. (Almost all of the exports in this category are frozen meat of bovine animals being exported from India to Vietnam, Malaysia, and Thailand.) 25 percent of Southeast Asia imports of product line 89 Ships, boast and other floating structures come from South Asia. (A variety of ships and boats are being exported by India mainly to Singapore.) Other important import items in terms of percent of imports to Southeast Asia from

South Asia are fish (18.2 percent of imports), cereals (maize, rice and wheat at 16 percent) and cotton (12 percent).

The following two tables analyze general and product-specific trade flow trends between South Asia and Southeast Asia over a five year time horizon. Table 3.5 presents the fastest growing SAARC exports, at the two digit level of the Harmonized System, to ASEAN countries between 2009 and 2013.

Table 3.5 Fastest Growing Exports* from South Asia to Southeast Asia from 2009 to 2013

Product Code	Product Labels	Average Annual Increase 2009 to 2013	Total Increase 2009 to 2013	Share of Total South Asia Exports to Southeast Asia
75	Nickel and articles thereof	1015%	12492%	1.0%
88	Aircraft, spacecraft, and parts thereof	77%	326%	1.9%
03	Fish, crustaceans, molluscs, aquatic invertebrates nes	70%	680%	3.8%
02	Meat and edible meat offal	57%	566%	7.2%
87	Vehicles other than railway, tramway	50%	311%	2.6%
10	Cereals	48%	384%	3.7%
27	Mineral fuels, oils, distillation products, etc	46%	344%	28.0%
12	Oil seed, oleagic fruits, grain, seed, fruit, etc, nes	45%	314%	1.8%
54	Manmade filaments	38%	310%	0.6%
72	Iron and steel	35%	259%	4.0%
All South Asia Exports to SE Asia		**22%**	**209%**	**100.0%**

*The categories above are limited to those that constitute at least .5 percent of the total exports from South Asia to Southeast Asia.
Source: Trade Map with added calculations

As the chart illustrates, the fastest growing exports are commodities and a few highly specialized and capital-intensive manufactured goods. Most of these items experienced steady gains between 2009 and 2010, except for *Nickel and articles thereof*, which stayed at a relatively low level from 2009 to 2011 and then increased by 39 times in 2012 and then tripled again in 2013 (increasing from $3.15 million to $377 million between 2011 and 2013).

Table 3.6 Select Exports from South Asia to Southeast Asia at 4-Digit Level

Product Code	Product Labels	Average Annual Increase 2009 to 2013	Total Increase 2009 to 2013	Share of Total South Asia Exports to Southeast Asia
1001	Wheat and meslin	1325%	23716%	0.5%
0306	Crustaceans	119%	1388%	1.4%
0307	Moluscs	98%	1023%	0.6%
1006	Rice	61%	374%	0.6%
0202	Meat of bovine animals, frozen	58%	569%	6.9%
0303	Fish, frozen, whole	53%	459%	1.6%

1005	Maize (corn)	42%	300%	2.3%
8708	Parts & access of motor vehicles	40%	365%	1.0%
5201	Cotton, not carded or combed	37%	295%	1.3%
5205	Cotton yarn 85% or more cotton, not retail	37%	313%	0.7%
All South Asia Exports to SE Asia		**22%**	**209%**	**100.0%**

Source: Trade Map with added calculations

Table 3.6 highlights the important role of agricultural and food goods (included some staple foods, such as rice and maize) in inter-regional trade between South and Southeast Asia. Despite the presence of policies that increase the cost and complexity of agricultural trade, these steady gains suggests that there remains significant potential for increased trade of agricultural goods between the two regions.

A3. SOUTH ASIA INTRAREGIONAL TRADE

Based on the research team's data analysis, SAARC intraregional trade has increased 95.6 percent from 2009 to 2013, from $11.7 to $23 billion per year. This compares to an increase in SAARC's exports to the world of 49.3 percent. While this is an encouraging sign, intraregional trade has not kept the same pace as overall SAARC exports since 2010. Using official statistics, the share of intraregional trade relative to total SAARC exports is 5.69 percent as of 2013. This number has increased slightly since 2009, when intraregional trade comprised 5.38 percent of all SAARC exports. [13] Chart 7 in Annex B has a more detailed analysis of intraregional trade trends.

According to South Asian trade experts, this proportion "appears to be the lowest among major regional integration schemes" across the world.[14] Part of this is likely because bilateral free trade agreements have been more progress than regional integration efforts. In addition, some predict that the actual rate of intraregional trade, given a large amount of informal trade, is between 8 and 10 percent of total SAARC exports.[15] Table 3.7 below shows how the top intraregional exports in South Asia and how those exports have increased or decreased between 2009 and 2013.

Table 3.7 SAARC Intraregional Trade Trends – 2009 to 2013

Product Code	Product Labels	Average Annual Increase 2009 to 2013	Total Increase 2009 to 2013	Product's Share of Total Intraregional Exports
52	Cotton	+34.8%	+200.9%	14.7%
27	Mineral fuels, oils, distillation products, etc	+11.7%	+33.3%	8.4%
10	Cereals	+42.7%	+260.7%	5.4%
87	Vehicles other than railway, tramway	+28.4%	+109.5%	5.3%

[13] www.trademap.org

[14] Razzaque, 1

[15] Razzaque, 43

72	Iron and steel	+13.9%	+64.9%	4.6%
88	Aircraft, spacecraft, and parts thereof	+14539.3%	+9724.6%	4.0%
84	Machinery, nuclear reactors, boilers, etc	+24.3%	+134.7%	3.4%
39	Plastics and articles thereof	+25.7%	+148.1%	3.0%
23	Residues, wastes of food industry, animal fodder	+16.2%	+81.1%	2.9%
07	Edible vegetables and certain roots and tubers	+11.8%	+28.7%	2.9%
All South Asia Intraregional Exports		**+19.1%**	**+95.6%**	**100.0%**

Source: Trade Map with added calculations

B. SOUTHEAST TO SOUTH ASIA TRADE FLOWS

B1. SOUTHEAST ASIA GOODS EXPORTS

Compared to South Asia, Southeast Asia's trade is much more oriented to itself and more distant markets than South Asia. The difficulties of trading with South Asia in terms of policy and procedural impediments to trade is a major reason for this. Table 3.8 presents the 2013 value of Southeast Asia goods exports to various regions in the world as well as internal within Southeast Asia. In 2013 Southeast Asia exported around $1.27 trillion or 7.1 percent of total world exports; these exports represent more than 50 percent of Southeast Asia's GDP. Southeast Asia's largest export market was itself with 26 percent, followed by East Asia with 23 percent of total Southeast Asia exports. China (12 percent), the EU (9.8 percent), and the United States (9 percent) were also major markets. Exports to South Asia only accounted for 4.6 percent of Southeast Asia exports.

Table 3.8 Southeast Asia 2013 Goods Export Flows

Destination	Value (USD Thousands)	Percent of Total SE Asia Exports
Southeast Asia	$330,379,300	25.9%
South Asia	$58,372,467	4.6%
China	$152,521,100	12.0%
East Asia*	$293,164,600	23.0%
European Union	$124,521,100	9.8%
Middle East	$46,979,700	3.7%
USA	$114,509,800	9.0%
Rest of the World	$153,405,900	12.0%
Total	$1,273,853,967	100.0%

*Japan, Republic of Korea, and Hong Kong
Data on Southeast Asia exports outside intra-trade is missing data from Burma.
Source: Trade Map with added calculations

B2. SOUTHEAST ASIA GOODS EXPORTS TO SOUTH ASIA

Southeast Asia exported to South Asia $58 billion worth of commodities in 2013.[16] This represented only 4.6 percent of Southeast Asia total exports and around 0.3 percent of world exports. But Southeast Asia exports to South Asia amounted to almost 10 percent of South Asia's total imports.

Over the last three years Southeast Asia exports to South Asia have been growing at an average annual rate of 2.9 percent. This is above Southeast Asia's overall rate of increase of exports of 1.6 percent and the overall world export growth rate of 2.4 percent.

Table 3.9 shows the total 2013 exports to South Asia from Southeast Asia countries.

Table 3.9 Southeast Asia 2013 Goods Exports to South Asia by Country Exporting

Source	Value of Exports USD Thousands	% SE Asia Exports to South Asia	% Country Exports to South Asia
Brunei	$864,265	1.5%	7.6%
Burma*	$1,395,206	2.4%	13.0%
Cambodia	$10,573	0.0%	0.1%
Indonesia	$14,968,143	25.6%	8.2%
Lao	$111,723	0.2%	3.6%
Malaysia	$12,146,213	20.8%	5.3%
Philippines	$356,542	0.6%	0.7%
Singapore	$17,089,950	29.3%	4.2%
Thailand	$7,737,907	13.3%	3.4%
Vietnam	$3,691,945	6.3%	9.2%
Total	$58,372,467	100.0%	4.6%

*Data on exports to South Asia from Burma is not available in Trade Map. Hence, import data for South Asia countries were used, but data was missing for Bangladesh's imports from Burma.
Source: Trade Map with added calculations

The major Southeast sources of exports for South Asia are Singapore, Indonesia, Malaysia, and Thailand. Singapore serves as the main transshipping point for Southeast Asia. Hence, Singapore is unlikely to be the original source of most of its exports to South Asia. In no case are exports to South Asia ten percent or more of a country's overall exports. However, 9.2 percent of Vietnam's exports go to South Asia (a diverse range of electric equipment and machinery, cement, rubber, peppers, coffee, tea, and cinnamon) and 8.2 percent of Indonesia's exports to South Asia (over two thirds of which are palm oil and coal). Table 3.10 presents the destination of Southeast Asia exports to South Asia.

[16] Data on exports from Burma to South Asia are unavailable in Trade Map. However, it is believed that Burma's exports are an insignificant portion of aggregate Southeast Asia trade with South Asia. For Vietnam in various tables, exports to Bangladesh, Lao, and Burma are based on their respective average shares of 2011 and 2012 Vietnam's total exports applied to Vietnam's 2013 total exports.

Table 3.10 Destinations of Southeast Asia 2013 Goods Exports to South Asia

Destination	Value of Received Southeast Asia Exports in USD Thousands	% of SE Asia Exports to South Asia	% of Country's Overall Imports Coming from SE Asia
Afghanistan	$239,981	0.4	3.4
Bangladesh	$5,611,376	9.6	16.8
Bhutan	$36,351	0.1	13.8
India	$43,067,645	73.8	9.2
Maldives	$407,601	0.7	23.3
Nepal	$261,924	0.4	4.1
Pakistan	$5,185,847	8.9	11.8
Sri Lanka	$3,561,742	6.1	19.9
Total	$58,372.467	100.0	10.1

Data on Burma's exports to South Asia is missing.
Source: Trade Map with added calculations

Most of Southeast Asia exports to South Asia (73.8 percent) go to India. Bangladesh and Pakistan receive 9.6 and 8.9 percent of Southeast Asia exports respectively. The Maldives' small economy receives more than twenty percent of its imports from Southeast Asia. Sri Lanka, Bangladesh, Bhutan, and Pakistan all receive between 10 and 20 percent of their imports from Southeast Asia, while India receives 9 percent.

Table 3.11 presents the major South Asia goods export categories at the two digit level of the Harmonized System. The top 10 categories are listed along with (1) the total value of exports in 2013, (2) the percentage of Southeast Asia's total exports to South Asia, (3) the percentage of product exports to South Asia relative to the total value of that product's Southeast Asia exports, and (4) the percentage of South Asia imports from Southeast Asia by category or product.

The ten varied listed product categories are all of the categories which have exports worth more than one billion dollars. Together they account for more than three quarters of Southeast Asia exports to South Asia, 5.2 percent of Southeast Asia's exports in these categories, and 10.8 percent of South Asia's imports in these categories. The largest category is Product Code 27 Mineral fuels, oils, distillation products (consisting of: coal, overwhelmingly from Indonesia to India; crude petroleum oils, from Singapore and Malaysia to Bangladesh, Sri Lanka, and India; and crude petroleum oils, from Malaysia and Brunei to India) which makes up almost 22 percent of all Southeast Asia exports to South Asia, but only six percent of South Asia's imports in this category. Animal and vegetable fats and oils (overwhelmingly palm oil), electrical equipment, and machinery are also major categories.

Southeast Asia exports to South Asia overall are 4.6 percent of total Southeast Asia exports. Except for animal and vegetable fats and oils (overwhelming palm oil) with 26 percent of Southeast Asia exports going to South Asia, for none of the categories do exports to South Asia exceed ten percent of Southeast Asia exports in that category.

Overall Southeast Asia's exports to South Asia amount to almost ten percent of South Asia imports. However, for a number of categories, imports from Southeast Asia account for large portions of South Asia imports. The import share for Southeast Asia in eight of the ten categories exceed 10 percent. The largest by far is Animal and vegetable fats and oils at almost 70 percent, followed by Wood at almost 46 percent and Rubber at almost 30 percent.

Table 3.11 Major Southeast Asia Goods Exports to South Asia

Product Code	Product Labels	SE Asia Exports to South Asia (Thousands)	% of Total SE Asia Exports to South Asia	% of Total SE Asia Product Exports	% South Asia Imports from SE by Product
27	Mineral fuels, oils, distillation products, etc.	$12,788,575	21.7%	5.8%	6.1%
15	Animal and vegetable fats and oils, cleavage products	$9,781,459	16.6%	26.0%	69.9%
85	Electrical, electronic equipment	$6,297,193	10.7%	2.2%	17.4%
84	Machinery, nuclear reactors, boilers, etc.	$5,880,036	10.0%	4.1%	14.4%
29	Organic chemicals	$3,095,982	5.3%	9.5%	15.7%
39	Plastics and articles thereof	$2,378,190	4.0%	6.0%	16.9%
44	Wood and articles of wood, charcoal	$1,402,774	2.4%	7.8%	45.8%
40	Rubber and articles thereof	$1,351,929	2.3%	3.5%	29.7%
71	Pearls, precious stones, metals, coins, etc.	$1,348,959	2.3%	5.2%	2.0%
87	Vehicles other than railway, tramway	$1,034,733	1.8%	2.6%	11.4%
	Total	$45,359,830	77.1%	10.8%	5.2%

Data on Burma's exports to South Asia is missing.
Source: Trade Map with added calculations

Table 3.12 and 3.13 below illustrate trade flow trends between Southeast Asia and South Asia. These product categories are those that grew at the fastest rate from 2009 to 2013. To eliminate outliers with low base values, the product categories are limited to those that represent at least one half of one percent of overall trade between Southeast Asia and South Asia in 2013.

Table 3.12 Fastest Growing Exports* from Southeast Asia to South Asia from 2009 to 2013

Product Code	Product Labels	Average Annual Increase 2009 to 2013	Total Increase 2009 to 2013	Share of Total SE Asia Exports to South Asia
75	Nickel and articles thereof	117%	839%	0.9%
47	Pulp of wood, fibrous cellulosic material, waste etc	38%	220%	0.6%
40	Rubber and articles thereof	33%	157%	2.3%
71	Pearls, precious stones, metals, coins, etc	29%	127%	2.3%
74	Copper and articles thereof	24%	118%	0.6%
73	Articles of iron or steel	22%	86%	0.7%

27	Mineral fuels, oils, distillation products, etc	20%	83%	21.7%
26	Ores, slag and ash	19%	44%	1.6%
72	Iron and steel	18%	47%	1.1%
All SE Asia Exports to South Asia		**14%**	**58%**	**100.0%**

*The categories above are limited to those that constitute at least .5 percent of the total exports from Southeast Asia to South Asia.
Source: Trade Map with added calculations

Table 3.13 Select Exports from Southeast Asia to South Asia at 4-Digit Level

Product Code	Product Labels	Average Annual Increase 2009 to 2013	Total Increase 2009 to 2013	Share of Total SE Asia Exports to South Asia
8517	Electric app for line telephony,incl curr line system	51%	388%	3.1%
8528	Television receivers (incl video monitors & video projectors)	35%	188%	1.2%
8415	Air conditioning machines, with motor-driven elements	25%	124%	0.8%
9018	Electro-medical apparatus (electro-cardiographs, infra-red ray app, sy	19%	77%	0.5%
8471	Automatic data processing machines;optical reader, etc	19%	87%	2.5%
8708	Parts & access of motor vehicles	13%	56%	1.1%
8542	Electronic integrated circuits and microassemblies	8%	17%	1.9%
8473	Parts&acces of computers & office machines	-3%	-29.3%	1.1%
8443	Printing machinery; machines for uses ancillary to printing	-6%	-27.6%	0.8%
0713	Dried vegetables, shelled	-7%	-29.4%	1.1%
All SE Asia Exports to South Asia		**14%**	**58%**	**100.0%**

*The categories above are limited to those that constitute at least .5 percent of the total exports from Southeast Asia to South Asia.
Source: Trade Map with added calculations

As the above charts illustrate, industrial commodities are the fastest growing exports from ASEAN to SAARC. However, there are several categories of goods exports that show increased ASEAN exports of manufactured goods and some agricultural goods to South Asia.

B3. SOUTHEAST ASIA INTRAREGIONAL TRADE

Intraregional trade represents a healthy share of ASEAN exports — 25.6 percent in 2013 — which is much larger than SAARC, which only had 5.69 percent of its exports going to intraregional destinations in 2013. The share of ASEAN's intraregional trade relative to the region's total exports has remained relatively stable; in 2009, 25.04 percent of exports were intraregional. In 2013, 25.67 percent of exports were intraregional. Table 3.14 and Table 7 in Annex B provide more detail about intraregional trade trends in ASEAN and SAARC.

Table 3.14 ASEAN Intraregional Trade Trends – 2009 to 2013

Product Code	Product Labels	Average Annual Increase 2010* to 2013	Total Increase 2010 to 2013	Product's Share of Total Intraregional Exports
'27	Mineral fuels, oils, distillation products, etc	+16.2%	+51.8%	26.6%
'85	Electrical, electronic equipment	+5.5%	+17.3%	19.14%
'84	Machinery, nuclear reactors, boilers, etc	+4.9%	+15.2%	12.35%
'39	Plastics and articles thereof	+11.2%	+35.8%	3.99%
'87	Vehicles other than railway, tramway	+11.0%	+31.9%	3.95%
'29	Organic chemicals	+8.2%	+25.6%	2.31%
'90	Optical, photo, technical, medical, etc apparatus	+11.8%	+38.9%	2.08%
'73	Articles of iron or steel	+9.1%	+29.6%	1.77%
'40	Rubber and articles thereof	+3.6%	+6.8%	1.53%
'71	Pearls, precious stones, metals, coins, etc	+3.0%	+.8%	1.23%
All South Asia Exports to SE Asia		**+7.9%**	**+24.6%**	**100.0%**

Source: Trade Map with added calculations
*2009 data were unavailable in Trade Map,

C. OVERVIEW AND ANALYSIS OF SOUTH AND SOUTHEAST ASIA TRADE

In overall terms, trade between South and Southeast Asia is relatively small. The low level is partly explained by similarity of export products and emphasis on trading with distant markets that are perceived as being more profitable. But the ease of trading is also an important factor. In general trade with Southeast Asia is more important to South Asia than trade with South Asia is to Southeast. Total goods exports from Southeast Asia to South Asia substantially exceed South Asia's exports to Southeast Asia ($57 billion versus $40 billion). However, in relative terms South Asia exports to and imports from Southeast Asia are much more important to South Asia than Southeast Asia exports to and imports from South Asia are to Southeast Asia.

Southeast Asia only exports 4.6 percent of its exports to South Asia, while South Asia exports 9.8 percent of its exports to Southeast Asia. South Asia imports almost ten percent of its imports from Southeast Asia while Southeast Asia only imports 3 percent of its imports from South Asia. The same holds true at the product category level. For eight of the top ten export product categories South Asia exports to Southeast Asia exceed 10 percent of its exports of the category. Southeast Asia export to South Asia more than 10 percent of its exports in a given category for only one category (palm oil). Likewise in imports, South Asia's imports from Southeast Asia exceed 10 percent of all imports in that category for eight out of the top ten categories. For Southeast Asia it is only five of the top ten.

At the individual product level, there are items for which the other region is an important trading partner. For example, for Southeast Asia, South Asia serves as important destination for coal and palm oil. For South Asia, Southeast Asia receives more than half of the exports of frozen bovine meat and ships and boats.

As a positive sign for the future, over the last several years, trade between the regions has been growing faster than each region's trade in general and faster than world trade in general. South Asia exports to Southeast Asia have been growing 4.7 percent annually — higher that the growth rate for South Asia's overall exports (3.9 percent) and the growth rate for overall world trade (2.4 percent). Southeast Asia exports to South Asia have been growing at the rate of 2.9 percent a year versus 1.6 percent overall.

CHAPTER FOUR

SELECT BILATERAL TRADE FLOWS

This chapter explores in greater depth bilateral trade relationships between select countries. These are India – Bangladesh, India – Nepal, India – Burma, and Bangladesh – Burma. For each pair, background and trade data is presented.

A. INDIA-BANGLADESH

A1. BACKGROUND

Despite geography proximity, long land borders, shared cultural and historic links, large populations, and large economies, official trade between India and Bangladesh is unbelievably small. The trade is also heavily biased in India's favor — India's exports to Bangladesh are ten times greater than Bangladesh's exports to India ($6 billion versus $0.5 billion). The shares of exports going to the other are small portions of total exports (1.8 percent of India's exports and 1.7 percent of Bangladesh's exports). India's imports from Bangladesh are only 0.1 percent of India's imports, although 18 percent of Bangladesh imports come from India. This scarcity of trade is attributed to the politically hostile relations between the two countries; deficiencies in infrastructure; complex and restrictive border and domestic regulations and procedures; and domestic problems and policies.

Infrastructure deficiencies include: lack of warehousing facilities, parking, cold storage, weighing bridges, and fuel stations. Among the regulatory and administrative bottlenecks are required pre-shipment inspections; differences in the sanitary and phytosanitary standards and methodologies; prolonged documentation procedures; differences in working hours and days across the border at land customs stations; and unavailability of authorized officials. More general domestic issues include: labor strikes; harassment of truck drivers due to language differences; and inadequate banking facilities.[17]

Steps are being taken to improve trade between India and Bangladesh. Progress has been made on tariff liberalization. In 2010 and 2011, the prime ministers of the two countries met and agreed to cooperate in broadening access to each other's market and in improving physical connectivity, transit, and electricity trade.[18] In 2011, India provided tariff free access for all Bangladeshi products except 25 product lines. However, substantial non-tariff barriers and non-tariff measures remain.[19]

Joint working groups have been formed on resolving issues related to border crossings, standards harmonization, and other trade impediments. Border markets or *haats* are being formed along the

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[17] CUTS International, India-Bangladesh Trade Potentiality: An Assessment of Trade Facilitation Issues, 2014, pp. x-xi.

[18] The World Bank, Unlocking Bangladesh-India Trade: Emerging Potential and the Way Forward by Prabir De, Selim Raihan, and Sanjay Kathuria, Policy Research Working Paper 6155, August 2012, p. 1.

[19] Financial Express, Easing Bangla-India bilateral trade by Asjadul Kibria, published February 7, 2015.

borders to allow local populations to engage in cross-border trade of local agricultural and horticultural products, spices, minor forest produce (excluding timber), fresh and dry fish, dairy and poultry products, cottage industry items, wooden furniture, handloom and handicraft products.[20] Negotiations are underway on mutual recognition of standards.[21] The recent finalized Motor Vehicles Agreement between India, Nepal, Bangladesh, and Bhutan represents a major step forward in allowing passenger, personal, and cargo vehicles to travel along designated key routes in the four countries.[22]

The World Bank study[23] points to large potential gains of further liberalizing trade, reducing tariffs (mainly on imports into Bangladesh), reducing and removing non-tariff barriers, and reducing trade costs by improving trade facilitation both at the borders and inland. For example, a 10 percent improvement in efficiency of clearance processes by border control agencies, including customs, could lead to a 3.9 percent increase in bilateral trade. A 10 percent reduction in trade-related documentation could result in a 7.3 percent increase in bilateral trade. A one percent improvement in overall trade facilitation could result in an almost four percent increase in Bangladesh exports.

A2. INDIA'S GOODS EXPORTS TO BANGLADESH

India's goods exports to Bangladesh in 2013 totaled $6 billion, 1.8 percent of India's total goods exports, or 0.3 percent of India's GDP. However, exports from India in 2013 were 18 percent of Bangladesh imports. For some of the categories in Table 4.1 substantial shares of Bangladesh's imports come from India, e.g. over 60 percent of cereals (mainly wheat and maize). Bangladesh's only exported $500 million worth of goods to India in 2103, 1.7 percent of Bangladesh's total goods exports, and 0.4 percent of its GDP. Exports from Bangladesh only accounted for 0.1 percent of India's imports.

In terms of trade within South Asia, Bangladesh was India's number one export destination with 35.5 percent of India's goods exports to South Asia. After Bangladesh came Sri Lanka (28 percent of India's South Asia goods exports), Nepal (19 percent), and Pakistan (13 percent.) India was Bangladesh's number one export market in South Asia with more than 84 percent of Bangladesh's South Asia exports going to India. Pakistan is a distant second at 9 percent.

As shown in Table 4.1, the top ten export categories for India's goods exports to Bangladesh are quite diverse. These categories cover more than 70 percent of India's goods exports to Bangladesh. Agricultural products in the top ten categories, with cotton by far the largest item (mainly raw yarn and fabrics), made up almost 45 percent of India's goods exports to Bangladesh.

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[20] www.kollytalk.com, Third 'border haat' along India-Bangladesh frontier opens, January 13, 2015.
[21] Ibid, p. xi.
[22] eKantipur.com, Four SAARC nations close to motor vehicle deal, posted on February 7, 2015.
[23] Ibid 2.

Table 4.1 Top Ten Product Categories of India's Goods Exports to Bangladesh in 2013

Product Code	Product Label	Value USD thousands	% of Total India Exports to Bangladesh	% of Total Bangladesh Imports from India	% of Total India Product Exports
52	Cotton	$1,662,044	27.7%	33.1%	14.7%
10	Cereals	$765,185	12.8%	63.0%	6.6%
87	Vehicles other than railway, tramway	$459,466	7.7%	45.8%	3.3%
84	Machinery, nuclear reactors, boilers, etc.	$282,831	4.7%	8.4%	2.2%
72	Iron and steel	$249,170	4.2%	15.4%	2.4%
23	Residues, wastes of food industry, animal fodder	$247,532	4.1%	62.4%	6.7%
55	Manmade staple fibers	$167,089	2.8%	13.9%	7.6%
27	Mineral fuels, oils, distillation products, etc.	$161,947	2.7%	7.1%	0.2%
29	Organic chemicals	$151,819	2.5%	29.5%	1.1%
39	Plastics and articles thereof	$140,867	2.4%	9.2%	2.3%
	Total Top Ten	**$4,287,950**	**71.5%**	**23.6%**	**2.8%**
	Total Overall	**$5,993,960**	**100.0%**	**18.0%**	**1.8%**

Source: Trade Map with added calculations

Tables 4.2 and 4.3 below analyze export trends from India to Bangladesh over the period of 2011 to 2014. Table 4.2 presents the fastest growing exports, focusing on exports that make up at least .2 percent of the total exports from India to Bangladesh. Table 4.3 provides a more detailed analysis of exports of interest (excluding non-agricultural commodities) at the 4-digit level.

These tables show that India exports to Bangladesh have grown steadily in recent years, at average annual growth rate of 24 percent. From 2011 to 2014, total Indian exports to Bangladesh increased by 86 percent, from $3.4 billion to $6.3 billion. At a more nuanced level, these charts illustrate a growing agricultural trade between the two countries and India's role in Bangladesh's textiles supply chain.

Table 4.2 Fastest Growing Exports* from India to Bangladesh from 2011 to 2014

Product Code	Product Labels	Average Annual Increase 2011 to 2014	Total Increase 2011 to 2014	% of Total India Exports to Bangladesh
86	Railway, tramway locomotives, rolling stock, equipment	+3296.3%	+2815.1%	0.9%
04	Dairy products, eggs, honey, edible animal product nes	+231.4%	+1549.5%	0.6%
72	Iron and steel	+127.5%	+758.5%	2.3%
59	Impregnated, coated or laminated textile fabric	+119.0%	+762.4%	2.3%
73	Articles of iron or steel	+110.2%	+66.1%	0.6%

03	Fish, crustaceans, molluscs, aquatic invertebrates nes	+103.7%	+471.9%	0.7%
34	Soaps, lubricants, waxes, candles, modelling pastes	+95.4%	+317.5%	21.7%
32	Tanning, dyeing extracts, tannins, derivs, pigments, etc.	+58.0%	+262.9%	1.6%
48	Paper and paperboard, articles of pulp, paper and board	+56.1%	+167.0%	1.1%
All Indian Exports to Bangladesh		**+24.0%**	**+85.7%**	**100.0%**

*The categories above are limited to those that constitute at least .2 percent of the total exports from India to Bangladesh.
Source: Trade Map with added calculations

Table 4.3 Detailed Breakdown of Select India Exports to Bangladesh

Product Code	Product Labels	Average Annual Increase 2011 to 2014	Total Increase 2011 to 2014	% of Total India Exports to Bangladesh
5209	Woven cotton fabrics, 85% or more cotton,weight over 200 g/m2	+337.2%	+1176.1%	4.1%
0302	Fish, fresh, whole	+317.4%	+1620.6%	0.6%
1006	Rice	+292.6%	+485.0%	5.2%
8706	Chassi fitted with engine for motor vehicles	+263.0%	+1864.6%	1.3%
0402	Milk and cream, concentrated or sweetened	+248.1%	+1723.8%	1.2%
5211	Woven fab of cotton,less than 85%,mxd with man made fibre, weight >200	+246.9%	+2448.7%	0.5%
1001	Wheat and meslin	+167.3%	+493.8%	6.0%
8437	Machines for cleaning/sort seed, grain; machinery used in the milling ind	+75.2%	+334.4%	0.3%
2309	Animal feed preparations, nes	+46.9%	+170.5%	0.4%
All Indian Exports to Bangladesh		**+24.0%**	**+85.7%**	**100.0%**

*The categories above are limited to those that constitute at least .2 percent of the total exports from India to Bangladesh.
Source: Trade Map with added calculations

A3. BANGLADESH'S GOODS EXPORTS TO INDIA

Among the leading exports of Bangladesh to India are jute yarn, textiles, and woven fabrics; nuts; men suits and shirts; and sacks and bags. These exports to India represented more than ten percent of Bangladesh's exports in these categories. Jute from Bangladesh was more than a third of India's imports in the category. Bangladesh's men suits and shirts exports to India were more than a quarter of India's imports in this category. Table 4.4 lists two other categories where Bangladesh exports to India exceeded ten percent of India's imports: Other made textile articles, sets, worn clothing (from Bangladesh it is bags and sacks), 16 percent, and Fish, crustaceans, mollusks, aquatic invertebrates nes (from Bangladesh it is fresh, whole fish), 38 percent.

Table 4.4 Top Ten Product Categories of Bangladesh's Goods Exports to India in 2013

Product Code	Product Label	Value USD thousands	% of Total Bangladesh Exports to India	% of Total India Imports from Bangladesh	% of Bangladesh's Total Product Exports
53	Vegetable textile fibers nes, paper yarn, woven fabric	$99,798	18.8%	36.3%	16.3%
08	Edible fruits, nuts, peel of citrus fruit, melons	$89,258	16.8%	4.1%	82.6%
62	Articles of apparel, accessories, not knit or crochet	$71,537	13.5%	27.7%	0.5%
63	Other made textile articles, sets, worn clothing, etc.	$62,586	11.8%	16.1%	11.8%
25	Salt, sulfur, earth, stone, plaster, lime and cement	$21,060	4.0%	0.9%	4.0%
74	Copper and articles thereof	$20,478	3.9%	0.7%	3.9%
52	Cotton	$18,628	3.5%	2.5%	3.5%
27	Mineral fuels, oils, distillation products, etc.	$17,939	3.4%	0.0%	3.4%
03	Fish, crustaceans, mollusks, aquatic invertebrates nes	$17,714	3.3%	38.1%	3.3%
61	Articles of apparel, accessories, knit or crochet	$15,111	2.8%	9.5%	2.8%
	Total Top Ten	**$434,109**	**81.8%**	**0.2%**	**1.5%**
	Total Overall	**$530,751**	**100.0%**	**0.1%**	**1.7%**

Source: Trade Map with added calculations

In terms of individual items, the major exports of India to Bangladesh are: cotton (mainly raw, yarn, and fabrics), wheat and maize, motor vehicles (trucks, motorcycles, and cars), machines, and iron and steel. The major exports of Bangladesh to India are: jute yarn and articles, nuts, men's clothes, bags and sacks, and copper waste and scraps.

Tables 4.5 and 4.6 below analyze trade flow trends from Bangladesh to India. The fastest growing exports from Bangladesh to India tend to be manufactured goods with a few exceptions. In total, Bangladesh exports to India decreased 6.6 percent between 2011 and 2014, an average decrease of 2.2 percent per year. This has been largely driven by the following reductions between 2011 and 2014: (1) a 36.7 percent decrease in exports of *Vegetable textile fibers,* (2) a 76.3 percent decrease in *Fish, crustaceans, mollusks, etc.,* (3) a 24.8 percent decrease in *Other made textiles,* and (4) a 19.8 percent decrease in *Salt, sulphur, earth, stone, etc.* As illustrated in Table 4.4, these product categories all remain in the top 10 of Bangladesh's exports to India.

Table 4.5 Fastest Growing Exports* from India to Bangladesh from 2011 to 2014

Product Code	Product Labels	Average Annual Increase 2011 to 2014	Total Increase 2011 to 2014	Share of Total Bangladesh Exports to India
42	Articles of leather, animal gut, harness, travel goods	+9886.1%	+31936.4%	0.7%
64	Footwear, gaiters and the like, parts thereof	+640.8%	+7971.9%	1.3%
87	Vehicles other than railway, tramway	+360.8%	+348.3%	1.2%
17	Sugars and sugar confectionery	+196.8%	+1394.4%	1.2%
23	Residues, wastes of food industry, animal fodder	+113.6%	+73.5%	1.1%
60	Knitted or crocheted fabric	+51.6%	+163.2%	1.4%
40	Rubber and articles thereof	+49.5%	+21.1%	1.3%
62	Articles of apparel, accessories, not knit or crochet	+49.5%	+223.4%	15.9%
41	Raw hides and skins (other than furskins) and leather	+41.3%	+142.1%	2.6%
All Bangladesh Exports to India		**-2.2%**	**-6.6%**	**100.0%**

*The categories above are limited to those that constitute at least .4 percent of the total exports from Bangladesh to India.
Source: Trade Map with added calculations

Table 4.6 Detailed Breakdown of Select Bangladesh Exports to India from 2011 to 2014

Product Code	Product Labels	Average Annual Increase 2011 to 2014	Total Increase 2011 to 2014	Share of Total Bangladesh Exports to India
4202	Trunks,suit-cases,camera cases,handbags etc.,of leather,plas,tex, etc.	+9441.7%	+84350.0%	0.6%
6404	Footwear, upper of textile mat	+1777.0%	+64140.0%	1.2%
8712	Bicycles & other cycles, not motorised	+1453.3%	+4329.4%	1.2%
6205	Men's shirts	+110.9%	+311.0%	3.5%
6203	Men's suits, jackets, trousers etc. & shorts	+93.6%	+580.9%	9.7%
0802	Nuts nes	+22.9%	+65.7%	13.1%
4202	Trunks,suit-cases,camera cases,handbags etc.,of leather,plas,tex, etc.	+9441.7%	+84350.0%	0.6%
All Bangladesh Exports to India		**-2.2%**	**-6.6%**	**100.0%**

*The categories above are limited to those that constitute at least .4 percent of the total exports from Bangladesh to India.
Source: Trade Map with added calculations

B. INDIA-NEPAL

B1. BACKGROUND

As a landlocked country, surrounded by India and China, Nepal is heavily dependent on India for its exports (two thirds of Nepal's exports are bound for India). Nepal imports come from more diverse sources, but 49 percent of Nepal's imports come from India. On the other hand for India with a population that is 45 times and an economy that is almost a 100 times larger than Nepal, trade with Nepal accounts for less than one percent of India's goods exports and only around one tenth of one percent of imports. However, in terms of India's exports to South Asia countries, Nepal received 19 percent, third behind Bangladesh and Sri Lanka.

Nepal's trade with India is hampered by Nepal being a high cost economy with certain sectors reserved for national investors, export taxes, weak standardization and conformity assessment infrastructure, and lack of accreditation system and sufficient testing facilities.[24] India suffers from complex and unclear tariffs; a complicated tax system; prohibitions, restrictions, and licensing requirements for imports; and a complex and non-transparent licensing system.[25]

B2. INDIA'S GOODS EXPORTS TO NEPAL

In 2013, India exported to Nepal $3.2 billion of goods. This equaled 0.9 percent of India's total goods exports, but 49.2 percent of Nepal's imports. The top ten categories of India's goods exports to Nepal (Table 4.3) cover 72.6 percent of all goods exports to Nepal from India. The top three categories are: Mineral fuels, oils, distillation products, etc. (petroleum oils and gases); Iron and steel; and Vehicles other than railway, tramway (motorcycles, cars, chasses fitted with engines, and trucks).

Table 4.7 Top Ten Product Categories of India's Goods Exports to Nepal

Product Code	Product Label	Value USD thousands	% of Total India Exports to Nepal	% of Total Nepal Imports from India	% of Total India Product Exports
27	Mineral fuels, oils, distillation products, etc.	$856,695	27.0%	70.7%	1.2%
72	Iron and steel	$341,182	10.7%	49.9%	3.3%
87	Vehicles other than railway, tramway	$282,949	8.9%	85.4%	2.1%
10	Cereals	$196,868	6.2%	102.9%	1.7%
84	Machinery, nuclear reactors, boilers, etc.	$170,695	5.4%	48.9%	1.3%
30	Pharmaceutical products	$132,284	4.2%	92.3%	1.1%
39	Plastics and articles thereof	$122,037	3.8%	47.0%	2.0%

[24] World Trade Organization, Trade Policy Review: Nepal, 13 and 15 March 2012.
[25] World Trade Organization, Trade Policy Review: India, 14 and 16 September 2011.

85	Electrical, electronic equipment	$80,984	2.5%	24.2%	0.7%
25	Salt, sulfur, earth, stone, plaster, lime and cement	$61,539	1.9%	42.3%	3.0%
23	Residues, wastes of food industry, animal fodder	$60,752	1.9%	86.1%	1.6%
	Total Top Ten	**$2,305,985**	**72.6%**	**62.0%**	**1.5%**
	Total Overall	**$3,176,217**	**100.0%**	**49.2%**	**0.9%**

Source: Trade Map with added calculations

The tables below highlight trade trends between India and Nepal from 2011 to 2014. To remove/minimize outliers in the data analysis, the product categories below are limited to those that represented at least .2 percent of total Indian exports to Nepal in 2013.

These tables show that India exports to Nepal have grown steadily in recent years, at average annual growth rate of 19.3 percent. From 2011 to 2014, total Indian exports to Nepal increased by 66.3 percent, from $2.5 billion to $4.2 billion. Despite the fact these data do not capture informal trade, these tables highlight the importance of Nepal-India trade in agricultural goods and food products.

Table 4.8 Fastest Growing Exports* from India to Nepal from 2011 to 2014

Product Code	Product Labels	Average Annual Increase 2011 to 2014	Total Increase 2011 to 2014	Share of Total India Exports to Nepal
10	Cereals	+89.2%	+526.8%	6.2%
54	Manmade filaments	+87.4%	+456.7%	0.2%
22	Beverages, spirits and vinegar	+70.8%	+136.7%	0.2%
20	Vegetable, fruit, nut, etc food preparations	+64.6%	+278.6%	0.2%
96	Miscellaneous manufactured articles	+60.7%	+148.6%	0.3%
87	Vehicles other than railway, tramway	+60.1%	+200.2%	9.1%
74	Copper and articles thereof	+49.3%	+53.1%	0.4%
All India Exports to Nepal		**+19.3%**	**+66.3%**	**100.0%**

Source: Trade Map with added calculations
*The categories above are limited to those that constitute at least .2 percent of the total exports from India to Nepal.

Table 4.9 Detailed Breakdown of Select India Exports to Nepal

Product Code	Product Labels	Average Annual Increase 2011 to 2014	Total Increase 2011 to 2014	Share of Total India Exports to Nepal
1001	Wheat and meslin	+1182.5%	+30907.9%	0.6%
8706	Chassi fitted with engine for motor vehicles	+485.8%	+965.7%	1.2%

8704	Trucks, motor vehicles for the transport of goods	+247.9%	+801.4%	0.9%
4811	Paper, paperboard, cellulose wadding & webs of cellulose fibers, coate	+228.5%	+2141.1%	0.2%
8702	Public-transport type passenger motor vehicles	+150.9%	+513.0%	0.2%
0402	Milk and cream, concentrated or sweetened	+131.6%	+222.8%	0.2%
8474	Machinery for sorting/screening/washg; agglomeratg/shapg mineral produc	+130.8%	+402.1%	0.6%
8438	Machinery, nes, for the ind preparation or mfr of food or drink	+130.7%	+102.7%	0.2%
1006	Rice	+113.0%	+696.8%	4.3%
All India Exports to Nepal		**+19.3%**	**+66.3%**	**100.0%**

Source: Trade Map with added calculations
*The categories above are limited to those that constitute at least .2 percent of the total exports from India to Nepal.

B3. NEPAL'S GOODS EXPORTS TO INDIA

Nepal major exports to India are: flat-rolled iron products, nutmeg and tea, woven and yarn synthetic fibers, and fruit and vegetable juices.

Table 4.10 Top Ten Product Categories of Nepal's Goods Exports to India

Product Code	Product Label	Value USD thousands	% of Nepal Exports to India	% of India Imports from Nepal	% of Nepal Exports
72	Iron and steel	$92,658	16.0%	0.9%	100.0%
09	Coffee, tea, mate and spices	$74,663	12.9%	14.9%	96.1%
54	Manmade filaments	$59,498	10.3%	7.6%	99.6%
55	Manmade staple fibers	$50,700	8.8%	8.1%	82.7%
20	Vegetable, fruit, nut, etc. food preparation	$44,787	7.7%	59.7%	99.8%
99	Commodities not elsewhere specified	$37,103	6.4%	0.3%	95.3%
73	Articles of iron or steel	$32,854	5.7%	0.9%	99.1%
63	Other made textile articles, sets, worn clothing, etc.	$26,656	4.6%	6.9%	71.6%
64	Footwear, gaiters and the like, parts thereof	$21,757	3.8%	5.3%	99.8%
08	Edible fruits, nuts, peel of citrus fruit, melons	$18,229	3.2%	0.8%	99.0%
	Total Top Ten	**$458,905**	**79.4%**	**1.5%**	**94.5%**
	Total Overall	**$578,091**	**100.0%**	**0.1%**	**67.8%**

Source: Trade Map with added calculations

Table 4.11 presents the fastest growing exports from Nepal to India from 2011 to 2014. Table 4.12 provides a more detailed look at fast growing exports of potential relevance to other U.S. government activities. These data show that Nepal exports to India have grown at an average rate of 14.6 percent per year between 2011 and 2014. However, these exports declined significantly between 2011 and 2012 and, as a result, only grew 19.2 percent over this four year time horizon — from $508 million to $605 million per year. The data also indicate that agricultural trade is important to Nepal-India export flows and possesses potential for continued export growth.

Table 4.11 Fastest Growing Exports* from Nepal to India from 2011 to 2014

Product Code	Product Labels	Average Annual Increase 2011 to 2014	Total Increase 2011 to 2014	Share of Total Nepal Exports to India
08	Edible fruit, nuts, peel of citrus fruit, melons	+1835.0%	+241.4%	5.6%
17	Sugars and sugar confectionery	+484.9%	+268.9%	0.4%
19	Cereal, flour, starch, milk preparations and products	+161.1%	+21.4%	1.3%
53	Vegetable textile fibres nes, paper yarn, woven fabric	+122.6%	+33.7%	2.2%
63	Other made textile articles, sets, worn clothing etc.	+96.4%	+5.6%	3.8%
62	Articles of apparel, accessories, not knit or crochet	+74.3%	-52.2%	0.7%
56	Wadding, felt, nonwovens, yarns, twine, cordage, etc.	+73.6%	-47.8%	0.9%
All Nepal Exports to India		**+14.6%**	**+19.2%**	**100.0%**

Source: Trade Map with added calculations
*The product categories listed above are limited to those that constitute at least .2 percent of the total exports from Nepal to India.
**The research team conducted the majority of its data analysis in February 2015. Trade Map released 2014 data in March, thus the reason these charts include 2014 data and others do not.

Table 4.12 Detailed Breakdown of Select Nepal Exports to India

Product Code	Product Labels	Average Annual Increase 2011 to 2014	Total Increase 2011 to 2014	Share of Total Nepal Exports to India
0802	Nuts nes	+19482.4%	+250.0%	5.5%
1703	Molasses resulting from the extraction or refining of sugar	+533.1%	+512.5%	0.4%
2309	Animal feed preparations, nes	+206.0%	+1997.2%	0.7%
1902	Pasta & couscous	+165.7%	+23.3%	1.2%
6305	Sacks and bags of a kind used for the packing of goods	+97.1%	+5.6%	3.8%
0908	Nutmeg, mace and cardamons	+83.4%	+28.7%	4.6%
3923	Plastic packing goods or closures stoppers, lids, caps, closures, plas	+50.2%	+164.7%	1.6%

2202	Non-alcoholic beverages (excl. water, fruit or vegetable juices and mi	+48.3%	+225.4%	15.4%
6404	Footwear, upper of textile mat	+33.9%	+137.1%	4.6%
All Nepal Exports to India		**+14.6%**	**+19.2%**	**100.0%**

Source: Trade Map with added calculations
*The categories above are limited to those that constitute at least .2 percent of the total exports from Nepal to India.

C. INDIA-BURMA

C1. BACKGROUND

Burma is undergoing tremendous change. After decades of isolation, Burma is in the process of re-integrating into the global economy. Over the last few years, Burma has taken serious steps in transforming its centrally planned economy to a market economy. It has reformed its exchange regime; adopted and revised trade related legislation, such as a new investment law in 2012; and moved toward trade liberalization with removing non-automatic import licensing requirements and eliminating export taxes on various commodities. However, much remains to be done both for the economy in general and specifically for trade. For a stronger foundation for a market economy Burma needs improved public accountability, enhanced rule of law, and reduced corruption. For trade, needed are more information for traders to do business and connect to global supply chains; more opening up, streamlining, and simplifying trade and related policies and procedures; new competition and consumer protection laws; and legislation on patents, copyrights, trademarks, and industrial designs.[26] For right now at least, the Government Burma's attention seems to be focused on elections, peace efforts, qualifying for ASEAN Economic Community (AEC), and reactivating its WTO membership.

Despite the lack of attention of public officials, India and Burma trade has been growing rapidly. Over the decade from 2002 to 2012, India's exports to Burma grew at an average 14.5 percent per year, from $79 million to $587 million. Burma's exports to India have grown from $314 million to $1.227 billion. This reflects an average growth rate of 10.7 percent per year over the decade. Burma had a large balance in the bilateral trade of $640 million in 2012.[27]

Land borders between India and Burma are open, although the volume of border trade is negligible compared with the countries global trade. There are four land customs stations. A 1994 border trade agreement provides legal framework for the trade. However, the border points suffer from lack of modern trade infrastructure, both hardware and software; absence of adequate security; underdeveloped transport links; and goods smuggling, including drugs, narcotics, and people. Political strikes, insurgent groups, and ethnic conflicts are common and major deterrents to trade.

Recent developments have been aimed at improving border trade. The countries have agreed to upgrade the status of border trade to normal trade and have expanded the number of tradable

[26] World Trade Organization, Trade Policy Review: Myanmar, 11 and 13 March 2014.
[27] Asian Development Bank Institute, Myanmar: The Key Link between South Asia and Southeast Asia, by Hector Florento and Maria Isabela Corpuz, ADBI Working Paper Series No. 506, December 2014, page 6.

items from 18 to 40 since 2008. The two countries agreed in 2012 to open border markets and added rice, wheat, medicines, and 18 other items to the list of goods for trade at the borders.

C2. INDIA'S GOODS EXPORTS TO BURMA

By 2013, India's exports to Burma had reached $743 million and were quite wide ranging, mainly manufactured products and raw materials. Some of the leading items were: cotton yarn, auto parts, soya bean meal, and pharmaceuticals. However, India exports to Burma only 0.2 percent of its total exports, although Burma is a fair market for India's pharmaceutical, machinery, and electrical exports. Burma only imports from India four percent of its total imports, although that includes more than 70 percent of its soya bean cakes, more than 60 percent of its railroad equipment, and more than 40 percent of pharmaceutical products. See Table 4.13.

Table 4.13 Top Ten Product Categories of India's Goods Exports to Burma

Product Code	Product Label	Value USD thousands	% of India Exports to Burma	% of Burma Imports from India	% of India Exports
30	Pharmaceutical products	$149,906	20.2%	41.2%	1.3%
84	Machinery, nuclear reactors, boilers, etc.	$77,108	10.4%	3.4%	0.6%
85	Electrical, electronic equipment	$71,629	9.6%	3.9%	0.6%
23	Residues, wastes of food industry, animal fodder	$65,147	8.8%	74.0%	1.8%
72	Iron and steel	$60,635	8.2%	7.5%	0.6%
52	Cotton	$46,937	6.3%	15.3%	0.4%
73	Articles of iron and steel	$38,958	5.2%	6.3%	0.5%
87	Vehicles other than railway, tramway	$24,043	3.2%	1.2%	0.2%
86	Locomotives, rolling stock, equipment	$21,217	2.9%	62.0%	11.0%
40	Rubber and articles thereof	$15,428	2.1%	6.5%	0.5%
	Total Top Ten	**$571,008**	**76.9%**	**6.6%**	**0.7%**
	Total Overall	**$742,867**	**100.0%**	**4.0%**	**0.2%**

Source: Trade Map with added calculations

C3. BURMA'S GOODS EXPORTS TO INDIA

Overall Burma's major exports are natural gas, food, and other primary commodities, including precious stones and gems. Thailand is by far the major export market, followed by India, China, and Japan, in that order.

As shown in Table 4.14, Burma's exports to India are almost exclusively wood and articles of wood and edible vegetables. Among the leading exports in vegetables, fruits, nuts, and spices are: green mung beans, black matpe beans, betel nuts, dried ginger, turmeric root, resin, and medicinal herbs.

Table 4.14 Top Ten Product Categories of Burma's Goods Exports to India

Product Code	Product Label	Value USD thousands	% of Burma Exports to India	% of India Imports from Burma	% of Burma Exports
44	Wood and articles of wood, wood charcoal	$735,154	53.8%	27.4%	46.1%
07	Edible vegetables and certain roots and tubers	$611,205	44.7%	26.5%	73.3%
08	Edible fruit, nuts, peel of citrus fruit, melons	$6,824	0.5%	0.3%	16.1%
09	Coffee, tea, mate and spices	$4,250	0.3%	0.9%	25.9%
26	Ores, slag and ash	$2,946	0.2%	0.03%	0.6%
05	Products of animal origin, nes	$1,560	0.1%	4.8%	43.0%
03	Fish, crustaceans, mollusks, aquatic invertebrates, etc.	$1,238	0.09%	2.7%	0.4%
90	Optical, photo, technical, medical, etc. apparatus	$611	0.04%	0.01%	1.7%
12	Oil seed, oleagic fruits, grain, seed, fruit, etc. nes	$489	0.04%	0.1%	0.3%
85	Electrical, electronic equipment	$457	0.03%	0.002%	1.3%
	Total Top Ten	**$1,364,734**	**99.9%**	**2.6%**	**39.1%**
	Total Overall	**$1,366,238**	**100.0%**	**0.3%**	**12.8%**

Source: Trade Map with added calculations

D. BANGLADESH-BURMA

D1. BACKGROUND

Official trade between Bangladesh and Burma is minimal. However, given the land border and close sea coasts between the two countries and the existence of insurgent leaning ethnic groups along the border, considerable local border trade and smuggling takes place. Bilateral trade data for both countries is missing for the last two years from Trade Map. This is likely due to inefficiency, incompetence, and smuggling. It might cause considerable political tension if, for example, Bangladesh were to report substantially more imports from Burma than official Burma exports.

D2. BANGLADESH GOODS EXPORTS TO BURMA

The last year for which trade data is available from Trade Map is 2011 and it is only from Bangladesh for both exports to and imports from Burma. The data shows little trade. Bangladesh officially only exported eight and half million dollars of goods to Burma, mainly pharmaceuticals (medicament mixtures) and iron and steel (flat-rolled products of iron or non-alloy steel), followed by non-crude petroleum. Exports to Burma were only 0.04 percent of Bangladesh's total exports. See Table 4.15.

Table 4.15 Top Bangladesh Goods Exports to Burma

Product Code	Product Label	Value USD thousands	% of Bangladesh Exports to Burma	% of Burma Imports from Bangladesh	% of Bangladesh Exports
30	Pharmaceuticals	$6,426	75.3%	2.7%	13.4%
72	Iron and Steel	$1,201	14.1%	0.2%	2.3%
27	Mineral fuels, oils, distillation products	$653	7.7%	0.1%	0.2%
	Total Top Exports	**$8,280**	**97.0%**	**0.5%**	**2.2%**
	Total Overall	**$8,535**	**100.0%**	**0.1%**	**0.04%**

Source: Trade Map with added calculations

D3. BURMA'S GOODS EXPORTS TO BANGLADESH

Officially, based on Bangladesh's import data, in 2011 Burma exported $150 million to Bangladesh. This was 1.8 percent of Burma's total exports. The exports were overwhelmingly rice (57 percent) and wood in the rough (41 percent). Wood was more than 70 percent of Bangladesh's imports of wood. One third of Burma's export of rice went to Bangladesh. See Table 4.16.

Table 4.16 Top Burma's Goods Exports to Bangladesh

Product	Value USD thousands	% of Burma Exports to Bangladesh	% of Bangladesh Imports from Burma	% of Burma Exports
Rice	$88,099	57.3%	10.8%	33.7%
Wood in the Rough	$63,395	41.2%	72.6%	6.4%
Edible vegetables	$1,850	1.2%	0.8%	0.2%
Total Top Exports	**$153,344**	**99.7%**	**13.4%**	**7.3%**
Total Overall	**$153,835**	**100.0%**	**0.4%**	**1.8%**

Source: Trade Map with added calculations

E. OVERVIEW AND ANALYSIS

A few key conclusions from the bilateral trade flows analyzed in Sections A through D include:

1. *Relatively unsophisticated, cross-border supply chains.* Given the low volume of trade in anything other than raw materials and industrial commodities, these data reinforce other researchers' conclusion that South Asia has yet to develop strong regional supply chains.

2. *Agricultural trade is important.* Given significant barriers to agricultural trade and the fact that these data do not capture informal trade, it is clear that the trade of agricultural trade among South Asian countries is important and possess untapped potential.

3. *India has experienced faster growth than its trading partners.* The data show that, in recent years, India has experienced faster export with its South Asia trading partners than those partners experience with India. The most obvious example of this is seen with India-Bangladesh trade trends. Between 2011 and 2014, India exports to Bangladesh

increased 85.7 percent, an increase of $2.9 billion worth of goods. Over the same time horizon, Bangladesh exports to India decreased by a total of 6.6 percent, a decrease valued at $38 million.

4. *Textiles seem to be the most important regional supply chain.* Given the importance of textiles to the regional economy, it is unsurprising that inputs tend to be among the most important product categories for bilateral trade flows in the region.

CHAPTER FIVE

TRADE ISSUES AND OPPORTUNITIES

While great potential exists for increasing trade between South and Southeast Asia, many obstacles and barriers are in the way. This section outlines many of these challenges, including political and historical obstacles, physical bottlenecks, and policy constraints. The section concludes with opportunities identified for overcoming these hurdles.

A. TRADE POTENTIAL

Tremendous potential exists for increasing trade between South and Southeast Asia, which would provide substantial economic benefits for both regions. South and Southeast Asia are large regions in population and economic terms. South Asia has 1.69 billion persons and a total GDP of $2.37 trillion while Southeast Asia has 622 million persons and a total GDP of $2.35 trillion. While trade flows between the regions have been increasing substantially since 2001 as both regions have embraced more outward-oriented reforms, current trade flows are still far below potential levels. South Asia's exports to Southeast Asia are only 1.7 percent of South Asia's GDP while Southeast Asia's exports to South Asia equal 2.5 percent of Southeast Asia's GDP. Numerous benefits would potentially come from closer economic integration, including:

1. Expansion of the market for goods and services, thereby increasing the scope of economics of scale and greater competition;
2. Greater specialization generating more efficient productive structures;
3. Facilitation of extension or movement of production networks;
4. Increased attractiveness for foreign direct investment; and
5. Reduction in trade costs.[28]

Studies focusing on India – ASEAN connectivity estimate that the cumulative impact of a number of projects would be a five percent increase in GDP for Cambodia, Burma, Thailand, and Vietnam and a 2.5 percent increase in GDP for India. A Geographical Simulation Model was used for these estimates of the impact on the cumulative increase in GDP from 2010 to 2030 for a number of connectivity projects, including the Mekong-India Economic Corridor, the deep seaport for Burma, and the India-Burma-Thailand highway.

Another study focusing on South Asia and ASEAN Plus Three (which includes China, Japan, and South Korea) estimated the gains from an East and South Asia free trade area, under conservative estimates, as around $260 billion or two percent of GDP.[29]

[28] Asian Development Bank and ADB Institute, Connecting South Asia and Southeast Asia, Interim Report, 2013, p. x.
[29] Ibid, p. 11.

B. POLITICAL AND HISTORICAL OBSTACLES AND OPPORTUNITIES

South Asia is a dynamic region filled with great potential for cross-border trade; however, intra-regional trade accounts for only 5 percent of total trade, as compared to 25 percent in the Association of Southeast Nations (ASEAN). Greater regional integration has the potential to foster stability in this oftentimes fractured region but historical and political mistrust has impeded the realization of that potential. Moreover, the power asymmetry in the region with India holding a disproportionate amount of power and smaller countries often mistrusting India's role has diminished the potential for collaboration in the region. India's new "Act East" Policy and Prime Minister Narendra Modhi's declared interest in further cooperation with India's neighbors provides a new opening for greater trade collaboration in South Asia.[30]

Cross-border trade is critical for smaller countries and for landlocked provinces/countries, including Bangladesh, Nepal, and Northeast India. Greater intra-regional trade and investment and supply-chain integration, will need policy and regulatory reform as well as more efficient border management. Collective interest in Burma's future coupled with an acknowledgment that SAARC has proved inadequate leadership for these countries creates an environment conducive to new and innovate mechanisms to promote cooperation. Regional economic integration in South Asia is necessary for South Asian countries to realize enhanced economic growth and reduce poverty. The World Bank Group has found that:

> "The economic importance to the countries is inversely related to their size – very important for the small economies but of minimal economic consequence for India, even though India accounts for some 60 percent of total intra-regional trade."[31]

Therefore, India's Act East Policy — likely fueled in large part from a desire to exert more of a leadership role in the region — comes at a crucial time. Intra-regional trade has increased significantly in the past few years but still remains very small in absolute terms. In spite of sporadic violence and an often fractured political landscape in the region, integration may be at a critical inflection point where targeted and thoughtful interventions could play an important and directional role.

C. PHYSICAL BARRIERS

Many infrastructural bottlenecks are preventing the expansion of trade between South and Southeast Asia. The most pressing ones include: inadequacies in roads, railways, ports, and trade supporting facilities, particularly at border crossings. Land connection between the two regions is severely hampered by poor roads and rail across Burma. The key ports of India, Bangladesh, and Burma especially need upgrades if trade volumes are to increase substantially. A new port at

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[30] Act East Policy or press release re policy.

[31] http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/0,,contentMDK:21879705~pagePK:146736~piPK:146830~theSitePK:223547,00.html

Dawei in Burma with connecting road and rail to Thailand could greatly reduce costs and time and encourage trade.

Roads and rail. A lot of roads in the region need upgrading. The most pressing road issue is a section of the Asian Highway No. 1 from Thailand through Burma to India. Road infrastructure in Thailand is already well developed. However, the parts of Asian Highway No. 1 in Burma and Northeast India need serious attention. This is a strategically important connecting piece for South and Southeast Asia trade. In addition to the road connection, there are also ambitious plans to connect Vietnam and India by rail.[32] However, the Trans-Asian Railway network is missing about 10,500 kilometers of rail that need to be constructed to provide an unbroken link.[33]

Ports. The capacity of Chennai Port in India, including the backyard space, and the access to the port, has been identified as a key bottleneck for future development in the area. With improvement the port along with a sister port at Ennore, could serve as the gateway connecting Southeast Asia and India.[34] Likewise the key ports of Chittagong in Bangladesh and Yangon in Burma need substantial improvements. The size of vessels able to call at Chittagong are limited by the width and curvature of the river. Also rail and road traffic between the port and Dhaka create severe bottlenecks. Yangon has limited accessibility for large vessels and is plagued by poor road conditions between the Thilawa port and the bridge leading to Yangon, high container charges, obsolete facilities, frequent blackouts and insufficient generators, and lack of cargo equipment.[35]

A deep sea port at Dawei, Burma, connected to Thailand by road and rail would help facilitate trade between South Asia and mainland Southeast Asia. In particular, a Dawei deep sea port would have a substantial impact along the Mekong-India Economic Corridor (MIEC).[36]

Trade supporting facilities. Trade supporting facilities need to be upgraded, particularly at border crossings. Often missing are adequate and sufficient government facilities, parking space, warehouses, cold storage, etc. Included are trade facilitating services.

D. POLICY CONSTRAINTS FOR TRADE IN GOODS

D1. NON-TARIFF BARRIERS AND TRADE FACILITATION ISSUES

Addressing Non-Tariff Barriers (NTBs) are of critical importance and should be a major focus for IPEC trade and investment activities in Phase II. This study has looked extensively at existing NTBs in the IPEC countries as well as studies that identify NTBs and their adverse impact. There are numerous situations in IPEC countries where the country has export capacity but regional exports are limited due NTBs.

[32] Osius, Ted and C. Raja Mohan, Enhancing India-ASEAN Connectivity, Center for Strategic and International Studies, June 2013, pp. 72 – 73.
[33] Ibid 1, p. xiii.
[34] Ibid 3, p. 76.
[35] Ibid 1, p. xiv.
[36] Ibid 3, p. 72.

The region continues to sustain a number of NTBs, including overly burdensome customs procedures and significant delays and difficulties at border crossings and with border protocols. NTBs are sometimes deployed on specific exporters or ad hoc, leading to unequal and unfair treatment of exporters or are employed as para-tariffs to circumvent commitments made under existing trade arrangements. This can lead to the prevalence of informal, rather than formal trade: "When the systemic or intentional NTBs manage to drive the cost of import to a level at which the price competitiveness of the imported merchandise fails to remain viable, informal or illegal routes are opened to push the goods…The underlying political economy that thrives in the dysfunctionality of the system cannot be undercut by signing more agreements and treaties."[37]

These impediments are both administrative/procedural and policy driven and impact the South Asia region. "A survey of NTBs reported by SAARC member countries . . . shows the NTBs that are more frequently imposed in trade among the SAARC countries related to SPS measures and [technical barriers to trade], quotas, anti-dumping measures, license requirements, and counterveiling measures."[38] SPS measures and technical barriers to trade — regulations, standards, testing, and certification procedures needed for trade — make up 86.3 percent of the NTBs, according to the Asian Development Bank.[39]

Efforts to reduce NTBs and NTMs. The SAARC-Trade Promotion Network (SAARC-TPN) is a platform of 28 public and private sector partners in the SAARC countries, which are engaged in promoting trade and commerce within the respective countries and across the borders. German International Development Cooperation (GIZ) supported organizing this platform and it has been endorsed by the SAARC Secretariat. SAARC-TPN is divided into five Working Groups. The Regional Trade Facilitation Working Group (WG-RTF) initiated a study on the prevailing situation of Non-Tariff Measures (NTMs) in SAARC. NTM desks have been set up in a number of SAARC countries to look specifically at non-tariff measures but as of yet, there has been little progress in terms of facilitating regional cooperation. In fact, the ADB has found that NTBs have increased as tariffs have decreased (see box).

Tariffs Down, NTBs Up

The Asian Development Bank and FICCI undertook a study in 2010 that showed that as tariff and quantitative restrictions on trade has decreased, additional and different trading costs arising from regulatory burden, inadequate infrastructure, inefficient customs procedures and logistics of moving goods across borders has increased significantly.

SAFTA and NTBs. SAFTA only states that all member countries would 'inform' the SAARC Secretariat of all "non-tariff and para-tariff measures" which will be reviewed by the SAARC Committee of Experts so that recommendations made to reduce such trade restrictions can be considered. In other words, SAFTA has no binding commitment for its member countries to eliminate NTBs.

Customs related NTBs across the region. Key trade facilitation issues in customs include:

[37] Prasai.

[38] Razzaque, p. 98.

[39] Razzaque, p. 99.

1. Excessive documentation,
2. Inadequate implementation of modern customs procedures,
3. Limited application of information and communication technology,
4. Lack of transparency on import-export requirements, and
5. Weak compliance with World Customs Organization's (WCO) Revised Kyoto Convention (RKO).[40]

The Revised Kyoto Convention was adopted by the WCO in June 1999 as the blueprint for modern and efficient customs procedures. It entered into force on 3 February 2006. RKO's main principles are:

1. Transparency and predictability of Customs actions,
2. Standardization and simplification of the goods declaration and supporting documents,
3. Simplified procedures for authorized persons,
4. Maximum use of information technology,
5. Minimum necessary Customs control to ensure compliance with regulations,
6. Use of risk management and audit border agencies,
7. Coordinated interventions with other border agencies, and
8. Partnership with the trade.[41]

Standards and conformance. In the area of Standards and Conformance, the key issues are lack of compliance with technical standards, complicated by the lack of a common or harmonized approach across the regions to using correct standard and conformity assessment procedure to ensure compliance. Border crossing is often difficult due to inadequate infrastructure and complicated procedures. Transport facilitation arrangements are often absence, hindering the ease of transport. Many legal and regulatory changes and reforms are needed which involves many unique legislative mechanisms and hence creating difficulties in timing and effective implementation on trade facilitation initiatives. A significant challenge is improving coordination between involved stakeholders which include multiple ministries and agencies.[42] SAARC has an Agreement on Mutual Administrative Assistance in Customs Matters, but there has been little cooperation on customs modernization.[43]

NTMs in Bangladesh.[44] Many NTMS are broad-based and applied for a specific sector. NTMs are shown at Chapter or Heading level and some are shown at 6 digit HS code level. Some products within one sector may be subject to additional NTMs. In Bangladesh, the most fundamental NTBs warranting immediate attention and those cited by policy makers and businesses as the most destructive to regional trade are:

1. Para-Tariffs: Para-Tariffs in the form of Supplementary Duty and Regulatory Duty imposed on imports creates discriminatory competitive disadvantage for imported goods.

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[40] Asian Development Bank, South Asia Subregional Economic Cooperation: Trade Facilitation Strategic Framework 2014-2018, 2014, p. 2.
[41] Ibid, p. 6.
[42] Ibid, pp. 2-3.
[43] Razzaque, p. 10.
[44] Abid Khan, pp. 31-35.

This is a serious concern frequently raised by the business community, and consumer groups.

2. Port Restrictions: Bangladeshi exporters face requirement-related restrictions while entering India. The restrictions are often applied on arbitrary basis by the Indian authority applying obsolete regulations.

3. SPS Restrictions: Sanitary and Phytosanitary measures (Category A under UNCTAD classification) pertaining to Human, Animal and Plant health and related food safety issues are applied to over 300 product categories for Bangladesh. These products are subject to quarantine, certification, and inspection requirements related to SPS issues.

4. TBT Restrictions: Various kinds of packaging, labelling, certifications, and conformity assessments, or other restrictions falling under the Technical Barriers to Trade (TBT) pertaining to Category B under UNCTAD classification have been found for 218 product categories. Most of these products belong to packaged food, household and consumer products.

5. Fluctuating Standards and Procedural Steps: The business community in Bangladesh expressed their concerns over fluctuating standards and procedural steps they face, particularly in India: Non-acceptance of quality certificates issued by Bangladesh Standards & Testing Institution (BSTI) by Indian authorities, even for the designated 18 products for which there is a bilateral agreement for acceptance, was a major concern expressed by Bangladeshi exporters to India. For processed food items, the Indian practice of testing each consignment is also a serious hindrance to exports.

Studies have identified the following priority products from Bangladesh that are inhibited in terms of regional trade by the prevalence of NTBs; (1) HS Code 040221 (Milk and cream powder unsweetened exceeding 1.5 percent fat); HS Code 520503 (Cotton yarn); HS Code 210690 (Food preparations); HS Code 090830 (Cardamoms).

NTMs in India.[45] In India, there are a number of salient features of NTBs. The most prominent of those have been identified below:

1. "There are 428 products at 8 digit HS code level which are restricted and cannot be imported without any license.

2. Import prohibition is maintained on 52 HS lines, in addition to 33 other products that are allowed to be imported only by State Trading Enterprise of India.

3. Import of beef in any form and import of products containing beef in any form is prohibited for religious reasons.

4. Import of Genetically Modified Food, feed, Genetically Modified Organism (GMOs) and Living Modified Organisms (LMOs) or any product containing any of these is subject to several kinds of certification, and other TBT measures.

[45] Abid Khan, pp. 41-45.

5. A total of 74 products are subject to compliance of the mandatory Indian Quality Standards, which are also applicable to domestic goods.

6. Apart from Federal levies and duties, various states of India are free to impose different categories of duties that act as state-level para-tariffs and are often discriminatory for imported products. Such state-level para-tariffs cannot be brought under bilateral government level negotiations and are left unaddressed.

7. India has provisions for using anti-dumping, countervailing and safeguard measures, and India uses anti-dumping and safeguard measures frequently."

Indian products that have the potential for increased regional trade but for significant NTBs are: (1) HS Code 071340 (Lentils dried, shelled, whether or not skinned or split); (2) HS Code 610910 (T-shirts, singlets and other vests, of cotton, knitted); (3) HS Code 090240 (Black tea (fermented) & partly fermented tea in packages exceeding 3 kg); (4) HS Code 340119 (Soap&orgn surf prep,shapd,nes;papers&nonwovens impreg w soap/prep).

NTMs in Nepal.[46] In Nepal, the following were identified as the most prevalent NTBs to be addressed. A study that reviewed Nepal's trade regulations and subsequent interactions between the consultant and members of business community, officials of trade bodies, and government officials in Kathmandu helped to identify the following broad categories of NTMs that surfaced most frequently:

1. "There is a specific duty in the form of Customs Charges of Nepali Rupee 678 for each export declaration for each consignment with a value above Nepali Rupee 5,000.
2. Six categories of products, i.e., selected narcotics, beef, plastic materials with less than 20 micron thickness, incandescent light bulbs, harmful dyes, and some other products prohibited under other laws are banned for import on religious, public health, and environmental grounds.
3. Four categories of products, e.g., selected narcotics, arms and ammunitions, wireless communication items, and items of feed containing opium require special license or permission, and may be subject to quantitative restrictions for import.
4. Separate licenses are required to import, sell or store excisable goods.
5. Eight categories of products, e.g., archaeological artefacts, wild animals and their body parts, narcotics, explosives, imported petroleum, and selected exotic timber and forest products are banned for exports on religious, environmental, public health, energy security, and social grounds.
6. Para-tariffs exist in the form of environment tax on imported petroleum products, and in the form of ad valorem development fee on selected imported products.

[46] Abid Khan, pp. 51-54.

7. Quantitative restrictions are in place for exports of paddy, rice, wheat, sugar, grain items (lintels, pigeon pea, pulses, soybean, gram, vetch seed, pea), for food security reasons.
8. Special permission is required for exports of some timber products and forest resources related to biodiversity and environment conservation."

Priority products in Nepal that would stand to benefit the most from addressing NTBs are: (1) HS Code 300490 (Medicament nes, in dosages); (2) HS Code 620322 (Mens'/boys' ensembles, of cotton, not knitted); (3) HS Code 220290 (Non-alcoholic beverages nes, excluding fruit/veg juices of heading No. 20.09); (4) HS Code 210690 (Food preparations).

D3. DOMESTIC POLICIES AND REGULATIONS

The policy framework or business environment of the individual countries greatly influence the possibilities and ease of trading across borders. A countless number of domestic policies and regulations affect the business environment and, hence, trade. These include, for example, the laws, policies, and procedures related to foreign exchange, investment, taxes, licensing, labor, environment, legal system, intellectual property rights, financial institutions, industry, local content requirements, competition, export, import, procurement, and security.

In many countries, especially in South Asia, domestic policies and regulations are not supportive of international trade and participation in the global economy. To illustrate the constraining influence of policies and regulations, the chart below shows the Doing Business rankings for 2015 for overall, trading across borders, starting a business, and enforcing contracts. Also in the table is distance to the frontier which shows the gap between performance of the country and the best performance on each indicator with a range of 0 to 100 and with 100 as the best possible score. In all, 189 countries were ranked.

Table 5.1 Select Doing Business Rankings for 2015 for South and Southeast Asia

Country	Overall	Distance to the Frontier	Trading Across Borders	Starting a Business	Enforcing Contracts
Singapore	1	88.27	1	6	1
Malaysia	18	78.83	11	13	29
Thailand	26	75.27	36	75	25
Vietnam	78	64.42	75	125	47
Philippines	95	62.08	65	161	124
Sri Lanka	99	61.36	69	104	165
Brunei Darussalam	101	61.26	46	179	139
Nepal	108	60.33	171	104	134
Indonesia	114	59.15	62	155	172
Maldives	116	58.73	132	50	91
Bhutan	125	57.47	165	92	74
Pakistan	128	56.64	108	116	161
Cambodia	135	55.33	124	184	178
India	142	53.97	126	158	186
Lao PDR	148	51.45	156	154	99
Bangladesh	173	46.84	140	115	188
Burma	177	43.55	103	189	185
Afghanistan	183	41.16	184	24	183

Source: World Bank Doing Business 2015: Going Beyond Efficiency, 2014

Setting aside the lagging countries of Southeast Asia — i.e. Burma, Lao DPR, and Cambodia — Southeast Asia does much better in the rankings than South Asia. The five top countries in the rankings are from Southeast Asia. Singapore leads the way with the number 1 rank. The highest for South Asia is Sri Lanka, ranked 99th in the study of 189 countries, not even in the upper half of countries. These Doing Business ranks are only representative of the differences and problems in domestic policies and regulations between the countries and regions.

India exemplifies the negative impact of these restrictive policies. 26.1 percent of U.S. companies were substantially adversely affected by Indian policies in 2013. Policies in two areas — tariffs and taxes and financial regulations — had the heaviest effects on U.S. companies. If tariff and investment restrictions were fully eliminated and standards of intellectual property protection were made comparable to U.S. and Western European levels, U.S. exports to India would rise by two-thirds, and U.S. investment in India would roughly double.[47] India was on the priority watch list in the 2014 Special 301 Report for IPR issues.[48] USTR's report on Foreign Trade Barriers complains about India's import policies as impeding U.S. exports, including tariffs and other charges on imports, import licenses, and customs procedures; government procurement as lack consistency across the country, being non-transparent, and preferences for local firms; export subsidies in various forms, including exemptions from certain taxes, preferential financing rates, and excessive drawbacks on imported inputs; weak IPR protection; barriers on services; and investment barriers.[49]

E. POLITICAL OPPORTUNITIES: LONG TERM VS. SHORT TERM

South Asia has recently begun a slow, but important shift from profoundly insular to more outward-looking economic policies. The post-colonial period saw an initial wave of regional collaboration — immediately after the fall of the British empire — but since that time, this seems to be the most outward looking in recent history. Indeed, in the 1970s and 1980s, the region experienced significant stagnation due to its inward looking strategy and import substitution policies[50], which resulted in decreased trade integration and regional connectivity within South and Southeast Asia.[51] After India adopted a "Look East" Policy in 1991 (now the "Act East" Policy), it began to open its market, paving the way for increased trade integration. Now, there is a new window of opportunity for greater integration and connectivity with (1) the revival and arguably the enhancement of this policy by the Government of India and (2) the realization by smaller countries in the region that SAARC has not delivered on its promises — in part due to the problematic geo-political dimension of the India-Pakistan relationship.

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[47] United States International Trade Commission, Trade, Investment, and Industrial Policies in India: Effects on the U.S. Economy, December 2014, p. 5.

[48] Office of the United States Trade Representative, 2014 Special 301 Report, April 2014, p. 37.

[49] United States Trade Representative, 204 National Export Estimate Report on Foreign Trade Barriers, March 2014, pp. 143 – 153.

[50] Bhattacharay, 46.

[51] Prospects and Challenges of Integrating South and Southeast Asia, 41.

There are a number of critical benefits to increasing trade integration in South Asia:

1. Enhanced domestic demand;
2. Income gains due to expansion of domestic markets;
3. Diversification of growth away from high dependence on exports to advanced economies towards more regional demand and/or pan-Asia trade;
4. Potential for vertical integration of supply chains;
5. Alleviation of poverty resulting from broad-based economic growth;
6. Greater prosperity and security in the region.

The challenges to greater integration are also significant and should be noted. Political challenges include:

1. Diversity of countries in terms of economic development; demography; size; and language;
2. Competition in production and exports among the countries' markets;
3. Lack political leadership and will to commit to formal binding commitments to cooperation;
4. Ineffective implementation of existing agreements, including SAFTA;
5. Lack of openness in economies and continuation of isolationist/protectionist policies
6. Power asymmetries and mistrust of India as potential hegemon in the region.

Specific trade facilitation challenges include:

1. Limits on customs flexibility imposed by primary legislation being too comprehensive and detailed;
2. Diverse conformity assessment practices and the persistent use of individual standards and approaches in different countries;
3. Port facilitation calling for multiple interfacing with port authorities, shipping agents, and transporters as well as standard government agencies, resulting in delays and additional payments of wharf charges, storage, and handling fees;
4. Delays in transit time to and from landlocked countries;
5. Lack or limits on through-transport arrangements;
6. Prevalence of informal trade;
7. Endemic corruption;
8. Lack of effective consultation mechanisms between institutions and stakeholders; and
9. Lack of pressure to improve border transits.[52]

Ideally, the South Asian economies would focus on their complementarities and the importance of trade facilitation; trade facilitation issues continue to prevent all of these countries from achieving the benefits of market openness. Administrative and physical bottlenecks along the export and import supply chains have raised trade costs to extremely high levels in South Asia. Any initiative focused on enhancing trade integration should look thoughtfully at the presence of

[52] ABD Institute, Policies to Enhance Trade Facilitation in South Asia and Southeast Asia, by Anthony Bayley, ADBI Working Paper Series No. 489, July 2014, pp. 8 to 21.

non-tariff barriers (rather than at the tariff rates themselves): “A major qualitative change in regional economic integration initiatives in other parts of the world over the past two decades has been the recognition that effective integration requires more than simply reducing tariffs and quotas (Schiff and Winters 2003, 7-9).”[53]

[53] Athukorala, 9-10.

CHAPTER SIX

EXISTING REGIONAL AGREEMENTS AND TRADE FACILITATION INITIATIVES

This chapter discusses existing trade agreements and ongoing initiatives to promote trade facilitation within and between South Asia and Southeast Asia.

A. EXISTING TRADE AGREEMENTS

Since the early 1990s, various trade pacts — both bilateral and multilateral — were undertaken in the region. SAARC initiatives to foster regional trade integration include the South Asian Preferential Trading Arrangement (SAPTA), the South Asian Free Trade Area (SAFTA), and most recently, the SAARC Agreement on Trade in Services (SATIS) in 2010. However, none of these agreements have been considered successful and all the South Asian countries continue to depend on extra-regional markets for their exports. Within this context, however, intra-regional trade continues to expand, although still lagging behind other trade in other regional blocs.[54]

The makeup of South Asian economies have changed over the last twenty years with most of the economies experiencing significant growth in the services sector. All of the countries are looking to expand their manufacturing sectors and much of the manufacturing in these economies are dominated by textiles and garments.

There are a number of Free Trade Agreements (FTAs); Preferential Trade Agreements (PTAs); and Comprehensive Economic Cooperation Agreements (CECAs); in the South Asian region. These agreements are entered into bilaterally or with multiple member countries. A summary of the key and most relevant regional and bilateral agreements follows.

A1. SAARC AND THE AGREEMENT ON SOUTH ASIAN FREE TRADE AREA (SAFTA)

SAFTA was signed by South Asian Association for Regional Cooperation (SAARC) during the twelfth SAARC Summit in January of 2004 with the agreement itself operational on January 1, 2006. The objectives of SAFTA are to (1) promote and enhance mutual trade and economic cooperation among the member countries; (2) eliminate barriers to trade and facilitate cross-border movement of goods; (3) promote conditions of fair competition in the free trade area, and ensuring equitable benefits to all Contracting States, taking into account their respective levels and pattern of economic development; (4) create an effective mechanism for the implementation and application of this Agreement, for its joint administration and for the resolution of disputes; and (5) establish a framework for further regional cooperation to expand and enhance the mutual benefits of this Agreement.

[54] Insert footnote. Moinuddin, "Trade Economic Integration and liberalization in South Asia".

There are a number of conceptual and practical problems with SAARC and by extension with SAFTA. Bilateral trade between India and Pakistan is very small and geo-political differences make public cooperation in a forum like SAARC extremely difficult. Also, each SAARC member has a negative or "sensitive" list of goods that are exempted from the tariff-reductions mandated by SAFTA. These lists are long for many countries (e.g. 771 items for Pakistan[55]) and thus exclude a large portion of intra-regional trade. Although SAFTA is continuing to put downward pressure on SAARC members' tariff rates, SAFTA is unlikely to bring about truly free trade in the region. "All countries have opted to retain a long list of "sensitive" products with a view to protecting particular economic sectors against exemption of duties under SAFTA and nearly 53 percent of current intra-SAARC imports are currently restricted under the sensitive list."[56] Moreover, leadership in SAARC is inadequate and most member countries trade in similar, competing products. There is also very little accountability — for example, Nepal has not implemented most of its commitments under SAFTA and has thousands of products on its "sensitive list."[57]

This study found that both experts and trade practitioners have very limited enthusiasm for the efficacy — both past and future — of SAARC. In large part, due to difficulties in the India-Pakistan diplomatic relationship, the likelihood of SAARC burgeoning into an effective and accountable institution is unlikely. There is scope for volunteer or non-binding agreements between certain member countries within SAARC. However, even if political agreements can be reached voluntarily without the requirement of consensus by all members or without legally binding commitments, it is unlikely that such volunteer and non-binding agreements will be implemented when formal and unanimous commitments have not been implemented. To illustrate this, SAFTA requires the adoption of trade facilitation measures and the removal of NTBs, but there is no binding commitment and little indication of progress.[58]

As a result, there has been more enthusiasm for regional groupings that include Burma and do not require consensus by both India and Pakistan. UNCTAD notes the following, which arguably applies equally to trade integration: "It is generally believed that RTAs among developing countries (South-South RTAs) are unlikely to have significant impact on intra-regional VFDI flows. This effect depends on members having complementary economic structures (dissimilar patterns of production) which provide scope for intra-industry specialization. If the members of the RTA are very similar in terms of factor endowments (e.g. their greatest resource is their large labor force), the scope for the relocation of production processes among countries based on "true" competitiveness will not be large."[59]

A2. BAY OF BENGAL INITIATIVE FOR MULTI-SECTORAL TECHNICAL AND ECONOMIC COOPERATION (BIMSTEC)

The BIMSTEC countries have agreed to establish the BIMSTEC Free Trade Area Framework Agreement: The Framework Agreement on the BIMSTEC FTA was signed in 2004 in Phuket,

[55] Razzaque, p. 105.
[56] Athukorala, 9.
[57] Razzaque, Chapter 6.
[58] Razzaque, p. 120.
[59] Athukorala, 5.

Thailand and has provisions for negotiations on a free trade area (FTA) in goods, services and investment. BIMSTEC has established a Trade Negotiating Committee (TNC) to steer negotiations and its 1st Meeting was held in Bangkok in September 2004. The TNC intends to cover negotiations on trade in goods and services, investment, economic cooperation, as well as trade facilitations and also technical assistance for LDCs. It was agreed that trade in goods negotiations will happen first, and then the TNC will begin negotiations on trade in services and investment.

A3. THE ASSOCIATION OF SOUTHEAST ASIAN NATIONS (ASEAN)

India's "Look East Policy" in the year 1991 marked the real beginning of its association with ASEAN. This bridge between South Asia and ASEAN provided a mechanism to link these two regions; however, as discussed below, India's association with ASEAN has not yielded meaningful trade connectivity or integration.

A Framework Agreement on Comprehensive Economic Cooperation between ASEAN and India was signed in 2003 in Indonesia. It includes an FTA in Goods, Services and Investment and specific Areas of Economic Cooperation. The Agreement also provides for a common list of items for exchange of tariff concessions as a confidence building measure.

The FTA's objectives are to: "[s]trengthen and enhance economic, trade and investment co-operation between the Parties; [p]rogressively liberalize and promote trade in goods and services as well as create a transparent, liberal and facilitative investment regime; [e]xplore new areas and develop appropriate measures for closer economic co-operation between the Parties; and [f]acilitate the more effective economic integration of the new ASEAN Member States and bridge the development gap among the Parties.

While there is an India-ASEAN FTA on goods, the agreement as it stands is filled with exemptions, loopholes and gaps; the FTA has yet to achieve significant reduction in tariff rate and as a result, it has not been effective. Moreover, this study posits that trade integration in the region cannot be achieved simply by agreements intended to lower tariffs, even when those agreements are effective.

The countries in the South Asian region have been generally open to signing both global and regional trade agreements. From WTO agreements to SAFTA, the countries are both willing to sign and willing to engage; however, they have still not committed to free and fair trade with their neighbors and signing these agreements have done very little to contribute to that. The agreements themselves are useful, but the real obstacles to intra-regional trade have more to do with non-tariff barriers than with simply lowering tariff rates. SAFTA and ASEAN agreements exist but have not had profound impact; similarly, while BIMSTEC is a more pragmatic grouping of member countries (and avoids the India-Pakistan geopolitical hurdles), it has yet to become a functional or formidable regional agreement. India and Bangladesh signed a bilateral trade agreement in 1980 for three years with an amended agreement signed in 2006 and India and Nepal signed a treaty of trade in 1991 aimed to strengthen economic cooperation between the two nations.

B. EXISTING U.S. GOVERNMENT TRADE-RELATED INITIATIVES

Within USAID and the State Department and across the U.S. government, other donors, multilateral institutions, and host countries, many opportunities exist for complimentary and joint actions and partnerships to further IPEC. Among other donors and multilateral institutions, the Asian Development Bank (ADB), the World Bank, Department for International Development (DfID) and GIZ are undertaking major actions to promote connectivity within and between South and Southeast Asia. This section discusses existing U.S. government support for increased trade with, between, and within South and Southeast Asia. Section C discusses the work of other donors and multilateral institutions.

The U.S. Trade Representative (USTR). USTR is the U.S. government agency charged with crafting bilateral trade agreements and participating in the negotiation of regional trade agreements. The U.S. government has a TIFA with India and is engaged in a number of dialogues with South and Southeast Asian countries to advocate for market opening and access. The Trans-Pacific Partnership agreement, which will significantly increase trade among a number of the Asia-Pacific countries, should provide an impetus and incentive for South Asian countries to look towards enhancing their own intra-regional trade. USTR's bilateral negotiations with India and its neighbors on TIFA and TF, respectively, are well structured and have specific aims. Moreover, USTR is engaged with these countries on WTO cases and their (lack of) compliance with WTO obligations and commitments. India and the U.S. have a long-standing history of disagreement over India's compliance with specific commitments and their protectionist regulations, many of which are adverse to U.S. business interests.

B1. RELEVANT REGIONAL AND COUNTRY-SPECIFIC USAID PROJECTS

USAID is currently engaged in a number of activities that right now are substantially furthering IPEC. These and other activities offer opportunities for supportive and even joint actions to augment the impact on IPEC.

ASEAN Connectivity through Trade and Investment (ACTI) project. USAID jointly with the State Department is funding support for ASEAN through the ACTI project. This is a five year project to increase U.S. economic engagement and cooperation with ASEAN countries. The priority for the assistance is to support ASEAN's efforts to create an ASEAN Economic Community. Among ACTI's many activities include assistance to help create an ASEAN Single Window that can connect and integrate national windows of the 10 ASEAN member states; assisting Burma with trade reforms; and harmonizing business standards in priority integration sectors in collaboration with the private sector.[60] All of these endeavors also further trade with South Asia. Nathan Associates is the contractor for the project which is under USAID's Regional Development Mission for Asia (RMDA).

The Burma component or activity of ACTI — titled Economic Reform and ASEAN Integration (ERA) — is assisting the Government of Burma in implementing its framework for economic and social reform. ERA is providing assistance on economic governance, SME development,

[60] USAID, ASEAN Connectivity through Trade and Investment, factsheet, November 2014.

capacity building, and reforms. In striving to meet WTO and ASEAN requirements, ERA, along with other donors, is supporting the drafting, passing, and implementation of many laws, including on arbitration, standardization, IPR, customs, bank and financial institutions, electronic transactions, and ICT. Other actions include training for the Supreme Court of Burma on IPR and new economic laws; workshops and comments on international best practices; connecting Burmese women groups to Indian groups; and helping with WTO requirements for transparency and notification through a trade portal and trade depository.

Bangladesh Trade Facilitation Activity. The USAID Bangladesh Mission is funding the five year Bangladesh Trade Facilitation Activity (BTFA), which was awarded in September 2013 to IBI International. BTFA aims to bolster economic growth by creating greater efficiency in cross-border trade. The three specific objectives are: improved trade-related information and transparency, operational national single window, and enhance supply chain security. Clearly this activity supports IPEC objectives.

Feed the Future. Perhaps key to helping IPEC efforts, are projects in the two regions related to the Bureau for Food Security (BFS). Three countries in the two regions were designated as Feed the Future focus countries: Cambodia, Nepal, and Bangladesh. Burma is also receiving attention. In addition India was named a strategic partner and is helping with activities in Kenya. Existing Feed the Future programs are focused on country-specific value chains in agricultural goods.

B2. U.S. GOVERNMENT DIALOGUES/ACTIVITIES IN PLACE

The Department of State is deeply involved in ASEAN negotiations and is looking towards participation in certain key working groups. This study advocates that the U.S. government continue to encourage ASEAN reform and specifically, the streamlining and consolidation of ASEAN's hundreds of working groups to a few targeted and functional groups. However, until such reform is achieved, the study argues that further investment in ASEAN is not warranted (to achieve the aims of IPEC).

Nathan & Associates (the firm implementing ACTI, discussed above) is doing a great deal of important work on trade and investment with both ASEAN and APEC for the U.S. government. Trade facilitation is becoming an increasingly integral focus for ASEAN and USAID is working on the ASEAN single window and coordination of single windows in the region as well as with workshops on self-certification and rules of origin issues in the region.[61] Similarly, USTR is attempting to enhance their engagement with ASEAN and the State Department is working on participation in various specific ASEAN working groups and the "rebranding" of the U.S. government Enhanced Economic Engagement (E3) Activity (which focuses on ASEAN).[62]

The ACTI model — while relevant for Southeast Asia — is not currently a good model for South Asia. SAARC, unlike ASEAN, has not been a particularly effective institution in the region. The primary counterpart and beneficiary of ACTI, ASEAN has relatively strong institutional capacity and is much better organized than SAARC. ACTI is able to provide targeted assistance to help ASEAN achieve its own vision for regional trade integration (e.g. its efforts to establish a

[61] Nathan meeting.
[62] State meeting.

regional single window). SAARC, on the other hand, has not achieved meaningful consensus among member countries and there is little momentum for member countries to implement the agreements under SAARC. Until this changes, the ACTI model is unlikely to yield results in South Asia.

USG bilateral dialogues with India may yield important results in the years to come, given India's new government: the U.S.-India Strategic Dialogue and the U.S.-India Trade Policy Forum are both critical mechanisms through which the U.S. government should advocate for India to pursue more open market policies and address key regulatory hurdles that hinder competitiveness and free trade. As discussed in more depth below, these dialogues may serve as useful platforms to build consensus and support for some of the interventions proposed in the section below. Similarly, formal visits by U.S. government officials to the South Asian region should be leveraged as opportunities to promote intra-regional trade as an explicit U.S. priority for the region and to advocate for the specific recommendations proposed in this study.

C. RELEVANT ACTIVITIES OF OTHER DONORS AND MULTILATERAL INSTITUTIONS

C1. ASIAN DEVELOPMENT BANK

The Asian Development Bank (ADB) is by far the major external actor in promoting connectivity and trade facilitation across South and Southeast Asia. All the countries of the two regions are members of ADB and are recipients of loans and/or grants or providers of capital for the concessionary Asian Development Fund. In 2013 the ADB delivered $21 billion in assistance financed by $14.4 billion of its own resources and $6.6 billion from co-financing partners. This included $6.2 for Southeast Asian countries and $6.0 billion for South Asian nations.[63] In general both bilateral and regional ADB activities contribute to furthering trade, by improving physical infrastructure, trade facilitation, governance, social conditions, etc. Furthermore ADB and ADB Institute provides support and contributes to the discourse of regional integration and trade facilitation through many working papers, including a South Asia Working Paper Series, and the semiannual Asian Economic Integration Monitor (AEIM).

For South Asia in 2013 ADB, for example, approved a credit facility for the India finance Company Limited which targets energy, transport, and other infrastructure projects led mostly by the private sector; financed several transport projects aimed at improving connectivity within and between countries; and accompanied hard infrastructure with outlays in "soft" infrastructure, such as customs modernization and trade facilitation. ADB's existing projects in the region total $13 billion, including $6 billion in concessionary financing.[64]

Southeast Asia activities of ADB for 2013 included, for example, approving: a $400 million inclusive growth project for Indonesia, which aims to stimulate economic activity and cross-border trade through reduced transport and logistics costs; for Burma, $575 million for economic and social reforms and debt relief: and a new Country Partnership Strategy (CPS) with Thailand

[63] Asian Development Bank, Annual Report 203: Promoting Environmentally Sustainable Growth in Asia and the Pacific, 2014, p. 7.
[64] Ibid, p. 28.

for 2013-2016 with a focus on knowledge, private sector development and regional cooperation and integration. In the region ADB is managing 141 projects, worth $16.6 billion, and 257 technical assistances activities, worth $571 million.[65]

Besides bilateral programs with the individual countries, the ADB is engaged in five regional programs, of which four are relevant to this study: Brunei, Indonesia, Malaysia, Philippines East ASEAN Growth Area (BIMP-EAGA); Greater Mekong Subregion (GMS) Program; Indonesia, Malaysia, Thailand Growth Triangle (IMT-GT); and South Asia Subregional Economic Cooperation (SASEC). ADB is supporting BIMP-EAGA in implementing its Blueprint 2012 – 2016 with 12 priority infrastructure projects with a total cost of over $1 billion.[66]

For IMT-GT, ADB is cooperating with the initiative aimed at stimulating economic growth in less developed provinces of the three countries --14 in Thailand, eight in Malaysia, and 10 in Indonesia. IMT-GT leaders in 2012 adopted a blueprint which focused on five economic corridors and activities in six sectors. ADB is assisting with a scoping study on Special Border Economic Zones, in preparing a proposed power interconnection, with a scoping study for Melaka, and with assessing the feasibility of Roll-On, Roll-Off services. ADB has been requested to support work on customs, immigration, and quarantine to formulate and harmonize rules and regulation to facilitate trade.[67] Potential collaboration with ADB is discussed in Chapter 8, Recommendations.

Greater Mekong Subregion involves China, Lao, Burma, Thailand, and Vietnam. Significant progress has been GMS was formed in 1992. Around $11 billion in infrastructure projects have been or are being implemented. By the end of 2013 the GMS program had mobilized $16.6 billion in investment projects and $330.8 million in technical assistance, of which ADB's support amounted to $6.0 billion for investments and $115.1 million for TA. Among the sectors of work is trade.[68] A major focus of ABD is on Cross Border Transport Agreement (CBTA), an accord that consolidates key non-physical measures for efficient cross-border land transport.[69]

The SASEC Program, for which ADB serves as the Secretariat, brings together Bangladesh, Bhutan, India, Maldives, Nepal, and Sri Lanka in a project-based partnership to promote regional prosperity by improving cross-border connectivity, facilitating faster and less costly trade among member countries, and strengthening regional economic cooperation. Since 2001 in support of SASEC, ADB has invested more than $6 billion through loan and grants to improve physical infrastructure, support reform processes, and build capacity in three key areas: transport, trade facilitation, and energy. SASEC also creates knowledge sharing platforms to promote regular exchanges of information and experiences.[70]

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[65] Ibid, pp. 32 and 33.
[66] www.adb.org, under regional cooperation and integration/BIMP-EAGA.
[67] www.adb.org, under regional cooperation and integration/IMT-GT.
[68] www.adb.org, under regional cooperation and integration/GMS.
[69] ADB Institute, Policies to Enhance Trade Facilitation in South Asia and Southeast Asia, by Anthony Bayley, ADBI Working Paper Series, No. 489, July 2014, pp. 24-25.
[70] Asian Development Bank, South Asia Subregional Economic Cooperation Program, Brochure.

Table 7.1 ADB Investments in SASEC Program

Project Type and Sector	Number of Projects	Total Project Costs USD million
Overall Loans and Grants	34	$6,516
Transport	23	$5,350
Trade Facilitation	1	$48
Energy	9	$1,100
Information Communications and Technology	1	$18
Overall Technical Assistance	39	$19
Total	**73**	**$6,535**

Source: www.adb.org/projects

The policy-based SASEC Trade Facilitation Program (STFP) worked with three countries: Bangladesh, Bhutan, and Nepal to assist the governments in developing more efficient, transparent, secure, and service-oriented import and export trade processes. Specifically the objectives were: (i) develop modern and effective customs administration and management systems to reduce time-intensive procedures and high levels of inspections; (ii) streamline and render transparent trade processes and procedures, through increased automation, moving toward a national single window (NSW) system; and (iii) providing better information services for private sector traders and investors, including women entrepreneurs, through the development of national trade facilitation committees and trade information portals. The program consisted of two tranches for which the three countries complied with the required policy actions (or obtained a waiver). The second tranches were approved in November and December 2014. [71]

In March 2014 SASEC endorsed the SASEC Trade Facilitation Strategic Framework (STFSF) for the period 2014 to 2018. STFSF's mission is to increase trade, including intraregional trade, of SASEC countries. The goal is: more efficient, transparent, secure and service-oriented trade in SASEC countries. Strategic thrusts are: customs modernization and harmonization; standards and conformity assessment strengthening; cross-border facilities improvements; through-transport facilitation; and enhanced cooperation and coordination mechanisms.[72]

C2. WORLD BANK GROUP

In its recent reorganization the trade work of the World Bank and International Finance Corporation (IFC) have been combined in one global practice group on trade and competitiveness. But as it will take time to merge activities, the two are treated separately here. In FY 2014 the World Bank (IBRD and IDA) had active portfolio of $183.2 billion which included $30.6 for East Asia and Pacific and $40.2 billion for South Asia. Three percent of the funds in both region are going to trade and integration or a total of $2.1 billion. The World Bank has a unit dedicated to South Asia Regional Integration. This unit is mainly funded by DfID. The unit has three main foci: energy, trade and transport connectivity, and water dealing with disaster risk management and climate change and a cross cutting agenda on analytical work and outreach.

[71] Asian Development Bank, Progress Reports on Tranche Releases for Nepal and Bangladesh in November 2014 and for Bhutan in December 2014.

[72] Asian Development Bank, South Asia Subregional Economic Cooperation Trade Facilitation Strategic Framework 2014-2018, 2014, p. 4.

In the trade and transport area, the unit is working with other units in the World Bank to undertake future lending for: a Bangladesh Regional Connectivity Project to modernize selected land ports for trade with India and Bhutan, to modernize customs, and to develop a single window; North East Regional Connectivity Program with several projects to facilitate inland waterways transport along the Bangladesh-India Bilateral Protocol Route, including land port-road-sea port interfaces and connectivity between Bangladesh, Bhutan, and India, and to improve Chittagong Port; and a Bhutan Regional Trade and Transport project to construct an inland container depot on the border with India and possibly sections of the southern east west highway.

Examples of non-lending activities include: South Asia Eastern Corridor Program technical assistance for Bhutan Trade and Transport Facilitation and Mizoram Roads and Trade Sectors; Policy Notes named SARConnect; NTM surveys for trade between India – Nepal and India – Bangladesh, focusing on specific products with potential; India and her neighbors with the goal of increasing the scope for regional economic cooperation in the whole region; vision paper promoting regional integration; perception and media surveys focusing on key “influencer” groups to monitor awareness of regional cooperation issues, to identify changes in views, and help determine what might be needed to change negative views; and a South Asia Economic Conclave in April 2015 organized by Confederation of Indian Industry (CII).

The IFC is a major player in South and Southeast Asia. For example, IFC in FY 2014 the IFC committed $ 3.5 billion to South Asia out of its total global commitments of $17.3 billion. In South Asia, the IFC is working with Pakistan, India, Bangladesh, and Nepal on trade facilitation. IFC technical assistance is aimed at aligning individual countries with the WTO agreement on trade facilitation. For example, IFC is working with Nepal on data collection; with India on simplifying customs procedures for trains and on the Pakistan-India border; with Pakistan on Afghanistan transit; with India and Bangladesh on land borders; and with Bangladesh on Chittagong port, risk management approach in customs, and quarantine practices. The IFC does work with business groups and think tanks, especially for its surveys. In Nepal IFC is sponsoring a public–private dialogue border working group.

C3. DFID

Among bilateral donors, the Department for International Development (DfID) of the United Kingdom has been and is a leader in promoting South Asia economic integration and opening to global markets. DfID sees their effort as part of their commitment to reducing world poverty. Countries that are actively participating in and connected to global markets have done so much better at reducing poverty than countries which are not. DfID has a South Asia Regional Trade and Integration Programme (SARTIP) for the period 2012 to 2016.

DfID’s primary aims at this point are twofold: (1) “To reduce the time and cost of trading goods across 4 key border posts. At present custom procedures at border posts are inefficient, with an average of 9 documents being required to export goods from one South Asian country to the next. The latest World Bank Doing Business Statistics suggest that on average it takes a Nepalese company 41 days to export a container load of goods at a cost of USD $1,960. A 10 percent saving in these costs will spur exports by over 5 percent and thereby contribute to increasing the wealth of the region”; and (2) “Increased electricity connectivity, and in particular link increasing demand in South Asia to clean forms of power supply available from the poorer

Himalayan states. Specifically the programme will look at increasing the present level of connectivity between Pakistan and its neighbors to the north, between India, Nepal, Bhutan and Bangladesh, and between Pakistan and India by 1300MW."[73]

This study recommends working with DfID in the Coordination Group specifically on focus area one, allowing for collective financial and strategic investments in this critical area. The Coordination Group is run out of DfID's Delhi office by Duncan Overfield and is doing critical and important work on NTBs and soft connectivity in South Asia. Working within the group – initially as an "Observer" and later as a full member – will allow the USG to take full advantage of the expertise of other donors and IFIs already engaged in this activity. It will also provide a coordination platform to discuss the relevance of the Borderless Alliance concept and to encourage DfID to engage on that activity.

Under SARTIP, DfID has engaged the World Bank, the Asian Development Bank, IFC, and South Asia countries in their efforts to effectively support efforts to reduce time and cost its takes to trade across borders. DfID is spending around $40 million on the task. DfID manages a donor-government coordinating committee that oversees the effort, to which Germany and Australia are observers. As part of this effort, the World Bank has created a Champions' Group, primarily made up of high ranking ex-officials from the countries of the region. This groups advises on what should be done. The group on its own, although supported by the donors, is drafting a strategy or vision statement for the region. DfID is open to participation by the United States. While there have been some ad hoc and informal conversations with DfID in the past, this study recommends immediate structured dialogue between the USG and DfID with participation in the Coordination Group and participation in the upcoming Coordination Group meeting. DfID is currently designing a major program of around $750 million over the next six or seven years to enhance their efforts and working jointly with them to address specific NTBs and soft connectivity issues in the region could have important impact.

C4. GIZ

Working with the SAARC secretariat based in Nepal, GIZ supports the SAARC Trade Promotion Network (SAARC-TPN) and its five working groups. The groups are: Non-tariff Trade Restrictions, Quality Infrastructure, Business-to-Business Initiatives, Trade Information Portal, and Trade Promotion in SMEs. The Network consists of 28 public and private institutions in the eight SAARC countries. Public sector members of TPN are primarily national trade ministries or the trade departments of economic ministries, along with trade and export promotion agencies. Private sector members include leading regional and national business membership organizations.

The project is strengthening the sector competencies of the members and is encouraging the network to contribute, through the SAARC executive committees, to the form and substance of regional agreements involving trade. The project also supports the introduction and implementation of trade facilitation and trade promotion initiatives, including the know-how and resources to monitor the progress and outcomes of cross-border trade promotion measures in South Asia.

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[73] DfID SARTIP and Final Report.

C5. OTHER MAJOR BILATERAL DONORS

The Japanese and Chinese government and international bodies are also major actors in the two regions. Mainly they are undertaking physical infrastructural investments and equipment for trade facilitation, rather than working on the technical side of trade facilitation. For examples, the Chinese government is building a pipeline across Burma to bring Burmese natural gas to China; developing power plants, communications, and roads in Pakistan; building bridges in Bangladesh; investing in energy and transport in Nepal; and improving ports in Pakistan, Bangladesh, and Sri Lanka. China is establishing an Asian Infrastructure Investment Bank (AIIB) to provide financing for infrastructure projects in Asia and Pacific. Both the Japanese International Cooperation Agency (JICA) and the Japanese Bank for International Cooperation are quite active across both regions. The bulk of the funds go to support infrastructure projects.

D. WORLD TRADE ORGANIZATION TRADE FACILITATION AGREEMENT

The WTO — despite the failure of the Doha Round — holds promise in that most of the South Asian neighbors are in the process of implementing the Trade Facilitation Agreement. WTO members ended their negotiations of a Trade Facilitation Agreement at the Bali Ministerial Conference in December of 2013. Since then, WTO members have agreed to insert the new Agreement into Annex 1A of the WTO Agreement. The Agreement itself will enter into force once two-thirds of members have completed their domestic ratification processes, which are currently ongoing.

The Trade Facilitation Agreement contains provisions to expedite the movement, release, and clearance of goods, including goods in transit. Additionally, it contains measures for effective cooperation between customs and other relevant authorities on trade facilitation and customs compliance issues, as well as provisions for technical assistance and capacity building in this area.[74] This agreement is an important step for the WTO and Bangladesh, Nepal, and Burma are in various stages of domestic ratification and compliance with the Agreement. Technical assistance and capacity building is critical for these less developed countries to come into compliance with this agreement and USTR and USAID are both working, separately and collectively, on this. In February 2015, the U.S. government provided $1 million USD for developing countries implement the Trade Facilitation Agreement.[75] This Agreement further signifies a willingness and commitment to engage on trade facilitation issues and momentum shift for the region; along with India's Act Policy, this evidences an opening for greater collaboration and cooperation in the trade facilitation area.

The WTO Trade Facilitation Agreement is a significant breakthrough and framework for improving trade, including along the IPEC. The IPEC countries are in various stages of compliance with the WTO Trade Facilitation Agreement and USTR and USAID continue to work with those countries to achieve compliance. India has expressed less interest and enthusiasm for the WTO Trade Facilitation Agreement; encouraging India to embrace the WTO Trade Facilitation Agreement is critical but remains within the ambit of USTR. As such, this

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[74] https://www.wto.org/english/tratop_e/tradfa_e/tradfa_e.htm
[75] https://www.wto.org/english/news_e/pres15_e/pr736_e.htm

study will not frame assistance specifically in the context of the WTO Trade Facilitation Agreement, but will integrate trade facilitation efforts within key U.S. State Department, USAID and Donor Activities/Dialogues that may be supplemented or enhanced to support the IPEC agenda.

CHAPTER SEVEN

GOALS AND OBJECTIVES FOR INCREASED REGIONAL TRADE

A. OBJECTIVES AND STRATEGY

The overall goal of IPEC is to enhance regional economic development and promote stability across South and Southeast Asia, thereby offering commercial opportunities for U.S. business. The goal for the trade component of IPEC is increased trade between South and Southeast Asia.

Objectives. To support this overarching goal, the trade component of IPEC endeavors to achieve the following objectives:

1. Improved physical connectivity between South and Southeast Asia;
2. Streamlined, harmonized, and efficient border procedures;
3. Scorecards and implementation of existing commitments related to NTBs under SAFTA and other trade agreements;
4. Enhanced regional collaboration on border procedures and trade related regulations;
5. More supportive domestic and regional business environments for trade between South and Southeast Asia; and
6. Stronger business and research linkages between South and Southeast Asia.

Strategy. The strategy to achieve these objectives is five-pronged:

1. Utilize USAID and State Department diplomatic initiatives as well as on-going and targeted additional activities;
2. Engage on IPEC through the full range of U.S. government activities, particularly those of USTR and Commerce;
3. Support, encourage, and partner with relevant activities of other donors and multilateral institutions, particularly Asian Development Bank, World Bank, and World Trade Organization;
4. Encourage appropriate actions by the involved countries and regional organizations, particularly ASEAN, SAARC, and BIMSTEC, including the implementation of bilateral and regional agreements; and
5. Encourage the business communities and research institutions of the countries and regions to engage in cross regional analytical work, advocacy, and business endeavors.

Below are some general examples of how the strategy could be applied to achieve the objectives. Many more details are provided in the following chapter. For example, to improve the *physical connectivity,* the lead role could go to the infrastructural projects of the ADB, World Bank, and the countries themselves. The U.S. role would be to encourage and support these efforts. This could include the U.S. Executive Directors in the multilateral institutions supporting and asking about these projects; U.S. agencies in bilateral and regional meetings stressing the importance of improving roads, ports, and telecommunications; and USAID and State encouraging business groups and research institutions to investigate and analyze physical constraints and advocate for improvements.

To ease trade barriers and encourage domestic policies that support cross border trade, USAID and State are already supporting projects in ASEAN and Bangladesh through food security activities. USTR and Commerce in their dialogues engage on issues that could improve both cross border and domestic trading, including the harmonization of standards and technical regulations. State could raise trade issues in bilateral and regional meetings, including encouraging compliance with existing bilateral and regional agreements. USAID and State could join with other donor and multilateral initiatives to improve conditions, such as the World Bank's work on Doing Business in India. Business groups, such as those dealing with shipping and freight or exporters, and research institutions could be encouraged to carry out corridor assessments, time release studies and support domestic policies and based on the results advocate for better services. In particular, focus on harmonization and efficiency of standards could have profound impact.

Stronger research and business linkages could be encouraged through small cost sharing grants to business and research institutions to develop appropriate linking, research, and advocacy activities. The business groups and research institutions could engage in such activities as undertaking a business process analysis, studying transit along key transport corridors crossing several countries, or advocating for improved border crossings. The U.S. could also help those institutions bring their results and requests to proper authorities.

B. INDICATORS OF PROGRESS AND SUCCESS

This section presents potential indicators to measure IPEC's progress and success. To measure the overarching goal of increased trade between South and Southeast Asia, possible IPEC indicators include:

1. Actual dollar value of goods exports between the two regions.

To measure IPEC progress or performance across the four objectives listed above, indicators could include:

2. *Improved physical connectivity*: the World Bank's Logistics Performance Index (LPI) indicators for Infrastructure.

3. *Easier trading*: the World Bank's Doing Business indicators for trading across borders, Logistics Performance Index indicators for International LPI (minus the infrastructure component used above) and the ADB's Asian Economic Integration Monitor tables on Time to Export and Time to Import.

4. *More supportive domestic and regional business environments for trade,* the World Bank's Doing Business indicators (minus the Trading across borders used above) and Domestic LPI could be used.

5. *Stronger business and research linkages*: there are no existing indicators that would be appropriate. Increased networking events can be an option or a simple email survey of leading business groups and research institutions in the two regions could be established to track progress on linkages.

The indicator for overall progress under an objective could be the aim of a regional average improvement of 20 percent or something comparable through a Doing Business – type initiative. APEC has some similar initiatives that may be used as models for this sort of regional initiative.

The indicators are intended to be used as a means to track progress against objectives. The listed indicators are not intended to be items for which the IPEC initiative is to be held responsible in the sense of having control or ability to achieve them on its own. They are intended to give direction and aspiration as to what could be achieved if everyone works together. More research and understanding of projects and policy reforms underway and planned is needed in order to set realistic targets for the various indicators.

CHAPTER EIGHT

RECOMMENDATIONS

This chapter presents overarching and concrete recommendations for the U.S. government to consider in its efforts to promote an Indo-Pacific Economic Corridor. Section A presents the assessment team's approach for selecting recommendations and overarching recommendations for the U.S. government. This section is followed by specific recommendations prioritized in order of resource requirements — from the least cost-intensive to the most cost-intensive. The internal U.S. government recommendations are presented first followed by those recommendations that will require donor coordination and/or joint-investments with international financial institutions (IFIs) and other bilateral donors. Recommendations that may require significant new investments in capacity building or technical assistance (e.g., investments in SAARC and BIMSTEC institutions) follow and finally, the study presents the most resource intensive recommendation, the creation of a Borderless Alliance, which could serve as a U.S. government flagship initiative in the medium-long term.

A. APPROACH AND OVERARCHING RECOMMENDATIONS

Approach for selecting recommendations. The assessment team used the following criteria for identifying the proposed recommendations: (1) impact, (2) feasibility, (3) U.S. government comparative advantage, (4) ability to address immediate and prohibitive gaps in trade integration in the region, and (5) cost and/or cost-sharing potential.

Through a literature review and a series of extensive consultations with U.S. government officials, international financial institutions, business associations, think tanks, and bilateral donors, the assessment team identified a few critical interventions that may yield profound benefit to regional connectivity in the Indo-Pacific region. In order to estimate costs and USG staff-time, the recommendations are presented in order of the least resource-intensive to the most resource-intensive. The study's overarching recommendations are for the U.S. government to:

1. Incorporate IPEC's trade facilitation component into USAID and State Department activities, including pinpointing a South Asia trade focal point at USAID and integrating a South Asia trade facilitation component into the Feed the Future Initiative;
2. Significantly enhanced donor coordination:
    a) With the World Bank Group — specifically: (1) co-hosting dialogues with the World Bank Group's South Asia Regional Connectivity Unit on soft connectivity initiatives with an initial focus on East India-Bangladesh connectivity and (2) partnership with the World Bank in a Doing Business Initiative in South Asia to promote accountability;

b) Joint-investments with DfID, who is also undertaking initiatives to promote trade integration in the South Asian region – specifically, immediate participation in DfID's Coordination Working Group on South Asia Regional Connectivity;

c) Co-hosting conferences on non-tariff barriers (NTBs) in IPEC countries with the IFC where specific deliverables are agreed to by the participating countries.

3. Targeted focus on SPS/TBT harmonization of standards: Initial investments in capacity building in the SAARC Regional Standards Office (SARSO) and joint-partnership with the Asian Development Bank on country-specific SPS/TBT initiatives in the longer term;

4. Consideration of opportunities to provide capacity building to BIMSTEC;

5. A U.S. government-led "Borderless Alliance" among South and Southeast Asian countries to improve public-private dialogue on trade issues and promote an integrated Indo-Pacific Economic Corridor.

Focus on trade facilitation is key. As outlined in Chapter 5, the available literature and key stakeholders point to trade facilitation as key opportunity for increasing trade within and between South and Southeast Asia. Many studies argue that trade facilitation measures — not high tariffs — are the fundamental reason why trade has not expanded in the South Asian region: "…Studies indicate that smaller trade gains in South Asia is mainly due to the fact that not sufficient attention has been paid to trade facilitation measures."[76] Trade facilitation is not only the logistics of moving goods through ports or customs at the border, but also the environment in which trade takes place, including harmonization of standards and regulations.[77]

SAFTA states that all member countries would "inform" the SAARC Secretariat of all "non-tariff and para-tariff measures" which will be reviewed by the SAARC Committee of Experts so that recommendations made to reduce such trade restrictions can be considered. In other words, SAFTA has no binding commitment for its member countries to eliminate NTBs. Moreover, the Asian Development Bank (ADB) and Federation of Indian Chambers of Commerce and Industry (FICCI) undertook a study in 2010 that showed that as tariff and quantitative restrictions on trade has decreased, additional and different trading costs arising from regulatory burden, inadequate infrastructure, inefficient customs procedures and logistics of moving goods across borders has increased significantly.

Various studies predict that improvements in trade facilitation would lead to substantial gains in trade: "[E]ach additional day that a product is delayed prior to being shipped reduces trade by at least one percent and delays have an even greater impact on developing country imports and exports of time sensitive goods, such as perishable agricultural products."[78] In South Asia in particular , the World Bank has identified a number of specific constraints: "(i) limited road density, rail lines, and mobile tele-density per capita, (ii) lengthy customs and port clearance times, (iii) poor transport and communications, (iv) the fact that trucks of one country are not

[76] Weerehawa, 5.
[77] Weerehawa, 5.
[78] Weerehawa, 5 (citing Djankov et al (2006)).

allowed across the border to deliver cargo, (v) regulatory constraints introduced at the gateways and border crossings, (vi) costly domestic transport owing to the distance between the production area and the major ports, and (vii) fragmented trucking industries and old and inefficient truck fleets."[79]

RECOMMENDATION 1. INCORPORATE IPEC COMPONENT INTO EXISTING USG INITIATIVES

RECOMMENDATION 1.1 – Initiate Dialogue with Feed the Future to Align South Asia Trade Facilitation with Feed the Future Programming

Various U.S. government initiatives are underway that could — if enhanced or endowed with a more explicit IPEC trade facilitation focus — foster trade integration in the region. In Phase II, this study recommends exploring an IPEC trade integration focus within Feed the Future.

The Feed the Future Initiative provides a multi-year strategy with various policy enabling activities. Among the IPEC countries, Nepal, Cambodia, and Bangladesh have been designated as Feed the Future focus countries while Burma, while not a focus country, gets a great deal of unique attention from the initiative (especially due to its recent political shift). India is designated as a "Strategic Partner" in Feed the Future and is working with the U.S. government to enhance impact in focus countries in Africa (e.g., Kenya, Liberia, and Malawi). India initially declined to work with the U.S. government on countries in the IPEC region; according to Feed the Future staff, India did not want the U.S. to play a significant role in dictating policy for India or her immediate neighbors in the region. However, a "note to file" or amendment to the India program was added in 2014 indicating India's newfound interest in looking at value chains and technical innovations in the region. This recent "note to file" indicates a shift in the Government of India's thinking in terms of working on trade facilitation with its neighbors. As a result, USAID/India is now embracing food security activities focused on Asia. Another opportunity is USAID/India's food security trilateral agreement, which aims to include Cambodia and Vietnam and with the potential to expand to Burma, Bangladesh and Nepal.

USAID's Regional Development Mission to Asia recently completed its Feed the Future strategy and programming, which will focus on technology transfer related to horticulture and regional policies, such as seed, inputs, and food safety. There may be opportunities to harmonize these agricultural policies across regions to promote consistent standards and facilitate increased trade.

Recommendation. Feed the Future focus on IPEC could be regional (i.e. focused on promoting harmonization of RDMA-supported seed, inputs, and food safety policies) or focused on specific bilateral relationships, where food security is a priority and our trade data analysis shows potential for increased agricultural trade. More specifically, IPEC could support specific trade facilitation work on agricultural value chains between Burma and India (India has expressed explicit interest in working more closely with Burma) or work with existing Feed the Future programs in Nepal and Bangladesh to support trade facilitation changes in India — on the "other side" of the border.

[79] Weerehawa, 5.

In the near term, this study recommends initiating an IPEC-specific dialogue in early Phase II with Feed the Future experts in the U.S. government to consider opportunities to align food security and trade facilitation initiatives with specific regard to agricultural value chains and how best to enhance India's role as strategic partner in the region. The State Department should work with USAID to initiate these dialogues and support the diplomatic and/or funding mechanisms that may be relevant to craft and/or finance a South Asia trade facilitation activities that support or leverage other Feed the Future initiatives.

RECOMMENDATION 1.2. Increase Coordination of South Asia Trade Matters at USAID and State

There are many U.S. government activities relevant to IPEC. As such, USAID and the State Department should explore ways to further improve interagency coordination on IPEC, and in particular South Asia trade facilitation issues. There is also a notable need for greater USAID internal coordination on trade integration issues in the region.

Recommendation for USAID-State Coordination. One option is monthly or bi-monthly meetings for various representatives to discuss key upcoming events, coordinate public messaging on IPEC, and support U.S. government senior officials' to promote key recommendations from this study during visits to the region or meetings with IPEC country counterparts.

In addition, the State Department and USAID should create and maintain a master annual calendar for IPEC Trade & Investment, documenting all official U.S. government visits to IPEC countries by senior-level officials; related conferences and meetings, including the Trade Policy Forum; U.S.-India Strategic Dialogues and related working groups; DfID Strategic & Technical Coordination Group bi-annual sessions; and the World Bank Group's SARCI meetings and events. This will allow various disparate but related parts of USAID and State Department to coordinate on public messaging related to IPEC and where relevant, to use these events and visits as opportunities to foster support for regional trade integration and the proposals recommended by this study. This calendar should be live and evolving, updated twice monthly at least by a dedicated staff person at the U.S. State Department's Bureau of South and Central Asian Affairs (SCA).

Recommendation for internal USAID coordination. This study suggests that USAID work to identify a specific staff member or mission (e.g., RDMA or a bilateral mission in South Asia) charged with monitoring and facilitating trade integration efforts in the IPEC countries and to assist with the operationalization of the IPEC strategy. Given its regional focus, USAID's Regional Development Mission for Asia (RDMA) may be in a unique position to work towards enhancing regional trade integration and, in particular, to staff and coordinate the inclusion of Burma in this process.[80] Alternatively, given IPEC's focus on South Asia, a USAID bi-lateral mission in a SAARC country may be able to house staff to focus on IPEC in the region.

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[80] The upcoming elections in Burma will be a critical tipping point in the political and economic trajectory of that country. Various trade-related efforts are being undertaken and successful passage of the customs law and competition law will be important steps indicating the Burmese government's devotion to creating a functional and competitive market economy.[80] Moreover, Burma's activities both in ASEAN and the WTO should be closely monitored by the U.S. government and bilateral efforts to provide necessary training and capacity building should continue, perhaps with a more targeted eye towards strengthening trade facilitation and integration with Burma's neighbors. Having said that, a specific USG-facilitated effort to

The identified mission or individual could provide insight into how best to engage IPEC countries in bilateral dialogues and/or how and whether to encourage participation in peer-to-peer conferences, a Borderless Alliance (see final recommendation below), or other initiatives. Greater regional coordination on trade is required within USAID where the Trade & Investment team in USAID's E3 Bureau and the Asia Bureau are able to work with missions and other donors (see recommendations above) as well as the State Department and other agencies to implement the IPEC strategy.

RECOMMENDATION 2. COORDINATE WITH OTHER DONORS ON REGIONAL INTEGRATION AND TRADE FACILITATION ACTIVITIES

RECOMMENDATION 2.1. Obtain 'Observer' status in DfID-hosted Coordination Working Group

The most immediate recommendation is that the U.S. government obtain "Observer" status in the DFID-facilitated Coordination Group. This Coordination Group meets bi-annually to discuss regional integration and connectivity in the Indo-Pacific region. This strategic and technical working group is comprised of development agencies from the United Kingdom, Australia, and Germany and includes the Asian Development Bank, the World Bank Group, and the IFC. These institutions have been separately and collectively considering the questions that this particular study was meant to address and will discuss both large-scale strategic questions regarding regional trade and specific cross-border and soft-power interventions.

The next meeting will take place in May 2015 in Tajikistan and the U.S. government can likely obtain "Observer" status for that meeting; indeed, in the course of this study, DfID indicated that the achievement of "Observer" status for the May 2015 meeting would be possible. "Observer" status will ensure that the U.S. government can participate in the specific strategic and technical discussions in May (without any financial commitment). At some point in the near-term, the U.S. government may and should change its status and invest with DfID and others in the group in interventions intended to enhance trade in the region. However in the short-term, "Observer" status will provide an important entry to the dialogue and discussion.

DfID, the ADB, and the World Bank's Trade Competitiveness Group (now including the IFC) have been working on trade facilitation in the region for some time and have recently determined that a more collective strategic vision will enhance their work. This donor coordination agenda comes at a critical time and provides a strategic opening for the U.S. government as it looks towards the Indo-Pacific. USAID and State should help determine the agenda for this coordination group as it considers its future strategic direction in the Indo-Pacific region and after more specific and targeted NTB interventions are identified in first months of Phase II.

RECOMMENDATION 2.2. Partner with DfID and the World Bank to Identify 15-20 Specific Non-Tariff Barriers for U.S. Government Support

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promote Burma's trade with its neighbors seems premature in the short-term. The lack of capacity at the Embassy/Mission coupled with the plethora of donors working in Burma make it an inopportune time to undertake a new trade effort in Burma

As outlined in Chapter 5, trade within South Asia and between South and Southeast Asia is severely hampered by the presence of NTBs. One of the immediate and early goals of Phase II of IPEC will be to identify between 15 and 20 specific non-tariff barriers or soft connectivity barriers in the region where the U.S. government should focus its efforts. In Chapter 5 (above), the study outlines specific NTBs and priority products (affected by NTBs) by country; in conjunction with other donors, the USG should identify discrete NTBs from among those for targeted focus in early Phase II. Based on preliminary consultations, this study suggests that the USG focus on the following categories of NTBs:

1. SPS/harmonization of standards;
2. NTBs affecting vertical supply chain integration between (East) India and Bangladesh;
3. Customs barriers and coordination of customs and border regulations along the India/Nepal borders (which will require working with Government of India and State Governments in India);
4. NTBs affecting movement of specific agricultural products in the South Asia Feed the Future countries.

Recommendations. The assessment team's initial research indicates that (1) these NTBs are significant barriers to trade and (2) there are opportunities for USAID assistance to address these NTBs in the region. However, further discussions with the World Bank (and in particular, the IFC trade logistics group) and DfID to determine their specific connectivity focus are necessary. These immediate discussions will be used to determine exactly where the U.S. government can complement ongoing work and/or address specific gaps related to NTBs. Both DfID and the World Bank Group are in the process of determining their respective strategies for regional trade integration; as a result, this is a critical time for coordination with them with the immediate goal of coordinating and complimenting each other's trade facilitation approaches and developing a honed and targeted set of deliverables, both USG-specific and jointly. Determining specific USG targets/NTB focus areas – after these initial discussions - will foster complementarity and coordination between stakeholders and allow the USG to take advantage of existing platforms for advocacy when addressing its identified targets.

As the most immediate priority of Phase II, this study argues that the U.S. government dialogue with other donors — specifically DfID, the World Bank Group, and the ADB — to decide on a set of specific NTBs and interventions. Early Phase II discussions with the World Bank Group and DfID in particular will allow the USG to identify specific NTBs where the USG can direct its attention and resources. More comprehensive discussions with other donors (especially those based in the region) who have already been working in this space is critical to ensure that USG is working with, rather than against, other stakeholders. Moreover, the World Bank Group has the explicit endorsement of the Government of India so identifying targets absent coordination with them or DfID (who is sponsoring their efforts) will be alienating and ultimately, less efficient in the medium and long-term.

RECOMMENDATION 2.3. Co-host with IFC Peer-to-Peer Conferences on South Asia Trade Facilitation

The International Finance Corporation's Trade Logistics Practice, which is now under the umbrella of the World Bank Group's Trade Competitiveness Pillar, has begun a series of peer-to-peer conferences where ministers and high level government representatives come together to discuss specific non-tariff barriers and impediments to trade. These conferences are sometimes global in nature and sometimes regional and specific to South Asia.

Recommendation. The U.S. government should provide support for peer-to-peer conferences specific to the South Asian/IPEC region and work with the IFC in the near term to facilitate and craft an agenda for a conference devoted to enhancing trade integration in the region. In the IFC context specifically, this study recommends financial as well as leadership support to regional learning events. The study suggests that the next few regional events should be aimed at bringing together IPEC governments to discuss and agree on a specific agenda to address key trade facilitation issues in the region; those issue areas should be identified in advance of the event with an aim towards signing a document of cooperation at the event itself. Ideally, a few of the first peer-to-peer conferences would be aimed at addressing those NTBs/soft connectivity issues identified as U.S. government targets in early Phase II. The agendas would focus on those specific U.S. priorities with the goal of having the IPEC countries (and other stakeholders) signing a document/deliverable at the conference itself that committed the parties to address those targets.

RECOMMENDATION 2.4. Engage with World Bank's South Asia Regional Cooperation and Integration (SARCI) unit

In addition to joining the Coordination Group discussed in Recommendation 2.1, USAID and State should become involved with the SARCI Unit at the World Bank. Although there have been some informal conversations with that unit and the Bureau of South and Central Asian Affairs at the State Department, this study suggests that more formal participation by the U.S. government in SARCI's "Champions Group" discussions would provide important exposure to ongoing dialogues about trade and connectivity barriers in the region.

The Champions group is on the verge of issuing a strategic vision, which is intended to articulate the regional agenda it will undertake in the years ahead. With the explicit support of the nations in the region and in particular, with the public support of the Government of India, the Champions Group will provide direction not only for the World Bank's trade competitiveness practice (which has a significant presence in the region) and Fid's investments, but also for the priorities of India and her neighbors in the near to medium term.

The SARCI unit has three focus areas for its work: (1) energy; (2) trade and transport connectivity; and (3) disaster risk, climate change, and water.[81] The second area — which is most relevant for this study — is looking specifically at the following borders: India-Nepal; India-Bangladesh; and Bangladesh-Burma. The Bank has an India-Nepal Trade and Transport Facilitation Project and a Northeast India Roads Project (linking Nepal, India and Burma) underway, both of which are specifically relevant to this study and the IPEC mandate.

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[81] WB meeting.

The SARCI unit itself is working on a narrative agenda to determine how to make South Asia more of an "economic corridor" and is undertaking a series of seminars and brainstorming sessions to develop a concept of Northeast Indian connectivity with the region, which was informally requested by the Government of India itself.[82]

The next brainstorming session will take place in spring 2015, and will consider how Indian states can become more involved in trade and bilateral cooperation. These effort involves members of parliament from Indian states and the Government of India-sponsored think tank, the Research and Information System for Developing Countries (RIS). After the brainstorming session, SARCI will pinpoint specific areas/borders; for example, it is looking at the Assam (state)–Bangladesh border and Assam has already expressed interest in this effort. This study recommends that the U.S. government become involved in this process in the near term. Given the specific endorsement from the Government of India and various Indian state parliaments, the study suggests that immediate participation in and support for Area 2 (Trade & Transport Connectivity) in SARCI is warranted. Moreover, this effort brings together both India's central government and state governments in a way that is both necessary and innovative if India is to participate meaningfully in enhancing regional trade connectivity.

RECOMMENDATION 2.5. Promote Accountability through a South Asia "Doing Business" Initiative

The U.S. government can promote accountability in the South Asia region through the objective mapping and identification of trade barriers and the use of scorecards to promote accountability, as well as facilitate discussion about reform priorities and best practices. Borrowing from APEC's experience and the specific objectives of IPEC, supporting a Doing Business related initiative to improve regional rankings/performance with the World Bank is an immediate and tangible project, which will allow the U.S. government to promote accountability and address non-compliance with SAFTA and other regional/international agreements, including the WTO Trade Facilitation Agreement. Moreover, India has been supportive of that work and the World Bank is already working with the Government of India on benchmarking.

Recommendation. This study recommends that the U.S. government support a specific initiative to obtain agreement on a regional target for improvement (similar to the APEC Ease of Doing Business Initiative) and develop a focused South Asia report (with World Bank support) that proposes peer to peer learning and leadership from the economies with the best performance. USAID has significant experience in leading such a project through its work with APEC and this dialogue and specific tangible work fits neatly into the more comprehensive donor coordination agenda proposed below. In Phase II, there will be a need to craft a more specific scope of work for such a project and work with the Trade & Investment team at USAID and the World Bank to operationalize this project.

RECOMMENDATION 3. FOCUS ON SANITARY AND PHYTOSANITARY STANDARDS (SPS) AND TECHNICAL BARRIERS TO TRADE (TBT)

[82] SARCI meeting.

RECOMMENDATION 3.1. Support SAARC's South Asian Regional Standards Organization through Capacity Building and Technical Assistance

As discussed in Chapter 5, the lack of harmonized standards and the inconsistent enforcement of standards is a major barrier to trade in SAARC. The assessment team's discussions with donors and international financial institutions indicate potential opportunities for U.S. government leadership in this area, particularly with SPS/TBT.

The U.S. government should be cautious with its support to SAARC, given past political challenges. Exclusive investment in existing regional structures are unlikely to provide immediate gains. SAARC and SAFTA have not realized their potential and it is not clear that great investment in these regional programs will substantially alter the dynamics of trade in the region. SAARC's historical problems in achieving consensus combined with the differing and at times adversarial geo-political interests of its various members has led to lofty rhetoric and sometimes promising commitments with spotty implementation and accountability. While the U.S. government should continue to publicly endorse SAARC and SAFTA and its laudable goals for regional collaboration, this paper argues that the U.S. government should focus on specific areas that are likely to foster tangible impact. Although significant and sustained investment in these existing regional structures is not warranted, the study does suggest that one specific investment in SAARC will provide immediate impact.

Recommendation. Based on consultations with other donors and given the significant problems related to harmonization of SPS standards in the region, this study suggests capacity building and technical assistance to the South Asian Regional Standards Organization (SARSO), which was established in Dhaka in April 2014. South Asia as a region requires significant assistance in the area of SPS; working with the Department of Commerce, the Department of State, and the USTR, a coordinated U.S. government approach to helping SARSO acquire more functionality should be considered in early Phase II.

Harmonization of technical standards and mutual recognition of conformity assessment procedures between IPEC countries would be a critical step forward. SARSO was set up in November 2007 to promote and undertake harmonization of national standards between the SAARC countries and to remove TBTs and facilitate flow of goods and services in the SAARC region. SARSO has a governing board, technical management board, director general, and secretariat.[83]

SARSO is also meant to develop SAARC standards on specific priority products of regional or sub-regional interest and encourage adoption of international standards. SARSO is focusing on the following products for development/harmonization of standards: sugar; skimmed milk power; biscuits; instant noodles; vegetable ghee; electric cables; textile fabric; jute; cement steel tubes; structural steel; and toilet soap.[84] Technical committees have been set up in the following areas: (1) food and agricultural products; (2) electrical, electronics, telecom and IT; (3) jute, textiles and leather; (4) building materials; and (5) chemical and chemical products.[85]

[83] Raihan.
[84] Ibid.
[85] Ibid.

Given that harmonization of standards on SPS/TBT is a significant and ongoing problem in all of the IPEC countries and looking at the explicit mandate of SARSO, this study suggests that providing capacity building to SARSO in the near term would be of great benefit. It would address a common NTB faced by the IPEC countries and would allow the U.S. government to assist SARSO in becoming a more functional and operational body in the region. In the near term, U.S. government investment in capacity building for the SAARC Standards Office to make it a more operational body will provide an important platform to work on SPS standards in the long term. The ADB is providing considerable technical assistance to SAARC already; however, the Standards Office is not yet an operational body and the U.S. government could step in to address this gap.

RECOMMENDATION 3.2. Coordinate with the Asian Development Bank on Country-Specific SPS/TBT Technical Assistance

The Asian Development Bank hosted a workshop in December of 2014 on this issue of SPS and Standards in the SAARC region. At the conclusion of the workshop, it was determined that more specific information was required. ADB then decided to conduct diagnostic studies in all six of the SASEC countries.[86] ADB is currently working on a Terms of Reference for these diagnostics and will begin conducting the studies later in 2015; the studies aim to identify specific SPS hurdles that the ADB will then focus on.

Recommendation. This study recommends the U.S. government wait until the ADB diagnostic studies (mentioned in the previous paragraph) are concluded and specific barriers are identified. If the diagnostic studies reveal significant gaps and assistance needs in the SPS area, the U.S. government might consider focusing on SPS and/or partnering with ADB to address the gaps identified in their diagnostics. Initial consultations with the ADB (as part of this study) indicate that they support this approach and believe the diagnostics is an important step before specific country-specific assistance is undertaken.

RECOMMENDATION 4. EXPLORE OPPORTUNITIES TO PROVIDE CAPACITY BUILDING AND TECHNICAL ASSISTANCE TO BIMSTEC

The governments of India, Burma, and Thailand have agreed to a trilateral highway that would connect India and Thailand;[87] however, virtually no progress has been to operationalize this agreement. This study recommends immediate dialogue with stakeholders and these countries to determine the will for and feasibility of this trilateral highway. Indeed, if the countries are committed to this "IMT Initiative", this could be a critical opportunity for U.S. government to support and facilitate a trade-related infrastructure project in the region. Early Phase II dialogues (as suggested above) should begin information gathering on the trilateral cooperation agreement and consider ways that the U.S. can help to formalize the commitments. This may be done through bilateral or trilateral cooperative dialogues (convened by the State Department and/or in conjunction with other donors) or through BIMSTEC, a regional structure that aims to better connect South and Southeast Asia.

[86] Bangladesh, Bhutan, India, Maldives, Nepal, and Sri Lanka.

[87] Sasi.

However, there is virtually no staff and no operationalization of BIMSTEC's vision at this time. There is a BIMSTEC working group that meets monthly in Bangkok, Thailand at the Ambassador level. With a new Secretariat based in Dhaka, BIMSTEC has achieved an important milestone; however, it remains unclear how the Secretariat will work with the member countries and/or the already existing working group. The ADB has requested a formal request from the BIMSTEC Secretariat for technical assistance and is awaiting that request. The ADB indicated to the assessment team that it has some funds set aside for this purpose.

Recommendation. The U.S. government should explore providing capacity building and technical assistance to the BIMSTEC Secretariat, but only when BIMSTEC is able to assess its needs and provide a request for specific assistance. Questions that should be considered in this regard are: What specific assistance the U.S. government provide – either loaned technical advisors or technological/ institutional support? How far along is BIMSTEC in the process of creating a functional Secretariat in Dhaka and is that Secretariat arranging annual meetings with specific agendas and achievable aims? Is BIMSTEC able or poised to support the trilateral highway agreement by India, Burma and Thailand? Although the grouping itself has potential, the capacity of BIMSTEC to operationalize its agenda is questionable. Therefore, in the near term, this study recommends continued interaction with BIMSTEC to determine potential mechanisms and manners for U.S. government support.

RECOMMENDATION 5. CREATE A USG-FACILITATED BORDERLESS ALLIANCE

If the U.S. government is considering more of a "flagship" initiative to address trade integration gaps in the IPEC region, this study recommends exploring the creation of a "Borderless Alliance" (heretofore referred to as "Borderless" or "Alliance") in the Indo-Pacific region. Borderless would be an alliance of public and private partners geared towards facilitating trade in a specific group of countries.[88]

Context. Across the Indo-Pacific region, private sector dialogue and collaboration with governments in identifying and resolving trade issues has been minimal. Throughout the consultations in this study, experts have noted the infrequent and sometimes subversive participation of private sector companies (especially in the freight and trucking sectors), the lack of communication between trade associations in the region, and the spotty interactions between businesses and their government counterparts in the trade sector. The Borderless Alliance seeks to fill these notable gaps while creating a workable and tested public–private partnership focused on unblocking barriers to trade in the region.

A mechanism for mobilizing the private-sector and pressuring decision makers to remove trade barriers. Borderless highlights trade inefficiencies in the region and undertakes research to determine the most paralyzing obstacles to producers, traders, buyers, and investors. Those objective research findings are published and then used to pressure decision makers to alter their policies to address barriers to trade. This unequivocally evidence-based, action-driven, and private sector-oriented approach to advocacy, which uses technical reports and observations by

[88] http://www.borderlesswa.com/

third-party partners can provide a platform for private companies to collaborate with decision-makers on common constraints to trade. This approach efficiently addresses bottlenecks, increases trade flows and decreases costs, thereby benefiting a variety of stakeholders. Borderless is more than a simple public advocacy campaign. In West Africa, a Borderless Alliance has arguably become “the region’s leading advocacy platform, with a membership base upwards of fifty and representing the lead actors from the various supply chains; port authorities, freight forwarders, logistics operators, manufacturers, traders and farmers, all united in their desire to promote a better business environment in West Africa, as well as a positive long-term impact for the benefit of all involved.”[89]

Need to adapt the concept to fit the South Asian context. If the U.S. government chooses to consider Borderless, further study in Phase II is required to determine how such an alliance would be operationalized in the Indo-Pacific region; discussions with bilateral donors and IPEC countries would be needed to determine both the feasibility and scope of a potential alliance. Continued consultations are required to determine how best to adapt the Borderless Alliance concept to the South Asian regional context. IPEC Phase II should prioritize this activity, considering how the State Department’s SCA Bureau, USAID’s Trade & Investment team, and USAID’s Asia Bureau can work together and with other donors to coordinate and launch an Alliance or similar concept. While the West Africa provides a useful notional model, the South Asian model may be more or less of a multi-donor initiative at the outset and have a slightly distinct scope. Indeed, further discussions with key donors in the region (including DfID and the World Bank) will help determine the feasibility of this concept and the ways in which the U.S. government can coordinate with other donors to launch and sustain the Alliance.

[89] http://www.borderlesswa.com/

ANNEX A

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