Facilitating sub-regional trade for sustainable development

Bipul Chatterjee and Susan Mathew deliberate on why South Asia needs to adopt an oceanic circle model vis-à-vis pyramid model for facilitating trade
Introduction
On 22nd April 2016, India’s Ambassador to the WTO Anjali Prasad handed over the instrument of acceptance for the WTO Trade Facilitation Agreement (TFA) to the WTO Director-General Roberto Azevêdo. Agreed at the WTO’s 2013 Bali Ministerial Conference, the TFA would ease the cross-border trade in goods. Among many other potential benefits, the agreement would enable India to expedite movement of goods and establish cooperation between customs and other authorities on customs compliance issues (WTO, 2016).

It took approximately two and half years for India to ratify the agreement. And India was just the 76th member out of 162 member states in the WTO to accept the TFA. The TFA will enter into force only once two-thirds of the WTO membership has formally accepted the agreement.

On the other hand, following the 18th Summit of the South Asian Association for Regional Cooperation (SAARC) held in Kathmandu, Nepal in November 2014, a renewed focus was initiated to promote sub-regional connectivity “through SAARC or outside it, among all of us or some of us.” So, on June 15, 2015, the Bangladesh-Bhutan-India-Nepal Motor Vehicle Agreement (BBIN MVA) was signed in Thimphu, Bhutan by the transport Ministers of the four South Asian countries.

The World Trade Report 2015 contemplates that the WTO TFA has the potential to increase global merchandise exports by up to $1 trillion per annum. On the other hand, the joint statement of the BBIN MVA claimed that transforming transport corridors into economic corridors could potentially boost intra-regional trade within South Asia by almost 60 per cent and with the rest of the world by more than 30 per cent.

Given that devising and reaching a consensus for a multilateral agreement would require almost five times more resources compared to what a sub-regional agreement would entail, this article attempts to deliberate why South
Asia needs to adopt an oceanic circle model vis-à-vis pyramid model for facilitating trade with sub-regional sustainable development as a focus.

The ‘new trade’ theoretical models developed in late 1970s and early 1980s depended heavily on the demand-side economies of scale. A country’s export by default was another country’s imports and if the country’s exports were at a steadily constant rate then the country’s imports would correspond to the returns to scale. It indicated that identical preferences in demand also generate more trade between countries.

The result was the formation of an economy where a few trading countries formed the base for key trade mandates and other countries follow—similar to a pyramid with a base country supporting numerous smaller national economies. So, in case of a crisis, the base country often incurred almost none to minor repercussions while the smaller national economies crumbled or folded with maximum losses.

...countries need to replace ‘bureaucratic diplomacy’ with ‘economic diplomacy’... benefit regional trade for sustainable development
The new era of sub-regional trade and connectivity of regional markets through ‘growth triangles’ challenges such pyramids. A primary reason behind the success of initiatives like BBIN, BIMSTEC, BCIM, BCIN, SASEC and SIJORI is that they do not function as regional trade agreements per se but provide a regulatory circumference to enable policy environments. They are connected in figurative sense as oceanic circles so that a ripple in one part of the regulatory circumference enables the rest of the circles in the ocean to adapt and make space for future policy reforms.

The flow is not transferred; rather it is shared equally among the sub-region. In case of a backflow, the respective country absorbs it as a minor ripple, so the bigger the country, the higher its chances to create positive ripples or absorb the backflows. The reconfiguration of regulations to suit national and local requirements has shown success in the South Asian context. The next question that arises is how to scale up the policy environment to accommodate a sustainable link among the individual countries.

**Insights from BBIN**

The BBIN group of countries have a key factor which can support as well as undermine South Asian trade – land connectivity. The four countries have significant overlapping interests in terms of geography too, since they are part of the Trimurti – Indus, Ganges and Brahmaputra river basins, hence the key livelihood options revolve around agriculture and water. Therefore, the success of seamless trade connectivity among BBIN countries would also contribute to local economic development. The majority of commodities used as raw materials for agriculture and industrial purposes in the BBIN countries are transacted through land and water transport services. Table 1 enumerates the transport services across land, water and air for BBIN countries from 2010-2013. Other than Nepal, which recorded a negative balance of trade in all the relevant transport services, all the other countries in BBIN have recorded a positive balance of trade in some transport services. The data also reveals that all the sections of BPM6 classification showed evidence of transaction across land and water (UN, 2010).
### Table 1. BPM6 Code & Service label of transport services with positive balance of trade in BBIN averaged from 2010-2013

<table>
<thead>
<tr>
<th>Bangladesh</th>
<th>Bhutan</th>
<th>India</th>
<th>Nepal</th>
</tr>
</thead>
<tbody>
<tr>
<td>3a.3-Other transport (other than passenger and freight), All modes (alternative breakdown)</td>
<td>3a.1-Passenger transport, All modes (alternative breakdown)</td>
<td>3a.2-Freight transport, All modes (alternative breakdown)</td>
<td>-None</td>
</tr>
<tr>
<td></td>
<td>3.2-Air transport</td>
<td>3.3-Other modes of transport (other than sea and air)</td>
<td></td>
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<tr>
<td></td>
<td>3.4-Postal and courier services</td>
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</tbody>
</table>

Source: Trade Map, International Trade Centre, Geneva

### Table 2. HS Code & Service label of key products with positive balance of trade in BBIN averaged from 2010-2013

<table>
<thead>
<tr>
<th>Product:10-Cereals</th>
<th>Product:27-Mineral fuels, oils, distillation products, etc.</th>
</tr>
</thead>
<tbody>
<tr>
<td>‘1006-Rice</td>
<td>‘2710-Petroleum oils, not crude</td>
</tr>
<tr>
<td>‘1005-Maize (corn)</td>
<td>‘2707-Oils &amp; other products of the distillation of high temp coal tar etc.</td>
</tr>
<tr>
<td>‘1001-Wheat and meslin</td>
<td>‘2716-Electrical energy</td>
</tr>
<tr>
<td>‘1003-Barley</td>
<td>‘2703-peat (including peat litter), w/n agglomerated</td>
</tr>
<tr>
<td>‘1008-Buckwheat, millet and canary seed</td>
<td>‘2702-Lignite w/n agglomerated, excluding jet</td>
</tr>
</tbody>
</table>

Source: ITC Trade Map, Accessed on 22nd April, 2014
A closer look at the products commercialised by BBIN reveal that cereals have the highest positive balance of trade after textiles and pharmaceuticals and mineral fuels, oils, distillation products, etc. have the highest negative balance of trade. Table 2 shows the product categories within cereals and mineral oils and allied products which have shown positive balance of trade. This indicates that key products like rice and electrical energy show potential in being transacted within the BBIN group of countries.

Figure 1 depicts the balance of trade for three categories in terms of trade deficit and trade surplus for the BBIN nations with respect to the SAARC aggregation. The figure shows that BBIN nations have a positive balance for cereals in the SAARC aggregation with India leading. Transport and the mineral fuels etc. category have a trade gap with maximum negative balance in India followed by Bangladesh. It is interesting to note that Nepal and Bhutan have a low negative balance of trade in all three categories. The results indicate the low transaction for these commodities in the two countries as compared to other SAARC countries. A reflection of the different data discussed above can be seen at the field level, too.

In absolute terms, data shows that India has a 76 per cent export value and Bangladesh has 60 percent import value for cereal seeds (Mathew, 2015). For example, there is a high rate of informal trade in cereals seeds and grains across the Indo-Bangla border which also indirectly contributes towards ensuring food security for these countries (USAID/EAT Project, 2014).

Scaling up of the policy environment
The BBIN MVA was not only a timely intervention given the present political buy-in for sub-regional economic integration, but it also brought renewed focus on the necessity to ease the process of harmonising procedures and regulations among the four South Asian countries (Banerjee, 2015). The MVA solved multiple issues, one of which is that the same vehicle could now go directly to the final destination in both the countries and then carry back con-
Figure 1. Balance of trade for 3 categories of products/services in BBIN averaged from 2010 to 2013
signments when travelling back. This reduced much of the time and cost involved in unloading and reloading of vehicles in the Land Customs Stations (LCSs) and also helped in streamlining the transportation bottlenecks at all the LCSs (CUTS International, 2014).

Interestingly, the success of BBIN MVA has also facilitated a silent progress on a connectivity pact called the BBIN Railway Agreement, since India is expanding railway links with its neighbours through the Northeast part with the help of the Ministry of Development of North Eastern Region (DoNER), North East India.

The land connectivity discussions are bound to spill over to water at some point in the BBIN trade facilitation dialogues. The end result will be a robust emphasis from the BBIN countries to create an inland waterway (IWWs) system as alternate routes for connectivity. These developments should be seen in view of the existing transportation of fly-ash on Indo-Bangladesh Protocol Routes. Pilot movement of fertilisers on the NW-1 by Indian Farmers Fertiliser Cooperative Limited (IFFCO) and TATA Chemicals is an example to depict that irrespective of the cargo contents IWWs can stimulate a considerable amount of economic activity.

The Food Corporation of India (FCI), one of the largest food distributors in the world, has also finalised protocol routes for pilot movement of food grains exclusively to the North-east through national IWWs (CUTS International, 2015). The BBIN group of countries have also agreed to exchange lists of potential future/power projects to be undertaken jointly among at least three countries. This would also support the current bilateral arrangements on flood forecasting for the four countries.

**Conclusions**

In the current context of liberalised free trade policies and increasing the ease of doing business, international regulatory frameworks can be reinforced to converge at sub-regional trade pacts. A remarkable understanding from
the instances described above is that a considerable amount of trade going on among the BBIN group of nations is quite local in origin. The majority of commodities being transacted in the sub-regional trade are categorically locally sourced. Seed grains of cereals, fly-ash, fertilisers and food grains are directly linked to agricultural productivity and related economic activities in the local context.

Therefore, trade corridors along the BBIN will increase the economic dividends at a local level. This is precisely the argument behind the theory of oceanic circles. The local economies will generate the most tradable goods from local levels which can be eventually collated and transacted at the regional level. These goods can be varied ranging from products like handicrafts, local plant varieties to services like successful models of community managed hydel pumps. The trade corridors will expedite connectivity and endure a sustainable movement of ripples extending around in the ocean.

To facilitate the policy environments in such cases, countries need to replace ‘bureaucratic diplomacy’ with ‘economic diplomacy’. It is at this juncture grassroots groups and relevant advocacy voices need to come in and merge with political goodwill and trade connectivity initiatives. The local ripples from local advocacy will also feed into the bigger picture of regional policy integration and benefit regional trade for sustainable development.

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References


1. Comprised of Bangladesh, Bhutan, India and Nepal

2. Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) is comprised of Bangladesh, India, Myanmar, Sri Lanka, Thailand, Bhutan and Nepal.

3. Comprised of Bangladesh, China, India and Myanmar Forum for Regional Cooperation
4. Comprised of Bangladesh, China, India and Nepal
5. South Asia Sub-regional Economic Cooperation (SASEC) is comprised of Bangladesh, Bhutan, India, the Maldives, Nepal and Sri Lanka
6. Comprised of Singapore, Johor (in Malaysia) and a part of Riau Islands Province (in Indonesia)
7. Sanskrit word comprising of the triad cosmic functions of creation, maintenance and destruction
8. The National Waterway 1 or NW1 (From Oct. 1986) is 1620 km long and is the longest waterway in India. It runs across the Ganges, Bhagirathi and Hooghly river systems and passes through Uttar Pradesh, Bihar, Jharkhand and West Bengal.