




SAARC trade is caught in a rut PREMIUM

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BY NILANJAN BANIK

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At a time when India's trade figures are not looking too good (exports growing the slowest in two years and the trade deficit at a four-year high) the ongoing SAARC summit in Maldives is being seen by many as a harbinger of renewed trading activities.

Given that intra-SAARC trade (comprising Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka), as a percentage of total trade of SAARC members with rest of the world, is only around 5 per cent, there is every opportunity to increase this number. This is all the more so, when Pakistan is talking about granting India Most Favoured Nation (MFN) status.

Intra-SAARC trade as a percentage of SAARC members' trade with the rest of the world is really small when seen against trade among members of the Association of Southeast Asian Nations (24 per cent of their trade with the rest of the world), and the Asia Pacific Economic Cooperation (70 per cent).

The low level of intra-South Asian trade has got to do with lack of trade facilitation measures and non-availability of physical infrastructure, hampering connectivity among trading partners. Policymakers have, therefore, been right in choosing connectivity as the theme for the SAARC summit.

However, the success of such talks would depend on the will to address bottlenecks on the ground.

NUMEROUS BOTTLENECKS

The South Asian region badly needs to build upon three areas of trade facilitation: port efficiency, customs environment, and service sector

infrastructures (like electronic documentation). For instance, the road leading to the port of Chennai is highly congested. With one gate of entry to the port, containers have to line up often up to a length of eight km before making an entry to the port.

At the port, the containers again have to wait for at least two more days before the ship starts to sail. Port congestion because of inefficient handling of goods affects the turnaround time of vessels. It is to be noted that Chennai is chosen as a preferred manufacturing destination by some international brands such as Hyundai, Nokia, Lotte, because of lower input costs and less labour- related problems.

However, lack of urban planning (such as having a port within the city limit), and proper infrastructure facilities, is affecting the cost of doing business, and hence of doing trade.

There is also a need to look at the 'soft' side of infrastructure. For instance, Indian customs authorities have upgraded their software so that documents relating to exports and imports can be accessed anywhere in India. This is a welcome move. However, because of shortage of hardware (memory) space, the computers often hang. Delay in issuance of Shipping Bill and Bill of Lading – documents required for exports and imports – indirectly raises trade costs. The agony of traders does not stop here. The documentation process required for trading is still quite protracted in South Asia. The World Bank's *Ease of Doing Business Report* (2011) says that it takes 16 days, 25 days, 21 days, and 21 days, to comply with all procedures required to exports good necessary to comply with all procedures required to import from India, Bangladesh, Pakistan, and Sri Lanka, respectively. This is much higher than the average figure of seven days for most South East Asian nations.

POLITICAL ISSUES

There are problems associated with connectivity. Although South Asia inherited an integrated transport infrastructure from the British, this infrastructure was fractured by the partition of India. South Asian

countries have seldom given land transit facilities. Pakistan has denied transit facilities to India for sending their goods to Afghanistan.

Everyone expected Bangladesh to grant transit facilities to India for movement of its goods to and from the North-East. That, too, did not happen thanks to the recent fiasco over sharing of Teesta waters between India and Bangladesh. Connectivity between India and Sri Lanka is not efficient either.

The much-hyped Sethu Samundram project has been hit by higher drilling cost, and the idea to bring down ship travel time by linking the Palk Bay and the Gulf of Mannar remains a distant dream. Only Nepal and Bhutan get transit facilities through India while trading with Bangladesh. However, their contribution to total SAARC trade is minimal.

The only ray of hope is the recent development about Pakistan's willingness to grant MFN status to India. Pakistan's trade with India is not free and is based on the 'positive list' of 1946 items.

MFN status implies in addition to these items on the positive list (mostly comprising base metals, chemicals and electronics items), trade will now be extended to other items as well.

There is, however, a glitch. Pakistan's leading newspaper *Dawn* claims that there is still confusion over Pakistan granting MFN status to India. The press note issued by the Commerce Ministry in Pakistan "did not mention that Pakistan had granted MFN status to India".

Just choosing themes without actually checking ground realities might not be helpful. The theme for the last SAARC meeting in Bhutan was the environment. We all know how much of a cleaner environment we have achieved.

Similarly, talking about connectivity without looking at the political feasibility of achieving the same seems pointless.

(The author is Associate Professor at Institute for Financial Management and Research, Chennai. blfeedback@thehindu.co.in)