Enhanced Regional Economic Cooperation through Dealing with NTMs in the BBIN Sub-Region in South Asia: A Political Economy Approach

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List of Acronyms

ADB	Asian Development Bank
BBIN	Bangladesh, Bhutan, India, Nepal
BIS	Bureau of Indian Standards
BSTI	Bangladesh Standards and Testing Institute
CGE	Computable General Equilibrium
COE	Committee of Experts
DRP	Duty Refund Procedure
FDI	Foreign Direct Investment
FOB	Free-on-board
GTAP	Global Trade Analysis Project
ICPs	Integrated Check Posts
IGGT	Intergovernmental Group on Transport
ISFTA	India Sri Lanka Free Trade Agreement
JWG	Joint Working Groups
LBA	Land Boundary Agreement
LCs	Land Custom Stations
LDCs	Least Developed Countries
MoU	Memorandum of Understanding
MRAs	Mutual Recognition Agreements
MVA	Motor Vehicle Agreement
NTBs	Non-Tariff Barriers
NTMs	Non-Tariff Measures
OBOR	One-Belt-One-Road
POs	Procedural Obstacles
RAMV	Regional Agreement on Motor Vehicles
RMG	Readymade Garments
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Area
SAGQ	South Asian Growth Quadrangle
SAPTA	SAARC Preferential Trading Arrangement
SARSO	South Asian Regional Standards Organization
SMEs	Small and Medium Scale Enterprises
SPS	Sanitary and Phytosanitary
TBTs	Technical Barriers to Trade
TPN	Trade Promotion Network
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

Executive Summary

Despite a strong demand for a deeper regional integration in South Asia, progress has been slow. The implementation of agreements often does not match the declared ambitions, and in this context, lack of political will and leadership, institutional weaknesses and low capacity, and resource constraints have been argued to be the major impeding factors. Moreover, the political rivalry between India and Pakistan has often constrained the SAARC to be a functional regional forum. In this regard, a potential effective platform is the Bangladesh-Bhutan-India-Nepal (BBIN) initiative, a sub-regional coordinative architecture of four countries in South Asia. However, deeper integration among BBIN countries has been impeded by non-tariff measures (NTMs), non-tariff barriers (NTBs) and associated procedural obstacles (POs), which are exacerbated further by lack of trade facilitation and cumbersome custom procedures at the land border ports. To address these problems, the dominant literature has looked primarily at the narrow economic factors influencing regional integration. However, to have a better and systematic assessment of the factors driving and constraining regional integration, it is important to explore the political economy dimensions. Against this backdrop, this paper examines the possibilities of enhanced regional economic cooperation through dealing with NTMs in the BBIN sub-region in South Asia using a political economy approach developed by Raihan (2016a). The findings of this paper are as follows:

First, from a political economy perspective, there are three interconnected factors driving deeper regional integration: economic drivers, political economy drivers and extra-regional drivers. The economic drivers include market integration, investment integration, growth integration and policy integration. The political economy drivers are what's known as 'primary institutions', 'secondary institutions', 'regional public goods', 'structural factors', and 'political elites'. Finally, the extra-regional drivers include a wide range of global economic and political factors that can have influence over the region.

Second, the economic needs and drivers for deeper integration in the BBIN sub-region are more prominent compared to the integration of these countries with the rest of South Asia. In particular, deeper integration among the BBIN countries is key for BBIN to become the gateway for further integration with China and Southeast Asia. The political economy drivers also seem to be more favorable. Despite structural barriers such as the political rivalry between India and Pakistan, which has confined the progress of SAARC, and the landlocked locations of Nepal and Bhutan, the BBIN sub-regional initiative has seen great interest from the political elites in these four countries. Finally, the extra-regional drivers for BBIN are favorable as there is growing interest from international organizations such as the Asian Development Bank (ADB) and the World Bank to improve connectivity and infrastructural development in the sub-region.

Third, there are much larger welfare gains from a reduction in transaction costs in bilateral trade compared to mere tariff cuts in South Asia. While tariff rates have largely been reduced, there is no denying that NTMs, NTBs and the associated procedural obstacles and lack of trade facilitation are responsible for the high degree of transaction costs in bilateral trade among South Asian countries. Therefore, reducing these transaction costs through streamlining NTMs or eliminating NTBs would generate larger welfare gains for all the South

Asian countries as bilateral tariff rates have already been reduced over the past one decade or so.

Fourth, the BBIN sub-region, there is potential for a substantial rise in intra-regional trade. However, while India has already provided almost full duty-free, quota-free market access to exports from South Asian least developed countries (LDCs), Bangladesh, Nepal and Bhutan are facing escalating challenges to secure and increase their exports to India. These challenges are related to their limited export capacities, lack of diversification of their export baskets, and various NTMs and POs both at home and in the Indian market.

Fifth, detailed information and appropriate and specific analysis are needed for better understanding of the impacts of NTMs on trade. It is important to emphasize that many NTMs are legitimate and thus cannot be negotiated away. For example, sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBTs) are there to protect consumers and the environment; pricing and licenses are there to regulate domestic markets; anti-dumping duties, subsidies and quotas are there to protect domestic firms; and rules of origin is there to avoid unintended trade deflections.

Sixth, due to various procedural obstacles, which are related to complicated bureaucratic process, delays, corruption, and frequent changes in policies, many legitimate NTMs turn into NTBs. In South Asia, a significant portion of NTBs are related to procedural obstacles. Policy effort is critical to ensure that NTMs serve their intended legitimate purposes.

Seventh, the policy makers in their respective countries in South Asia, while negotiating for streamlining NTMs and reducing NTBs at the regional level, need very clear analysis, information and updated data on NTMs/NTBs for all South Asian countries. These analyses need to be relevant with concrete examples so that effective measurable actions can be undertaken. Analysis should emphasize the respective roles and responsibilities for both home and partner countries in solving specific problems.

Eighth, streamlining of NTMs and removal of associated POs are likely to intensify further market integration in the BBIN sub-region through development of regional value chains. This will also encourage larger intra- and extra-regional investments in the BBIN sub-region which can be instrumental for growth integration among these countries. For this to occur, there is a need for policy integration among the BBIN countries.

Ninth, domestic capacities of the exporters in Bangladesh, Bhutan and Nepal need to be improved to meet different international standard requirements. Unless and until these exporters develop their capacities, they will not be able to diversify exports and become competitive in the regional and international markets. Further, a number of supply side factors at home can actually undermine exporters' competitiveness and constrain economic and export diversification. These factors are directly associated with the domestic production and investment environment. They include access to finance, weak physical infrastructure, inefficient ports and high transport costs, shortage of skilled workers, technological bottlenecks, lack of entrepreneurship and management skills, lack of information, and high costs of doing business.

Tenth, there are some signs of heightened 'new' commitments among political elites in the BBIN countries. The recent speedy resolution of the Land Boundary Agreement (LBA) between Bangladesh and India, the positive reception of the India-Bangladesh Maritime Arbitration Award announced in July 2014, the establishment of Border *Haats* (local markets) along the border between India and Bangladesh, and the BBIN Motor Vehicle Agreement are signs of such political commitments. However, the aforementioned 'new' commitments have not yet translated into concrete actions to resolve the issues related to NTMs and POs discussed above. There is a need to put renewed emphasis on this.

Eleventh, an example of recent successful initiatives to solve the trade infrastructure problems at the borders is the creation of Integrated Check Posts (ICPs) at major entry points by the Government of India, to overcome the existing problems of inadequate infrastructure and lack of support facilities and to cater to the growing demands of traders on both sides of the border between India and Bangladesh. Such ICPs need to also be established at the borders between India and Nepal, and India and Bhutan.

Twelfth, there is a need for cooperation among different primary institutions in the BBIN countries to deal with NTMs and POs. There are already some initiatives for such cooperation. For example, Bangladesh Standards and Testing Institute (BSTI) and the Bureau of Indian Standards (BIS), the two organizations controlling the standards of products and services in the two countries, have signed an agreement to add an impetus to trade between the two neighbors. However, cooperation is still needed in a number of areas. (i) There is a need to review and analyze the core NTMs, e.g., SPS, TBT, Port Entry Restrictions, and Para-Tariffs for their trade restricting effects, and undertake appropriate steps to address them at the sub-regional level. (ii) The respective governments should be encouraged to review the detailed country-specific list of products that have export capacity but no or limited intra-regional trade, and find out the possible reasons for this, in order to devise strategies for trade promotion and development, and to remove trade barriers. (iii) There is a need for harmonization of TBT and SPS measures. The relevant NTMs, if harmonized, will pave way for accepting certificates issued by the competent authority of the exporting SAARC country, allowing entry of goods instead of conducting inspection at border points or at facilities situated farther into the interior. Also, the relevant regulations need to be harmonized. (iv) To do away with the trade-impeding effects of NTMs/NTBs, Mutual Recognition Agreements (MRAs) among respective organizations of the South Asian countries are needed for specific products or industrial sectors. (v) In absence of formal MRAs, non-acceptability of conformity assessment certificates of any particular product, if and when this issue arises, should be resolved by mutual cooperation programs without restricting trade. There is a need to allocate adequate human and financial resources to the SAARC Standards Organization. (iv) The accreditation bodies or agencies of partner countries may set up accreditation centers in collaboration with a designated National Agency to facilitate mutual cooperation, with necessary capacity-building and technical and financial assistance given by multi-lateral or bilateral development partners. (vii) Structured programs should be initiated, or endorsed by the SAARC Secretariat (in case of third party initiatives) to increase the interactions between the business community and key government officials in each SAARC country on a regular basis, to exchange views in order to reduce/eliminate POs and duplication of documents. (viii) Each SAARC country should expedite and prioritize the introduction of increased automation of their customs clearance procedure. The resources for customs automation may be mobilized with support from multi-lateral development agencies under various Aid for Trade schemes. Finally, the South Asian Regional Standards Organization (SARSO), a common certification panel for the member-countries of SAARC—which aims to develop harmonized standards for the region to facilitate inter-regional trade—needs to be strengthened.

Thirteen, there is need to pursue a policy advocacy strategy to deal with NTMs in South Asia. The policy advocacy group should be formed in the South Asian countries with representatives from the major stakeholders. It should be kept in mind that policymakers need to receive very clear analyses, information and updated data on NTMs in their country and the region as a whole. These need to be relevant along with concrete examples for which effective measurable actions can be undertaken. Any vague analysis or recommendations should be avoided, which might make the advocacy ineffective. Analysis should address how much of the magnitude of any NTM has to be solved by the partner country and how much of it is actually related to exporters' lack of capacity to meet the required standards. The advocacy group should also follow up with policymakers through regular formal and informal interactions. Formal interactions could be in the form of workshops, presentations, etc. while informal interactions could be done through personal engagements. The policymakers should be briefed regularly on relevant matters with clear analyses such as the simplified and summarized versions of lengthy technical papers.

Finally, deeper regional integration in South Asia requires clear and visible leadership from the political elites in the region, especially from India, to move the agenda forward. The political elites have to be convinced and act accordingly to reduce the 'trust deficit'. Regional institutions, such as the SAARC Secretariat, have to be institutionally reformed and reoriented with much stronger engagements from the respective ministries and relevant organizations of the member countries. Business associations, civil society organizations and the media must pursue the regional integration agenda in South Asia more pro-actively than ever.

I. Introduction

The aspiration for a deeper regional integration is high on the political agenda of most of the leaders in South Asia. Since the early 1980s, the South Asian Association for Regional Cooperation (SAARC) has been working as an economic and geopolitical organization for South Asian countries with the aim of deeper regional integration and cooperation on economic, trade and other common regional issues. So far, there have been some achievements. Yet frustration prevails, as actual implementation of agreements often does not match the declared ambitions. The resulting implementation gap is most commonly attributed to the lack of political will and leadership, institutional weaknesses and low capacity and resource constraints. Also, given the obstinate nature of problems between India and Pakistan, SAARC as a regional forum has not been very functional in building consensus among its member states.

In order to take forward the regional integration process in South Asia, a good and effective initiative is the Bangladesh-Bhutan-India-Nepal (BBIN) initiative, a sub-regional coordinative architecture of countries in South Asia. In light of economic interdependence through "growth triangles" across Asia, and hitherto unaddressed concerns of eastern subcontinent nations, the Council of Ministers in May 1996 approved a sub-regional body of Bhutan, Nepal, northeast India and Bangladesh, forming the South Asian Growth Quadrangle (SAGQ). BBIN operates through Joint Working Groups (JWG) comprised of official representation from each member state to formulate, implement and review quadrilateral agreements. Areas of cooperation include water resources management, connectivity of power grids, multi-modal transport, freight and trade infrastructure. Focusing on the subcontinent's northeast, it endeavors to cooperate on trade, investment, communication, tourism, energy and natural resource development. Its objectives were expanded over the years to incorporate substantial land and port connectivity. Although such initiatives further augment trade ties and commerce, the importance accorded this architecture over others, in a region deemed one of the least integrated in the world, is considered to have significant political and strategic undertones.

In addition to the present state of weak connectivity, several other economic and technical factors have impeded integration in the BBIN sub-region. Apart from tariffs, non-tariff measures (NTMs) and their associated procedural obstacles (POs) to trade—such as standards, licensing, export subsidies, prohibitions, quotas and cumbersome custom procedures—act as obstacles to intra-regional trade. Inadequate infrastructure and lack of border trade facilities on the ground are other major obstructions that affect all countries in the region (Raihan, 2015a).

It should be mentioned here that the dominant literature has looked primarily at the narrow economic factors influencing regional integration. However, to have a better and more systematic assessment of the factors driving and constraining regional integration, it is important to explore the political economy dimensions. While policymakers and stakeholders are often aware of such political economy dimensions, they are generally discussed only informally or in an ad hoc manner. A systematic discussion of the political economy factors around the regional integration agenda can generate a broader awareness among stakeholders that may ultimately lead to more realistic and effective regional policy design and processes.

Against this backdrop, this paper explores the possibilities of enhanced regional economic cooperation through dealing with NTMs in the BBIN sub-region in South Asia using a political economy approach developed by Raihan (2016a). The outline of the paper is as follows: Section II presents the analytical framework of political economy analysis of regional integration; Section III provides an overview of regional integration in South Asia; Section IV emphasizes NTMs and POs as appearing as major concerns in regional trade in South Asia; Section V presents an analysis of prevailing NTMs and POs in the BBIN sub-region; Section VI analyses how to deal with NTMs in the BBIN sub-region with the political economy perspective; and finally Section VII is a conclusion.

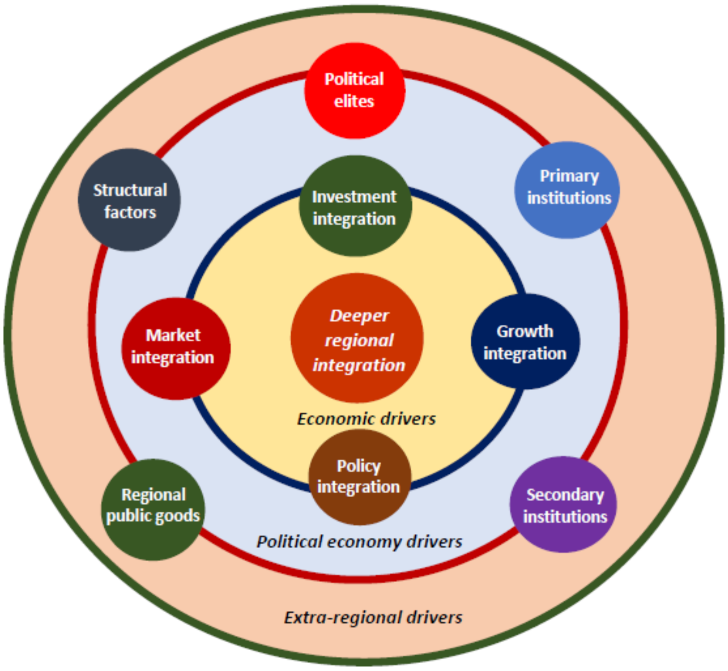
II. A Framework of Political Economy Analysis of Regional Integration

Raihan (2016a) argues that from a political economy perspective, there could be three interconnected sets of factors driving deeper regional integration: economic drivers, political economy drivers and extra-regional drivers (Figure 1). The *economic drivers* include four integration processes: market integration, investment integration, growth integration and policy integration. Market integration emphasizes the integration of trade in goods and services through the removal of tariff and non-tariff restrictions. Growth integration is the integration of economic growth processes of the respective countries in a way that growth in one country benefits growth processes in other member countries. Investment integration calls for promotion of regional investment and trade nexus. Finally, policy integration is the harmonization of economic and trade policies of the countries for a deeper regional integration.

However, these four integration processes need favorable *political economy drivers*. The political economy perspective considers how various players influence the national and regional decision-making context, and what impact their actions (or lack of action) have on the integration agenda. The first political economy driver is the 'primary institution,' the official institutions at the regional level and in respective countries entrusted to carry out the agenda of regional integration. In South Asia, the SAARC Secretariat and relevant ministries in the member countries are some examples. The second political economy driver is the 'secondary institution,' which includes the private sector, private sector associations, civil society organizations and media. Primary and secondary institutions are a combination of market and non-market actors that govern economic and political environments in the region. The third political economy driver is the 'regional public good,' which includes regional infrastructure and the status of regional trade facilitation. In South Asia, the status of these regional public goods is very weak. 'Structural factors' is the fourth political economy driver which includes historical processes and geographic factors that shape the types of political, economic and socio-cultural institutions. In South Asia, the landlocked nature of Nepal, Bhutan and Afghanistan, the political rivalry between India and Pakistan, and huge differences in the sizes of the countries (for example, India accounts for around 80 percent of the regional GDP as well as population), and trade among the South Asian countries primarily through land borders are such structural factors. The final and most critical political economy driver is the role of the 'political elite.' Strong and visionary leadership is needed from the political elites to eliminate any 'trust deficit,' which can emerge as a result of a variety of the 'structural factors' mentioned above. In South Asia, a trust deficit is often highlighted as one of the major barriers for deeper regional integration. There are concerns from the smaller countries in South Asia with regard to their growing bilateral trade deficits with India. These concerns have led countries, especially Bangladesh and Nepal, to maintain long sensitive lists of products outside of the free trade under the South Asian Free Trade Area (SAFTA) amid the fear of potential accelerated imports from India. Also, there are also apprehensions with regard to hesitant and inconsistent leadership from the political elites of these countries, especially from India, in taking the regional integration agenda to a higher level.

Finally, the *extra-regional drivers* include a wide range of global economic and political factors that can have influence over the region. In South Asia, countries are at different levels and with different patterns of integration with the extra-regional drivers.

Figure 1: A framework of political economy analysis of regional integration



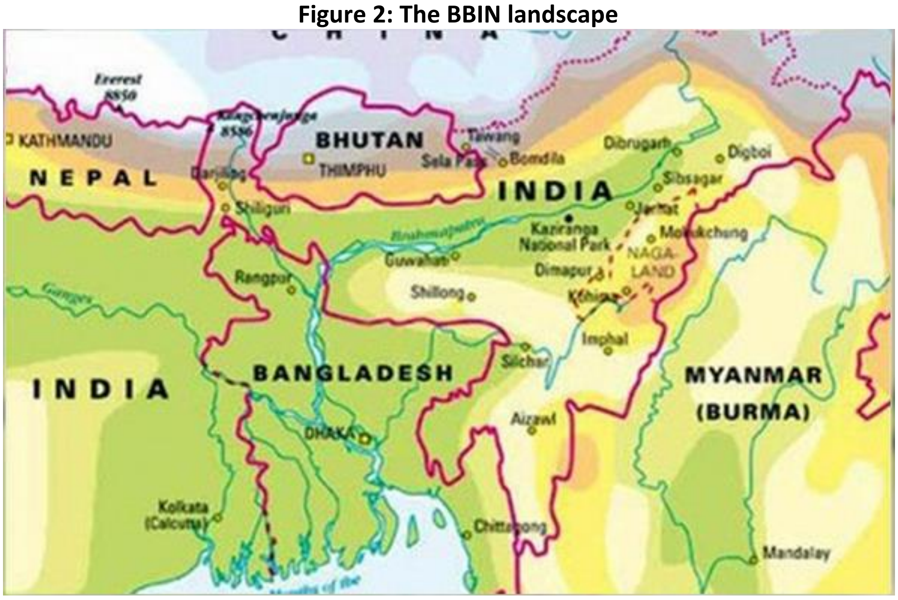
Source: Raihan (2016a)

There is now convincing evidence that a deeper regional integration is needed for generating and sustaining economic growth and reducing poverty in South Asia. Intra-regional trade in South Asia has been low, but there are signs of its huge potential. For a deeper market integration in goods, full implementation of SAFTA is needed with emphasis on further liberalization of intra-SAARC tariffs, reduction in the sensitive list, and establishing effective mechanisms to deal with NTMs.

Intra-regional services trade and intra-regional investments are also low in South Asia. Regional and sub-regional efforts have to be promoted for different trade and transport facilitation measures, for cooperation in energy generation and transmission, and for linking energy cooperation and trade and transport facilitation to investment and growth processes of these countries. Promotion of intra-regional investments and attracting extra-regional foreign direct investment (FDI) in goods and services sectors in general, and energy and infrastructure sectors in particular will be very crucial for South Asia to integrate further. There is a continued need for greater integration in trade, macroeconomic, financial and industrial policies in the region.

The aforementioned political economy framework can also be applied to understanding sub-regional integration through BBIN in South Asia and to deal with NTMs. Figure 2 presents the landscape of BBIN. The economic needs and drivers for a deeper integration in the BBIN sub-region are more prominent compared to the integration of these countries with the rest of South Asia. In particular, deeper integration among the BBIN countries is very important to place BBIN as the gateway for further integration with China and Southeast Asian countries. The political economy drivers also seem to be more favorable. Even within the context of some negative structural factors, including the political rivalry between India and Pakistan which has confined the progress of SAARC, and the landlocked nature of Nepal and Bhutan, the BBIN sub-regional initiative has seen great interest from the political elites from these four countries, and especially from India. It is interesting to observe that Bangladesh is at the center of the BBIN. Therefore, the role of political elites in Bangladesh is very important in making the BBIN functional. Finally, the extra-regional drivers for BBIN are also favorable as there is growing interest from international organizations such as the Asian Development Bank (ADB) and the World Bank to improve connectivity and infrastructure development in this sub-region.

Figure 2: The BBIN landscape



Source: http://www.aidiaasia.org

The progress on dealing with NTMs in the BBIN sub-region can also be linked to the political economy framework mentioned above. Addressing the NTM issues and removing many of the POs associated with the NTMs can increase market integration, lead to investment integration and facilitate growth integration. This will also require policy integration in terms of harmonization of standards and procedures. Therefore, the economic benefits of properly dealing with NTMs in the BBIN sub-region are enormous. The political economy drivers are also very important as many of the POs in the BBIN sub-region emerged from the prevailing structural factors such as the landlocked nature of

Bhutan and Nepal and the use of only land ports for bilateral trade. Also, the status of regional public goods in the form of border trade infrastructural facilities is poor, leading to cumbersome POs. However, there is a growing and relatively stronger political will among the BBIN political elites for deeper integration, which can act favorably for dealing with NTMs and removing POs. There are signs of enhanced cooperation among the primary institutions (e.g. the standard institutions between India and Bangladesh and between India and Nepal are collaborating with each other) and also the secondary institutions. Private sector associations are especially vocal about these NTMs and POs.

III. Overview of Regional Integration in South Asia

3.1. Intra-regional trade in South Asia: Prominence of bilateral trade with India

Intra-regional trade in South Asia remains low. In 2006, at the time of the onset of SAFTA, intra-regional trade was only 4.7 percent. By 2014, it increased slightly to 5.5 percent (Table 1). However, if we look at the individual country's share in regional trade, the picture shows some progress. Both in the cases of the share of regional import in country's total import and share of regional export in country's total export, most of the South Asian countries have much larger figures than the 5 percent mark. Most of the countries also experienced larger orientation towards regional trade between 2006 and 2014. Among the BBIN countries, Bhutan and Nepal had very high regional trade shares in 2006 and their shares increased further in 2014. Though Bangladesh experienced a rise in the share of regional imports as a portion of its total imports, its regional export share declined during this period. The major concern is that, India, despite being the largest export market in South Asia, had already had a very low share of regional imports in 2006, and by 2014 that share declined further.

Table 1: Intra-regional trade in South Asia

Countries	**Regional import as % of country's total import**		**Regional export as % of country's total export**	
	2006	**2014**	**2006**	**2014**
Afghanistan	42.4	33.4	29.7	60.6
Bangladesh	13.1	15.8	2.5	1.9
Bhutan	70.0	72.6	28.5	74.1
India	0.8	0.6	5.2	5.8
Maldives	12.9	13.8	19.6	6.9
Nepal	37.5	52.2	38.9	62.2
Pakistan	4.4	4.2	9.4	12.8
Sri Lanka	20.3	20.8	9.3	7.9
Total region	3.9	4.5	5.9	7.0
Intra-regional trade	**2006 = 4.7%**		**2014 = 5.5%**	

Source: Author's calculation from the ITC Trade MAP data

Table 2 presents a decomposition analysis of the rise in intra-regional trade during this period. Between 2006 and 2014, the incremental intra-regional export (=import)[3] was US$15.39 billion, while incremental intra-regional trade totaled US$30.78 billion and incremental total trade was US$594.58 billion. In the case of incremental exports,

[3] At the regional level, the regional exports equal to regional imports.

Afghanistan, Bhutan and Nepal experienced large orientation towards the region, whereas Bangladesh had a very low share (only 1.4 percent). Sri Lanka also had a low share, while for Pakistan its share was reasonably high. The Maldives, in contrast to the other countries, was the only country to become less oriented towards the region. Meanwhile, India had a considerable share of its incremental total exports directed towards the region, yet it had a very low share of its incremental total imports being sourced from the region (only 0.4 percent). Pakistan also had only 4 percent share of incremental intra-regional import as a percentage of its incremental total import. However, for other South Asian countries such shares were considerably high.

Table 2: Decomposing the rise in intra-regional trade between 2006 and 2014

Countries	**Country's incremental intra-regional export as % of its incremental total export**	**Country's incremental intra-regional import as % of its incremental total import**	**Country's incremental intra-regional trade as % of its incremental total trade**
Afghanistan	113.4	28.7	32.4
Bangladesh	1.4	17.2	11.2
Bhutan	207.8	74.4	99.1
India	6.2	0.4	2.8
Maldives	-23.7	14.8	12.2
Nepal	300.9	58.3	61.6
Pakistan	18.5	4.0	7.8
Sri Lanka	5.8	21.2	16.9
Total	7.8	4.9	6.0

Source: Author's calculation from the ITC Trade MAP data

Table 3 shows that between 2006 and 2014, India had 79.3 percent share in the incremental intra-regional SAARC export and only 7.9 percent share in the incremental intra-regional SAARC import. Among the other BBIN countries, Bangladesh, Bhutan and Nepal had incremental intra-regional SAARC export shares of less than 2 percent. However, Bangladesh had the largest share in incremental intra-regional SAARC import (33.5 percent) followed by Nepal (22.7 percent).

Table 3: Contribution of individual country in incremental intra-regional SAARC trade between 2006 and 2014

Contribution from	**% share in incremental intra-regional SAARC export**	**% share in incremental intra-regional SAARC import**	**% share in incremental total intra-regional SAARC trade**
Afghanistan	1.8	9.8	5.8
Bangladesh	1.7	33.5	17.6
Bhutan	1.9	3.0	2.5
India	79.3	7.9	43.6
Maldives	-0.1	0.7	0.3
Nepal	1.6	22.7	12.2
Pakistan	12.2	7.6	9.9
Sri Lanka	1.6	14.8	8.2
Total	**100.0**	**100.0**	**100.0**

Source: Author's calculation from the ITC Trade MAP data

The largest export market in South Asia is the Indian market, the size of which is around US$460 billion as per India's total import figure in 2014 (Table 4). The other three major markets are Pakistan, Bangladesh and Sri Lanka. However, Bhutan has a small market size of US$1 billion, whereas for Nepal the size is around US$8.5 billion. In the context of the BBIN sub-region, it should be kept in mind that, though the other three smaller countries, namely Bangladesh, Bhutan and Nepal, primarily aim to increase their exports to the Indian market, there are sizeable scopes for increasing bilateral trade even among these smaller countries.

Table 4: Market size of the South Asian countries

Country	Size of the total import as a proxy of the market size (billion US$) in 2014
Afghanistan	8
Bangladesh	46
Bhutan	1
India	458
Maldives	1.7
Nepal	8.5
Pakistan	59
Sri Lanka	21

Source: Author's calculation from the ITC Trade MAP data

Table 5 shows that Afghanistan, Bhutan and Nepal already have high proportions of their exports destined for India. It should be mentioned that Afghanistan, Nepal and Bhutan have very limited export size, though there is scope for further expansion and diversification of their export baskets. Also, for these three countries, there are growing challenges even to maintain their current level of exports to India in the wake of the rising NTM issues in India. In contrast, with much larger export capacities, Bangladesh, Pakistan, and Sri Lanka have exploited very small fractions of their export capacities while exporting to Indian market.

Table 5: India's market is the major attraction of export for other South Asian countries

Country	India's import from this country in 2014 (million US$)	Export capacity of this country in 2014 (million US$)[a]	Export of this country to India as % of total export capacity in 2014
Afghanistan	220	659	33.4
Bangladesh	462	30,199	1.5
Bhutan	383	555	69
Maldives	4	192	2.1
Nepal	547	920	59.5
Pakistan	481	27,052	1.8
Sri Lanka	610	10,923	5.6
Total from South Asia	2,708	70,500	3.84
Total from Rest of the world	457, 804		

Note: [a] denotes to the total export of the country to the world
Source: Author's calculation from the ITC Trade MAP data

India is the predominant source of imports for Bhutan and Nepal (Table 6). Also, India is the major source of imports for Sri Lanka and Bangladesh. However, for Pakistan, imports shares from India are small. The composition of such imports is also important. While for Bhutan and Nepal, imports from India have been predominantly final goods, for Bangladesh, large parts have been raw materials and capital machineries which are used in its export-oriented industries.

Table 6: India is the major source of import for most of the South Asian countries (in 2014)

Country	Total import (million US$)	Import from India (million US$)	Import from India as % of total import
Afghanistan	7,991	443	5.5
Bangladesh	45,610	6,580	14.5
Bhutan	1,040	749	72
Maldives	1,700	140	8.2
Nepal	8,486	4,405	52
Pakistan	58,945	2,182	3.7
Sri Lanka	20,538	3,978	19.4

Source: Author's calculation from the ITC Trade MAP data

The aforementioned analyses suggest that as far as intra-BBIN trade is concerned, there is substantial potential for a rise in intra-regional trade. However, despite the fact that India has already provided almost full duty-free, quota-free market access to exports from South Asian LDCs[4], Bangladesh, Nepal and Bhutan are facing escalated challenges to at least secure and then to increase their exports to Indian market. These challenges are related to their limited export capacities, lack of diversification of their export baskets, and various NTMs and POs both at home and in the Indian market.

3.2. Bilateral trade agreements with India is more attractive in South Asia

Raihan (2008) and Raihan and Ferdous (2016) observed that the bilateral trade agreements in South Asia, especially the bilateral FTAs, are more attractive than SAFTA which makes SAFTA ineffective. Most of these bilateral trade agreements are between India and any of other South Asian countries.

The India-Sri Lanka free trade agreement (ISFTA) was signed in December 1998 and the agreement came into force in March 2000. The agreement was fully implemented by October 2008 (India in March 2003 and Sri Lanka in October 2008). According to this agreement, both countries agreed on preferential arrangement of over 5,000 traded products (Kelegama, 2014). These products are classified in three board categories: a negative list (no concession; 429 for India and 1180 for Sri Lanka), positive list (immediate full concession) and a residual list (phased tariff reduction) (Sri Lanka Export Development Board, 2014). One important aspect of this FTA is that Indian investment in Sri Lanka significantly rose throughout the years and India is now its second largest investor.

The India-Bhutan Trade and Transit Agreement was first signed in 1972 and renewed in July 2006 for a period of 10 years (ADB, 2012). Among other things, it provides for free trade and commerce between the two countries. Bhutan can impose non-tariff restrictions on imports of certain goods of Indian origin for protection of its industries. Both countries can impose non-tariff restrictions on entry into their respective territory of the goods of third country origin. All exports and imports of Bhutan to and from countries other than India will be free from trade restrictions and custom duties of the Government of India. India also provides 16 entry/exit points for Bhutan's trade with it and other countries. All trade-related transactions are conducted by the two countries in their national currencies.

[4] India's duty free scheme for LDCs came into effect on 13 August 2008. The scheme was revised in 2014 and import duties are being removed for 98.2 per cent of all tariff lines.

Nepal and India signed a Treaty on Trade and Agreement for Cooperation to control unauthorized trade in 1991. The treaty was renewed in 1996, 2002 and 2007 for a period of five years each time. The latest revised treaty of trade between India and Nepal was signed in 2009. All treaties were to facilitate trade and economic cooperation between the two countries. The main features of the 1991 treaty included: measures to promote, facilitate and diversify trade; free and unhampered flow of goods; exemption from custom duty and quantitative restrictions on primary product; and payment of traded goods according to their respective foreign rules and regulation. The renewed 2009 treaty agreed to calculate value addition on a free-on-board (FOB) basis for preferential access of Nepalese manufactured products to India, undertake measures to reduce or eliminate non-tariff, para-tariff and other barriers to bilateral trade, address the problem of lack of mutual recognition of standards and testing, facilitate cross-border trade flow through simplification, standardization and harmonization of customs, transport and other trade related procedure, and development of border infrastructure, and end the Duty Refund Procedure (DRP)—a process of refunding excise duty levied in India for the Indian manufactured goods being exported to Nepal—and allowing Nepal to collect excise duty at customs point itself (ADB, 2012).

Bangladesh and India signed a series of new agreements in January 2010 to address some of the barriers to bilateral trade through new trade and transit provisions. India has extended duty-free access beyond its South Asian FTA commitments, broadening the scope of goods to benefit from duty-free access to India, with the aim of narrowing the large trade gap. India agreed on transit rights for goods from India's northeastern state of Tripura to Chittagong, including a new rail link. The new links will benefit both countries by reducing transport costs for Indian exporters in the border regions and by gaining greater revenues for Bangladesh from transit and port fees. India also agreed to a long-pending request from Bangladesh to allow rail transit from Bangladesh to Nepal and Bhutan, thereby benefiting all three of India's regional trade partners as India expands its demand for underused port facilities and services, and as Bangladesh's, Bhutan's, and Nepal's landlocked regions gain greater market access for their exports.

IV. NTMs and POs are appearing as Major Concerns in Regional Trade in South Asia

This section presents an analysis of the significance of major NTMs and POs which appear to inhibit potentials of enhancing intra-regional trade in South Asia. The analysis in this section clearly differentiate between the NTMs and NTBs, presents a review of existing literature on NTMs and NTBs in South Asia, and explores the welfare gains from reduction in transaction cost in bilateral trade in South Asia.

4.1. Demystifying and addressing NTBs in South Asia[5]

In the initial years of formation of SAARC in the 1980s, the popular hypothesis for the reason behind limited intra-regional trade was the prevailing high tariff rate among the member

[5] This sub-section is benefitted from Raihan (2015b)

countries. High tariff rates have come down substantially over the years since the formation of SAARC due to increased globalization of trade, the establishment of WTO regime, and SAFTA. Despite significant reduction in tariff rates in the region, the intra-SAARC trade has been quite static as before. Now the popular hypothesis is that it is not the high tariff rates, but the NTMs and the resulting trade barriers, or NTBs, that are the main reasons behind limited intra-regional trade in South Asia. This view is reflected in many contemporary studies and documents.

NTMs are generally defined as policy measures other than ordinary customs tariffs that can potentially have an economic effect on international trade in goods, changing quantities traded or prices or both (UNCTAD, 2013). NTBs are policy measures that affect the quantity of goods traded and/or prices and are also proven to have discriminatory effects against foreign firms (Nicita and Peters, 2013).

The UNCTAD classification of NTMs comprises technical and non-technical measures, such as sanitary or environmental protection measures, technical barriers to trade (TBTs) and other traditional instruments of commercial policy, e.g. quotas, price control, exports restrictions, or contingent trade protective measures, as well as other behind-the-border measures, such as competition, trade-related investment measures, government procurement or distribution restrictions. This classification acknowledges the existence of measures and does not judge on legitimacy, adequacy, necessity or discrimination of any form of policy intervention used in international trade (UNCTAD, 2013).

Detailed information and appropriate and specific analysis are required for better understanding of the impacts of NTMs on trade. It is important to emphasize that many NTMs are legitimate and thus cannot be negotiated away. For example, sanitary and phytosanitary (SPS) measures and TBT are there to protect consumers and environment; pricing and licenses are there to regulate domestic markets; anti-dumping duties, subsidies, quotas are there to protect domestic firms; and rules of origin is there to avoid unintended trade deflections.

Regardless of whether NTMs are imposed with protectionist intent or to address legitimate market failures, NTMs often impose additional costs on trading, and thus may have substantial effects on trade (Nicita and Peters, 2013). These costs may be higher for some countries or firms than for others. For example, compliance costs are often fixed costs putting small firms in a disadvantageous position. Most of the small and medium sized firms in South Asia face this challenge, especially with respect to meeting SPS and TBT standards. Therefore, there is a need to develop the capacities of these firms so that they can meet the justified SPS and TBT standards in other countries. In this regard, technical assistance in their production and export processes is required, and different aid for trade and similar initiatives should be put in place on a priority basis. Also, there is a need to strengthen the capacities of the National Standards Authorities so that certificates issues by them are accepted in other countries. Further, there is a need for harmonization of standards, custom procedures and establishing mutual recognition principle in South Asia through regionally coordinated efforts.

Cost of complying is often dependent on infrastructure. Since intra-regional trade in South Asia occurs primarily through the land borders, a large part of NTM-related complaints in South Asia are due to weak infrastructure at the land custom stations as well as lack of testing and laboratory facilities nearby. Because of this, many of the legitimate NTMs turn into NTBs affecting intra-regional trade. Therefore, improvements in relevant infrastructure should be a high priority.

Due to various procedural obstacles, related to complicated bureaucratic process, delays, corruption, and frequent changes in the policies, many legitimate NTMs turn into NTBs. In South Asia, a significant portion of NTBs is related to procedural obstacles. Therefore, policy effort is critical to ensure that NTMs serve their intended legitimate purposes.

While negotiating for streamlining NTMs and reducing NTBs at the regional level, policymakers in their respective countries need very clear analysis, information and updated data on NTMs/NTBs for all South Asian countries. These data and analyses need to be relevant with concrete examples so that effective measurable actions can be undertaken. Analysis should emphasize the respective roles and responsibilities for both home and partner countries in solving the problems.

4.2. Current Literature on Trade-Distorting Effects of NTMs/NTBs in South Asia

A study on the bilateral trade between India and Pakistan by Taneja (2007) showed that there was a large untapped trade potential between the two countries. However, there were major concerns of NTBs regarding the bilateral trade between these countries. The study mentioned that there were complaints made by the trade representatives and the government in Pakistan about India's imposition of several NTBs on Pakistani imports, whereas Indian academia, policymakers and trade representatives argued that the positive list approach by Pakistan on Indian imports restricted market access of Indian goods into Pakistan. The broad categories within which barriers were identified included the positive list approach, TBTs and SPS measures, trade facilitation and customs procedures, financial measures, para-tariff measures and visas.

Hussain (2009) argued that NTBs, even in the absence of formal tariffs, could be a major constraint to trade liberalization in South Asia. He iterated that the Group of Eminent Persons report had proposed the elimination of NTBs within seven years of the signing of SAFTA, yet NTBs were quite high in South Asia and the SAFTA Agreement had not adequately addressed this issue. The Agreement merely stipulated that member countries would 'inform' the SAARC Secretariat of all non-tariff and para-tariff measures, which would be reviewed by the SAARC Committee of Experts (COE), and recommendations made to reduce such trade restrictions would be taken into consideration. There was no binding commitment for countries within the terms of SAFTA to eliminate NTBs.

The ADB-FICCI (2010) study also highlighted that though SAARC made steady progress toward liberalizing its trade regime through progressively lowering tariff rates over time, the decline in tariffs as a result of regional, bilateral, and unilateral liberalization shifted the focus to NTBs as alarming measures of protection and regulatory policy instruments. The study pointed out that as tariff and quantitative restrictions on trade had been progressively reduced, other trade costs arising from regulatory burden, inadequate infrastructure, and generally inefficient customs procedures and logistics of moving goods across borders had become much more significant. The study suggested that inadequate infrastructure and cumbersome regulatory environment would cost trade substantially higher than those from tariff barriers.

Rahman (2010) highlighted that whilst SAFTA has made some headway in moving towards duty-free access for tradable goods, NTB issues have tended to remain relatively less-addressed within the context of the SAARC. The study emphasized that if regional cooperation had to be deepened through vertical integration and promoting cross-border supply-chains, NTBs in South Asia would need to be addressed adequately with due importance, as NTBs pose major challenges to strengthening regional economic and trade cooperation in South Asia.

Raihan (2014), in a study on economic corridors in South Asia, showed that there would be significant prospects of the rise in intra-regional trade among the four eastern South Asian countries, namely Bangladesh, Bhutan, India and Nepal. The paper argued that the gains from reduction in trade transaction costs would be much bigger than the gains from tariff liberalization. The study emphasized the importance of removal of such NTBs to generate significant rise in trade among these countries.

De, Raihan and Kathuria (2012), in their study on India-Bangladesh bilateral trade, identified a number of NTBs in both countries and highlighted that a bilateral free trade agreement between India and Bangladesh would increase their bilateral trade significantly if transaction costs were also reduced by reducing NTBs. The study mentioned that the presence of NTMs/NTBs in both countries restricts the realization of much of the bilateral trade potential.

Raihan and De (2013) and De, Raihan and Ghani (2013), while analyzing India and Pakistan bilateral trade, identified several NTBs restricting the potentials of the rise in bilateral trade between these two countries. These studies suggested that in addition to rationalizing import duties, these two countries should eliminate quantitative restrictions, regulatory duties, and other para-tariffs, and several other measures that had been restricting trade in the past. Despite the fall in average tariffs, trade restrictiveness of both India and Pakistan had been heavily triggered by the large volume of NTBs. In promoting trade between India and Pakistan, the major stumbling block had been the presence of such NTBs. Deeper cooperation between India and Pakistan could potentially result in significant reductions of these barriers.

De (2016) conducted a survey-based study of firms in Bangladesh, India and Nepal, and considered eight products in total: agro-processed food, jute bag, readymade garments (RMG), pharmaceutical raw materials, cardamom, medicinal and aromatic plants, tea, and pharmaceuticals. Bangladesh exports three of these products to India—agro-processed food, jute bags, and RMG—while Nepal also exports cardamom, medicinal and aromatic plants, and tea to India. Meanwhile, India has only one product that’s exported to Bangladesh (pharmaceutical raw materials) and Nepal (pharmaceuticals). The study considered only SPS and TBT. The study computed an Aggregate NTM Restrictiveness (ANR) index, to come up with a number of observations. First, with respect to the perception of firms, Nepal with appeared as the most restrictive country in pharmaceuticals. India came next to Nepal in agro-processed food. Bangladesh occupied the third rank in restrictiveness in case of pharmaceutical raw materials. For the remaining five products, India was the most restrictive among the three countries. Second, among the products, import of pharmaceuticals was most restrictive in both Bangladesh and Nepal, whereas import of tea in India was least restrictive in the perception of firms. Third, in case of export, exporters of tea, cardamom and medicinal and aromatic plants in Nepal faced high restrictiveness in a decreasing order, respectively, whereas exporters in Bangladesh faced relatively least restrictiveness in exporting RMG. Fourth, out of eight products, exporters of four products, namely, jute bags, tea, cardamom and medicinal and aromatic plants, faced more restrictiveness in home country, compared to partner country market, whereas size of restrictiveness in importing countries in the case of pharmaceutical raw materials, pharmaceuticals, agro-processed food and readymade garments was found to be higher than exporting countries according to the perception of firms. Fifth, the dispersion in NTM restrictiveness was low in some products such as RMG in Bangladesh, and RMG, cardamom, jute bag, medicinal and aromatic plants and tea in India. Nepal, on the other, had high dispersion in products like Cardamom, medicinal and aromatic plants, tea and pharmaceuticals. India and Bangladesh also had high dispersion in agro-processed foods and pharmaceutical raw materials, and in pharmaceuticals in India and jute bags in Bangladesh. All these indicate high volatility across products in terms of NTM restrictiveness.

4.3. Welfare gains from reduction in transaction cost in bilateral trade in South Asia

This study uses the Global Trade Analysis Project (GTAP) global computable general equilibrium (CGE) model to explore the welfare impacts of reduction in trade transaction costs in South Asia. The global CGE modelling framework of the GTAP (Hertel, 1997) is a useful tool for the *ex- ante* analysis of the economic and trade consequences of multilateral or bilateral trade agreements. The GTAP model is a comparative static model, based on neoclassical theories.[6] The GTAP model is a linearized model, and it uses a common global database for CGE analysis. The model assumes perfect competition in all markets, constant returns to scale in all production and trade activities, and profit maximizing behavior by firms and utility maximizing behavior by households. The model is solved using the GEMPACK software (Harrison and Pearson, 1996). Version 9 of the GTAP database uses 2011 as the base year. Several pre-simulations are conducted, using updated national economic and trade data and updated protection data, to update the base year to reflect the situation in 2015.

We have considered two scenarios in the GTAP model. The first one is the full implementation of SAFTA with no sensitive list and the second one is reduction in transaction costs in bilateral trade in South Asia by 10 percent. The simulation results are reported in Table 7. A full execution of SAFTA agreement would lead to rise in welfare for all

[6] Full documentation of the GTAP model and the database can be found in Hertel (1997) and also in Dimaranan and McDougall (2002).

South Asian countries. In terms of volume, the largest gain would be observed by India and in terms of percent share in GDP, the largest gain would be observed by Nepal.

Under the second scenario, we consider a simulation of cut in bilateral trade cost in South Asia by 10 percent. In the GTAP model shocks are introduced on the parameters *ats* and *ams*.[7] The results suggest that there are large welfare effects due to the reduction in the trade cost. In terms of volume, India has the largest welfare effect which is 0.26 percent of India's GDP. In terms of percentage share of GDP, Nepal has the largest effect.

Table 7: Welfare effects of reduction in transaction cost in bilateral trade in South Asia

Country/Regions	SAFTA - zero tariff with no sensitive list		Reduction in transaction cost in bilateral trade by 10%	
	EV (Million US$)	EV as % of GDP	EV (Million US$)	EV as % of GDP
Bangladesh	173.15	0.25	939.04	1.37
India	1950.44	0.16	3148.27	0.26
Nepal	595.12	5.79	669.16	6.51
Pakistan	433.34	0.30	771.27	0.54
Sri Lanka	284.66	0.88	1386.33	4.29
Rest of South Asia	294.14	2.45	472.71	3.93

Source: GTAP model simulation

It can, therefore, be argued that there are much larger welfare gains from reduction in transaction costs in bilateral trade than mere tariff cut. There is no denying that NTMs/NTBs, associated procedural obstacles and lack of trade facilitation are responsible for high degree of transaction costs in bilateral trade among the South Asian countries. Therefore, reduction in such transaction costs through streamlining NTMs or elimination of NTBs would generate larger welfare gains for all the South Asian countries.

V. Analysis of Prevailing NTMs and POs in the BBIN Sub-region

This section presents an analysis of the prevailing major NTMS and POs in the BBIN sub-region. The salient features of NTMs and POs at home and the major NTMs and POs faced by exporters from BBIN countries in South Asia are analyzed in this section.

5.1. Bangladesh

5.1.1. Salient features of Bangladesh's NTMs and POs

Raihan et al. (2014) highlighted that Bangladesh's national policies and regulatory regime related to trade, industry, and economy are prevalently focused on protection and

[7] The parameter ats is the transport technology parameter. The transport technical progress of a country means the improvement ratio of its transport technology between the country and all its trade partner countries. Here, it is considered that the transport technology between South Asian countries and all its trade partner countries is improved by 10%. The parameter "ams(i,r,s)" has been introduced to handle efficiency-enhancing measures that serve to reduce the effective price of goods and services imports. Shocks to ams(i,r,s) represent the negative of the rate of decay on imports of commodity or service i from region r imported by region s. When ams(i,r,s) is shocked by 10%, then 10% more of the product becomes available to domestic consumers -- given the same level of exports from the source country. In order to ensure that producers still receive the same revenue on their sales, effective import prices (pms) fall by 10%.

promotion of domestic industries and exports and safeguarding against hazards to public health, environment, and are shaped by the perceived economic interests of the business community and policymakers. Bangladesh, being one of the LDCs within SAARC, maintains a fairly large sensitive list of about 1,000 products under SAFTA. Para-tariffs in the form of Supplementary Duty and Regulatory Duty on many import items are also on the rise. The salient features of NTMs and POs in Bangladesh are as follows:

- 21 categories of products under 4-digit HS Heading, including narcotics, firearms, pornographic and otherwise offensive materials, swine and pork products, 2-stroke motor engines, reconditioned office equipment, hazardous chemicals, polypropylene bags, etc. are banned or otherwise restricted for imports on social, moral, security, religious and environmental grounds.
- Imports of a number of products are subject to quality standards.
- Import of all food items are subject to radioactivity test reports by Bangladesh Atomic Energy Commission. Radioactivity test by Bangladesh Atomic Energy Commission is not required for import from SAARC countries if certificate is issued by the concerned authority of the exporting SAARC country.
- Supplementary and regulatory duties are levied on a number of products.
- 13 categories of products, i.e., jute and 'shan' seeds, onions, petroleum products, arms, frog and frog legs, unprocessed and certain categories of shrimp, unshelled pulses, live animals, raw and wet blue leather, etc. are subject to export ban for various economic, food security, and environmental grounds.
- 9 categories of products are subject to conditional exports; such conditions are related to minimum value addition criteria and other entre-pot and re-export conditions on economic grounds.
- Pre-registration is required for import of selected sensitive products, such as iron scrap, used vehicles, etc.
- Though decreasing recently, tariff anomalies exist for the same product imported as raw materials for different industrial sectors.
- Business community frequently complaints about port-entry restrictions for export and import products, and complex customs clearance procedures.

5.1.2. Major NTMs and POs faced by Bangladeshi exporters in South Asia

Raihan et al. (2014) and TPN (2015) found the following broad categories of NTMs and POs most frequently faced by Bangladeshi exporters in South Asia:

- Bangladesh exporters frequently face specific port entry requirement related restrictions while entering India. The restrictions are often applied on arbitrary basis by Indian authority applying obsolete regulations.
- SPS measures pertaining to Human, Animal and Plant health and related food safety issues are applied to agro and food processing exports from Bangladesh. These products are subject to quarantine, certifications, and inspection requirement related to SPS issues.
- Non-acceptance of test certificates issued by Bangladeshi laboratory is a major problem. In the absence of testing facilities in the locality (Indian side), the samples of food and processed food products are sent to distant laboratories which is a major barrier for exporting food and processed food items from Bangladesh.

- Indian authorities insist on testing all consignments, instead of the random drawing of samples, which is contrary to the generally accepted international practices for risk management. India's Food Safety and Standards (Food Products Standards and Food Additives) Regulations in 2011 requires testing for food safety and microbial presence, in addition to specific requirements for packaging and labelling.
- There is an official Notification (Circular No. 3/2011-Customs from Indian Department of Revenue), allowing provision for random sampling of 5 percent to 20 percent of consignments of a particular item imported, if the previous 5 consecutive consignment meet the conformity criteria. However, exporters from Bangladesh reported that this allowance is not practiced at many ports most of the time and 100 percent consignments are made subject to testing.
- In addition to the official fees and levies (1 percent of the invoice value charged by the Port Authority, plus the Official Fees for Customs Clearance, plus the laboratory fees), there is a need for paying an additional 3.5 percent to 5 percent equivalent of the invoice value to various officials at borders on both sides combined, for each consignment of food and processed food products.
- Various kinds of packaging, labeling, certifications, and conformity assessments, or other restrictions falling under the TBTs. Most of these products belong to packaged food, household and consumer products.
- Irrational practice in weighing vehicles is a problem. There is a practice of weighing the truck with full load of goods on the weighing scale, and then unload the goods, and then again weigh the unloaded truck. This is practices on both sides of the border. This is time consuming, requires laborers for loading and unloading, and may cause wastage of products during loading and unloading. No rationale was found behind this practice, as the weight of the empty vehicle is already mentioned in the documents of the vehicle. This practice needs to be stopped immediately.
- Cumbersome export procedures for documentation is a major hurdle hindering trade between Bangladesh and India. Number of documentation and processing for assessment must be rationalized and duplications should be avoided.
- Business community in Bangladesh expressed their concerns over fluctuating standards and procedural steps they face while dealing with officials both in Bangladesh and in other SAARC countries, particularly in India. Discussions revealed that many of these difficulties arise resulting from poor coordination and dissemination between government officials and business community. 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 reached between the two countries, was a major concern expressed by Bangladeshi exporters to India. For processed food items, the Indian practice of testing each consignment was a serious hindrance to exports, mentioned by Bangladeshi exporters.

5.2. Bhutan

5.2.1. Salient features of Bhutan's NTMs and POs

Raihan et al. (2014) highlighted that Bhutan's national policies, including its trade, industry, and economy related policies are predominantly protective of its own people, culture, and environment. With the small size of its economy and population and no direct access to international ports, Bhutan's trade with the world is fairly limited. Being a landlocked country, and having its currency equally pegged with Indian currency, majority of cross-border trade of Bhutan is done with India. Apart from India, the other important trading partners are Bangladesh and Nepal, with very limited or no trade with other SAARC countries. Some of the salient features of Bhutan's NTMs and POs are listed below:

- Importers need to register themselves with the Ministry of Trade and Industry.
- An Import House is permitted to import only the goods for which it has registered as an Import House. For importing different type of products, the importer has to obtain separate licenses.
- All import consignments originated from the countries other than India need a separate license, which is issued free of cost with a validity period of one year.
- An importer can import a certain product from any other country other than India up to maximum of 4 container loads in one year.
- Importers are required to report the landing of imports in their approved retail outlets to the Regional Trade and Industry Offices with requisite transportation documents. The Regional Offices' verification shall form a part of obligations of the importers for issuance of next Import License.
- Three categories of products, e.g., narcotics, pornography, and items that are considered contraband internationally are prohibited for import.
- Used clothes and textile items are also prohibited for import.
- A total of 14 categories of items are restricted for import from all countries and subject to licensing requirement with special permission issued by the respective relevant authorities, e.g., special permission from Ministry of Agriculture for import of chemicals and fertilizers.
- Selected fresh horticultural produces need mandatory grading and fumigation before exports.
- Import of raw materials for industrial use must have a value addition of minimum 40 percent.

5.2.2. Major NTMs and POs faced by Bhutanese exporters in South Asia

Raihan et al. (2014) highlighted the following broad categories of NTMs and POs, which are cited most frequently by Bhutanese exporters:

- Bhutanese exports are required to pass through specific port of entries for specific items in India, Bangladesh, Nepal, and the world. The SPS related inspection and testing requirements are a major reason for such port entry related restriction in case of India. Being a landlocked country, Bhutan has to use Indian Territory and Indian ports for transshipment of its products to other countries. For transshipments to Bangladesh and Nepal, Bhutanese exports have to use specific ports of entry as per the requirements of relevant trade protocols existing between India, Bangladesh, Nepal, and Bhutan. For Bhutanese exports to non-SAARC countries, such as Singapore, Australia, Hong Kong, South Korea, etc. the use of Haldia port is required, if using Indian Territory for transshipment. Under a bilateral agreement, Bhutan has recently started using Chittagong port of Bangladesh for importing and exporting from and to countries other than SAARC. A number of other ports, including land, river, and sea ports are either already available or in the process of being available for Bhutan under a bilateral agreement with Bangladesh.

- Bhutan's export of selected fresh produces, particularly for tangerines, needs certification for mandatory fumigation, radioactivity, and other health related issues, for meeting SPS requirements. Mandatory grading and sorting is also done and relevant certificate is issued for tangerines, and also for pebbles and boulders for export. Additionally, there is a need for obtaining Certificate of Origin, Pre-Shipment Inspection certificate (on certain products), etc., for exports. In absence of adequate quality infrastructure in Bhutan, exporters have difficulty in accessing export markets, particularly for processed food items.
- Bhutan faces a variety of state-level para-tariffs while entering India. Many of them are found discriminatory against imports. Bhutanese products face para-tariffs in Bangladesh in form of supplementary and regulatory duty for many products. However, the 18 products of Bhutan that get duty free access to Bangladesh under bilateral agreement are not subject to such para-tariffs.
- Export of food Items from Bhutan to Bangladesh are subject to the requirement of radiation certificates.

5.3. India

5.3.1. Salient features of India's NTMs and POs

Raihan *et al* (2014) highlighted that India's national policies and regulatory regime related to trade, industry, and economy are prevalently focused on promoting strategic domestic industries and exports thereof, protection of local markets for domestic products, safeguarding against hazards to public health, environment, and perceptions of socio-political-religious and security issues of the policymakers, with very recent trends for openness towards SAARC neighbors. Until 1991 India deliberately followed a closed economy, and even after opening up, India carries, to a large extent, the complex restrictive regulatory regime dotted with quantitative restrictions, levies, para-tariffs, and bureaucratic procedural complexities, as perceived by the business community in India. Its neighbors, despite India's drastic liberalization under SAFTA since November 2011, particularly for the SAARC LDCs, remain skeptical about trading with India due to its vast array of procedural fluctuations and arbitrary interpretations of regulatory regime. The salient features of NTMs and POs in India are as follows:

- There are 428 products at 8-digit HS code level which are restricted and cannot be imported without any license.
- 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.
- Import of Beef in any form and import of products containing beef in any form is prohibited for religious reasons.
- Import of Genetically Modified Food, Feed, Genetically Modified Organism and Living Modified Organisms or any product containing any of these is subject to several kinds of certification, and other TBT measures.
- A total of 74 products are subject to compliance of the mandatory Indian Quality Standards, which are also applicable to domestic goods.

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

5.3.2. Major NTMs and POs faced by Indian exporters in South Asia

Raihan et al. (2014) and Mittal (2015) found the following broad categories of NTMs and POs most frequently faced by Indian exporters in South Asia:

- Currently 137 Indian imports are allowed to enter Pakistan only through Attari-Wagah border between India and Pakistan. Apart from SPS-related inspection and testing requirements, customs inspection procedures and other trade related factors, political considerations are a major reason for such port entry related restriction for exports from India to Pakistan. Indian traders, particularly exporters also face such port entry restriction measures in Bangladesh. For example, certain categories of yarn, if imported under the Bonded Warehouse system for use in export-oriented garments sector in Bangladesh, need to pass through Chittagong Sea Port only, causing severe difficulty for Indian exporters of such yarns from adjacent states (Tripura and West Bengal for instance). India has been requesting Bangladesh remove the port restriction on export of vulcanized rubber thread via Akhaura LCS, which is affecting trade opportunities along with land port restrictions imposed by Bangladesh particularly on items like yarn, milk powder, fish, sugar, potatoes. Such Indian exports are allowed by the sea route, but not through all land custom posts.
- Bangladesh has imposed ban on import of poultry and poultry products from India for quite some time in the wake of outbreak of avian influenza (bird flu) in India. Since the outbreak of avian influenza is quite frequent in India, export of poultry products to Bangladesh is an irregular affair. Custom inspection on the Nepal side is one of the major issues concerning the India-Nepal trade. The entire inspection process could be more time and cost-efficient. For example, regulations relating to SPS measures are one of the major hurdles. The Nepalese custom officials carefully scrutinize every Indian vehicle and every export item coming into Nepal from India. Even though this practice is justifiable, involvement of a series of monitoring agencies delay the clearance process, leading to high transaction costs. The Department of Drug Administration of Nepal demands that all the Ayurvedic drugs imported should have a COPP Certificate vide WHO-GMP norms. This rule is not applicable to the Ayurvedic drugs manufactured in Nepal. Thus, this requirement works as a non-tariff barrier for exports of Ayurvedic medicines from India to Nepal.
- India has been reiterating its request for the removal of 225 items from Bangladesh sensitive list under SAFTA. To date, only 21 items have been removed, which is less than ten percent of the items identified as export interest by the Indian side. India has urged Bangladesh to respond positively to the proposal that was put forward by Bhutan, India, Maldives and Pakistan, that peak tariff on all products be reduced by all member countries to 0-5 percent by the year 2020, excluding a small number of about 100 tariff lines which may still remain in the respective sensitive lists of each member country.

- There have been concerns from the Indian side about possible mis-declaration of "Country of Origin Certificate" for the textiles and betel nuts imported from third countries and exported to India after they are repacked/re-invoiced without any major value addition.
- The issue relating to payment defaults by the Bangladeshi importers arising out of not honoring irrevocable letters of credit and LICs on due date, non-payment of interest for delays and returning LICs without payment by the Bangladesh banks have long been haunting the Indian exporters.
- India has conveyed its concern regarding the pre-shipment inspection of Bangladesh being mandatory except in case of goods specifically exempted and requested that the same should be abolished, as is the norm worldwide. There have been frequently reported delays in issuance of Khamarbari certificates (in Bangladesh) in respect of export of agricultural commodities from India, especially potatoes.

5.4. Nepal

5.4.1. Salient features of Nepal's NTMs and POs

Raihan et al. (2014) highlighted that Nepal's national policies, including its trade, industry, and economy-related policies are protecting national security, maintaining public morals, conserving exhaustible natural resources (in conjunction with restrictions on domestic production or consumption), and ensuring the availability of raw materials essential for domestic processing industries with potential for competitive capacity. With the relatively small size of its economy and no direct access to international ports, Nepal's trade with the world is fairly limited. Being a landlocked country, and having its currency pegged with India's currency, the majority of cross-border trade by Nepal is done with India. Apart from India, the other important trading partners are Bangladesh, Bhutan, and Pakistan, with very limited or nonexistent trade with other SAARC countries. The European Union was the largest partner of Nepal for external trade until 2003, but since then India has become the largest trading partner, China being the second in rank. Despite being a small economy and having traditional hereditary rule by monarchs until very recently, Nepal's regulatory regime is quite supportive of private sector growth, demonstrated by the fact that petroleum and petroleum products, and iodine salt are the only products under state trading, and the private sector is allowed to deal in the rest or the commodities. Some of the salient features of Nepal's NTMs and POs are listed below:

- There is a specific duty in the form of Customs Charges of Nepalese Rupee 678 for each export declaration for each consignment with a value above Nepalese Rupee 5,000.
- 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.
- Four categories of products, e.g., selected narcotics, arms & ammunitions, wireless communication items, and items of feed containing opium require special license or permission, and may be subject to quantitative restrictions for import.
- Separate licenses are required to import, sell or store excisable goods.

- Eight categories of products, e.g., archeological artifacts, wild animals and their body parts, narcotics, explosives, imported petroleum, and selected exotic timber and forest products are banned for exports due to religious, environmental, public health, energy security, and social grounds.
- Para-tariffs exist in form of environment tax on imported petroleum products, and in form of ad valorem development fee on selected imported products.
- Quantitative restrictions are in place for exports of paddy, rice, wheat, sugar, and items related to grains (lintels, pigeon pa, pulses, soybean, gram, vetch seed, pea), for food security reasons.
- Special permission is required for exports of some timber products and forest resources, related to biodiversity and environment conservation.

5.4.2. Major NTMs and POs faced by Nepali exporters in South Asia

The following broad categories of NTMs and POs most frequently faced by Nepali exporters (Raihan *et al* 2014; TPN, 2015):

- SPS measures pertaining to Human, Animal and Plant health and related food safety issues are applied to agro and food processing exports from Nepal to India and Bangladesh. These products are subject to quarantine, certifications, and inspection requirement related to SPS issues. Test report from Nepalese labs are not recognized/accepted.
- Arbitrary and discretionary quarantine certificates. For import of medicinal and aromatic herbs to India from Nepal and other countries, special authorization for SPS reasons in terms of quarantine certificates as are required by the Plant Quarantine (Regulation of Import into India) Order, 2003 of India. However, there is insufficient equipment and technology in the quarantine laboratories and offices, and the certificates are often issued at the arbitrary and discretionary wishes of the officials. Apart from official fees of NPR 1,000-2,000 for quarantine inspection and testing, there is unofficial payment requirement, anything ranging from NPR 3,500-5,000 or more, depending on the value of the consignment.
- Various kinds of packaging, labeling, certifications, and conformity assessments, or other restrictions falling under the TBTs. Most of these products belong to packaged food, household and consumer products.
- Requirement for transit paper in each State of India. Once the Nepalese consignment enters India, the delivery trucks need to obtain Transit Paper in each State of India, issued for an official fee which varies from state to state and there is unofficial fee involved in obtaining the Transit Paper. This delays transportation to specific ports, such as Kolkata, or Chennai, and adds to the cost of doing business.
- Excessive documentation. Each consignment of medicinal and aromatic herbs for export to India requires 17 signatures, and 30 copies of various documents in total. While exporting to countries other than India, but passing through Indian Territory, a total of 20 signatures in 36 copies of documents.
- Concerns over fluctuating standards and procedural steps they face while dealing with officials in other SAARC countries, particularly in India. Many of these difficulties arise resulting from poor coordination and dissemination between government officials and business community. Non-acceptance of quality certificates issued by Nepal Bureau of Standards and Metrology.

VI. Dealing with NTMs in the BBIN Sub-region with the Political Economy Perspective

Section V identified a range of NTMs and POs faced by the BBIN countries while exporting to each other's markets. The political economy framework described in Section II can be applied to deal with these NTMs and associated POs in the BBIN sub-region. The following sub-section presents the application of this framework in this context.

6.1. Proper dealing with NTMs can boost economic drivers for a deeper regional integration in the BBIN

We have seen in Section IV that dealing with NTMs properly and removing associated POs are likely to reduce transaction costs of bilateral trade between the BBIN countries, and the reduction of such transaction costs among these countries is likely to have important implications in terms of significant welfare gains and improved market access of these countries to their neighboring countries.

Streamlining of NTMs and removal of associated POs are likely to intensify further market integration in the BBIN sub-region through development of regional value chains.[8] As Brunner (2013) points out, participation in such regional value chains requires closer regional integration through logistics, information network and connectivity improvement. This will also encourage larger intra and extra regional investments in the BBIN sub-region which can be instrumental for growth integration among these countries. To make these happen there is a need for policy integration among the BBIN countries.

It is important to note that domestic capacities of the exporters in Bangladesh, Bhutan and Nepal need to be improved to meet different international standard requirements. Unless and until these exporters develop their capacities, they will not be able to diversify exports and become competitive in the regional and international markets. A number of supply side factors at home can actually undermine the exporters' competitiveness and constrain economic and export diversification. These factors are directly associated with the domestic production and investment environment. Most prominent of these factors are access to finance, weak physical infrastructure, inefficient ports and high transport costs, shortage of skilled workers, technological bottlenecks, lack of entrepreneurship and management skills, lack of information, and high costs of doing business.

One of the most important problems affecting supply and export response is the access to finance. Investors in LDCs like Bangladesh, Bhutan and Nepal face credit constraint and have to pay high interest rates on loans unrelated to their own performance. Since banks have to make provision for non-performing loans, the large share of such loans ultimately increases the cost of capital to entrepreneurs. The problem is even worse for small and medium scale

[8] Globally there is an increased trend for participation in production networks or value chains where a number of spatially separated but linked firms engage in the production of different components of the same product. By breaking up the production process into tasks that require different input combinations or skills, these firms can improve the overall production efficiency by matching tasks with location-specific advantages. Therefore, at a regional level, a group of firms engaged in such production networks can utilize country-specific comparative advantages to lower production costs and increase market access.

enterprises (SMEs) including the export-oriented ones. Banks are shy to lend to SME activities, as they do not consider them as attractive and profitable undertakings.

The state of physical infrastructure is weak also weak in these countries which undermines the competitiveness of exporting enterprises. There are two dimensions of poor infrastructure. One is the unavailability of a certain service or utility (such as telephone, water, electricity, roads and highways, etc.) and the other is the unreliability of the services provided. In these countries there are problems on both fronts.

Inefficiencies in ports erode competitive advantage of the country further. Inefficiency and excessive costs at ports are further exacerbated by poor customs services Apart from the delay in obtaining customs clearance, the payment of 'extra' money is required to complete the formalities and procedure. It is also important to mention that the capacities of the National Standard Organizations in Bangladesh, Bhutan and Nepal need to be upgraded so that the certificates issues by them are honored at the regional and international markets.

A shortage of skilled workers is perceived to be a major constraint for manufacturing production. This problem is particularly acute for medium scale export-oriented enterprises. Increased backward integration and expansion of production in many other sectors will require skilled manpower. Therefore, supply capacity is preconditioned by availability of skilled workers. A certain level of formal educational attainment, and job-specific training and experience are two essential components of skill formation. Therefore, both the quality of general education, and availability and suitability of vocational/technical education or on-the-job training are vital for skill development. While the improvement in the standard of education may require long-term planning and investment, to address the immediate need of the export industry it is most essential to arrange various short- to medium-term vocational and technical training programs/courses.

Technological upgrades, adoption of superior technology, and their effective use are important for improved productivity as well as competitiveness. Introducing new products to the world market and making better quality products badly requires using modern and up-to-date technology. Expenditures on R&D both at the national and at the firm level are very low in Bangladesh, Bhutan and Nepal, and the manufacturing sector is critically dependent on imported technology. Financial constraints do not allow most firms to modernize its technological capacity on a regular basis. There is a need for technology policy, which amongst others will consider the issues of labor-intensive vis-à-vis capital-rich techniques of production, incentives for acquiring environment-friendly technology, support for firm level R&D activities, and access to information on technological advancement.

Entrepreneurship skill lies at the heart of business activities in the modern world. A good entrepreneur recognizes the need for training of its staff and acts accordingly. However, due to many different reasons, scope and opportunities for training for workers and managers even in the large firms are limited in these countries. In fact, apart from learning by doing the practice of professional and formal training on a regular basis does not characterize the working environment in these countries. Financial constraints along with an information gap makes firms less aware of the benefits they would obtain from management training and few see training as a strategic tool. Besides, there is also a lack of facilities for such training.

Lack of information is a major constraint to market development of exporting enterprises. Firms need all kinds of information: with regard to setting up a business, accessing finance, fulfilling government requirements, developing products, and finding markets. The Internet has introduced a new way of doing business especially in the field of commercial operations: selling and buying, advertisement, servicing and training. The number of enterprises using Internet to market their products and services is rapidly increasing and more and more enterprises are becoming aware of the potential of this new technique. However, the use of Internet at the private enterprise level is still very low in Bangladesh, Bhutan and Nepal, and there is a serious lack of infrastructure in this regard.

Business enterprises in Bangladesh, Bhutan and Nepal are subject to several invisible costs due to corruption and a hostile political situation. These impose direct costs thus undermining the competitiveness of trading enterprises. Corruption and hostile political situation together make the domestic environment business-unfriendly discouraging new investment in exporting activities both from local and foreign sources.

It is also important to note that strategies specified in the different policies in Bangladesh, Bhutan and Nepal for economic and export diversification lack clear guidelines as regards implementation, and therefore, result in ineffectiveness of the strategies. A policy of supporting or undertaking a program itself cannot ensure achievement of objectives. Policy frameworks need effective institutions for successful implementation of the policies. In other words, it is institutions through which strategies are ultimately implemented. Besides, export policy usually encompasses a number of institutions or departments, and coordination of their tasks has important implications for all eligible exporting firms' benefiting from incentives. Lack of coordination and integration in the various elements of policies has always been a major problem in these countries. Since strategies remain too broad, it is difficult to analyze whether they ultimately work. It also becomes a hard task to identify the reasons for the ill-implementation of the strategies, and thus lessons to be learnt for similar future exercises.

Though the trade and industrial policies of Bangladesh, Bhutan and Nepal identify a number of high priority and priority sectors for economic diversification, there are several policy-induced and supply-side constraints that have constricted the development of these sectors. Some of these factors are sector-specific, whilst others are more general affecting the overall economy as a whole. Sector-specific problems can be identified from in-depth sectoral studies. There is a need for further research dealing with each of these sectors in a comprehensive manner. One pragmatic way of dealing with such constraints is to consider a well-devised integrated approach. Under this approach, actions required at different levels can be brought together to make intervention schemes or support systems comprehensive. Such intervention schemes should be sector specific as well as economy wide.

6.2. Signs of 'new' commitment among political elites of the BBIN countries

There are some signs of heightened 'new' commitment among political elites of the BBIN countries. First, with the current leadership at the helm in India and Bangladesh, things are starting to look up. The recent speedy resolution of LBA between Bangladesh and India is an example of strong political commitments both from India and Bangladesh. Second, the positive reception of the India-Bangladesh Maritime Arbitration Award announced in July 2014 on both sides also signals a reinvigorated push in the right direction. Third, to restore the traditional system of marketing the local produce through local markets, India and Bangladesh decided during the visit of Prime Minister of Bangladesh to India in January 2010, to establish Border *Haats* on a pilot basis at selected areas along the border. In October 2010, a Memorandum of Understanding on Border Haats was signed between the two countries. Two Border *Haats* have been set up in Kalaichar (Meghalaya, India) – Baliamari (Kurigram, Bangladesh) and Dolora (Sunamganj, Bangladesh) – Balat (Meghalaya, India). The Border *Haat* at Srinagar along the Tripura Border was inaugurated on 17 January 2015. Three more Border *Haats* are proposed to be set up along the Tripura-Bangladesh border at Kamlasagar, Palbasti and Kamalpur in Tripura. The commodities sold in the border haats are exempted from payment of customs duties.

Finally, and perhaps the most important example of the strong political commitment is the BBIN Motor Vehicle Agreement (BBIN-MVA). In a major bid to strengthen sub-regional cooperation, four SAARC permanent members – Bangladesh, Bhutan, India and Nepal (BBIN) – signed the historic Motor Vehicle Agreement (BBIN-MVA) in Bhutan for the 'Regulation of Passenger, Personal and Cargo Vehicular Traffic' amongst them on June 15, 2015. The agreement encapsulates the spirit of economic integration emphasized in the SAARC Charter (Nayak, 2015). The agreement has been endorsed by the cabinets of the four countries.

As Nayak (2015) observed, the MVA has reportedly been framed in regards to the SAARC Regional Agreement on Motor Vehicles (RAMV). It has been a long demand from the SAARC members to have a MVA for deepening trade, tourism and connectivity within the region. In September 2014, the Intergovernmental Group on Transport (IGGT) endorsed the expert group report on the RAMV, just before the 18th SAARC summit held in Nepal in November 2014. Though the Motor Vehicle Framework Agreement was an important agenda of the 18th SAARC Summit, it was not discussed due to Pakistan's reservations. After the summit, the BBIN countries initiated the sub-regional MVA, pending finalization of a regional agreement.

Pal (2016) argued that there is also a strategic implication of the BBIN initiative. China is investing heavily in developing road and rail networks to recreate the age-old Silk Route. Its massive One-Belt-One-Road (OBOR) initiative will connect the East Asian economic circle with the developed European economic circle. In its largest definition, OBOR would include 65 countries, 4.4 billion people and about 40 percent of global GDP. Given such grandiose plans on the part of China and their possible ripple effects on South and Southeast Asia, initiatives like BBIN may give India an economic and strategic foothold in the region.

It is important to note that though India is the major driver in the BBIN sub-region, Bangladesh is at the center of major BBIN activities and Bangladesh has the potential of becoming the gateway to connecting BBIN with East and Southeast countries. The ruling political elites in Bangladesh has shown strong interest in deeper regional integration with its neighboring countries. Also, there has been a growing consensus among different political parties in Bangladesh on the need for deeper regional integration.

However, still there are some bilateral political issues among the BBIN countries which need to be resolved. The border killing is an issue that strains India-Bangladesh relations as the victims are often ordinary people of Bangladesh living in border areas. This needs to stop, for which a political decision at the highest level is necessary. Also, the water-sharing issue between India and Bangladesh is yet to be solved properly. Furthermore, the recent growing tension between India and Nepal at the border puts strain on the bilateral relations. However, it can be hoped that these issues should be solved with the heightened 'new' commitment among political elites of the BBIN countries for deeper regional integration.

It is also important to note that the aforementioned 'new' commitments have not yet been translated into actions to resolve the issues related to NTMs and POs discussed above. There is a need to put renewed emphasis on this.

6.3. Need for pragmatic solutions to structural factors

There are two major structural constraints in the BBIN sub-region, which escalate the POs associated with NTMs in these countries. The first is the landlocked nature of Nepal and Bhutan and second is that almost all the trade among these countries happen through land borders with inadequate infrastructural facilities.

In the case of addressing the landlocked nature of Nepal and Bhutan, as mentioned before, the BBIN-MVA can be very instrumental. The BBIN-MVA agreement is likely to yield maximum dividends for these two Himalayan landlocked counties as this agreement has addressed their long standing grievances concerning trade and transit issues with India (Nayak, 2015).

In the case of high prevalence of trade through land ports, Pal (2016) observed that the BBIN MVA will allow the BBIN countries to move forward with the implementation of land transport facilitation arrangements between and among them, enable the exchange of traffic rights and ease cross-border movement of goods, vehicles and people, thereby helping to expand people-to-people contact, trade and economic exchanges between them. The agreement will allow vehicles to enter each other's territory and eliminate the need for transshipment of goods from one country's truck to another at the border, thereby eliminating a time-consuming and costly process. This will result in a reduction of trade costs between nations and thus facilitate smoother transactions and boost trade.

6.4. Trade infrastructure and facilitation in the BBIN sub-region: Improving poor regional public goods

Poor trade infrastructure and lack of trade facilitation are major challenges hindering cross-border trade among South Asian countries. The conditions of land ports are far from satisfactory. Inefficiencies in ports aggravate the situation by eroding the competitive advantage of the country further. It has also been found that most of these land ports are plagued by labor problems, poor management, and lack of equipment. Inefficiency and excessive costs at ports are further exacerbated by poor customs services. Apart from the delay in obtaining customs clearance, the payment of 'extra' money is required to complete the formalities and procedure. Also, inland transportation suffers from poor road communication. All these increase the cost of production substantially. Under this circumstance, many exporters find it extremely difficult to be competitive.

Figure 3: Major land customs stations of India and Bangladesh and ICPs

Source: http://www.hcidhaka.gov.in/pages.php?id=36

An example of recent initiatives to solve the trade infrastructure problems at the borders is the creation of Integrated Check Posts (ICPs) at major entry points on the land borders by the Government of India, to overcome the existing problems and to cater to growing demand from traders on both sides of the border between India and Bangladesh (Figure 3). The ICPs would house all regulatory agencies like Immigration, Customs, border security, etc. They would be a sanitized zone with dedicated passenger and cargo terminal providing adequate customs and immigration counters, X-ray scanners, passenger amenities and other related facilities like parking, warehousing, banking, service stations, fuel stations, etc. in a single modern complex equipped with state of the art amenities. Seven Integrated Check Posts are planned in two phases: Phase I includes Petrapole in West Bengal (corresponding to Benapole in Bangladesh), Dawki in Meghalaya (corresponding to Tamabil in Bangladesh) and Agartala in Tripura (corresponding to Akhaura in Bangladesh). Phase II focuses on Hili, West Bengal (corresponding to Hili in Bangladesh), Chandrabangha, West Bengal (corresponding to Burimari in Bangladesh), Sutarkhandi Assam (corresponding to

Sheola in Bangladesh) and Kawarpuchiah, Mizoram (corresponding to Thegamukh in Bangladesh). Two ICPs have already been set up in Agartala-Akhaura and Petrapole-Benapole.

Nepal and India signed an accord in 2005 to build ICPs straddling the border at Biratnagar, Birgunj, Bhairahawa and Nepalgunj. Under the agreement, there will be matching complexes on both sides of the border. The Indian government had pledged to build the ICPs on the Nepal side too, and the government just had to provide the required land. However, the long delayed construction of the Integrated Check Post (ICP) on the Nepal side of the Biratnagar-Jogbani border has been held up further by the Tarai unrest.[9]

6.5. Need for pro-active role of the primary institutions

There is a need for cooperation among different primary institutions in the BBIN countries to deal with NTMs and POs. There are already some initiatives for such cooperation. For example, Bangladesh Standards and Testing Institute (BSTI) and the Bureau of Indian Standards (BIS), the two organizations controlling the standards of products and services in the two countries, have signed an agreement to add an impetus to trade between the two neighbors. Under the deal, any side will be able to use the certificate issued by any of the organizations in import or export of any product or service. That means for any product or service Bangladesh's certificate will be accepted in India and Indian certificate in Bangladesh. The deal was signed during Indian Prime Minister Narendra Modi's visit to Bangladesh in June, 2015. According to the deal, all common terms and conditions in the latest edition of the ISO or IEC Guide-2 will be treated as terms and conditions of this deal. In Bangladesh the BSTI and in India the BIS will be treated as the national standards bodies (NSB). The documents to be issued by any concerned quality control organization for a product or service will be termed the certificate for that product or service.[10] Also, Nepal's NBSM has signed MoU with BSTI and is the process of signing MoU with BIS. Bhutan has signed MoU with BIS.[11]

However, as Raihan *et al.* (2014) argued, cooperation is still needed in a number of areas. First, there is a need to review and analyze the core NTMs, e.g., SPS, TBT, Port Entry Restrictions, and Para-Tariffs for their trade restricting effects, and undertake appropriate steps to address them at the sub-regional level. Second, the respective governments should be encouraged to review the detailed country-specific list of products that have export capacity but no or limited intra-region trade, and find out the possible reasons for their low regional trade, in order to devise strategies for trade promotion and development, and to remove trade barriers. Third, harmonization of TBT and SPS measures will be needed. The relevant NTMs, if harmonized, will pave way for accepting certificates issuing by the competent authority of the exporting SAARC country for allowing entry instead of conducting inspection at border points or at facilities situated at farther interior. Also, the relevant regulations need to be harmonized. Fourth, to do away with the trade-impeding effects of NTMs/NTBs, Mutual Recognition Agreements (MRAs) among respective

[9] http://kathmandupost.ekantipur.com/news/2016-03-21/opening-date-for-integrated-check-post-pushed-back.html

[10] http://english.thereport24.com/article/21375/#sthash.rtGj56ao.dpuf

[11] http://www.bis.org.in/sf/international_cooperation.asp

organizations of the South Asian countries are needed for specific products or industrial sectors. Fifth, in absence of formal MRAs, non-acceptability of conformity assessment certificates of any particular product, if and when this issue arises, should be resolved by mutual cooperation programs without restricting trade. There is a need to allocate adequate human and financial resources to SAARC Standards Organization. Sixth, the accreditation bodies or agencies of partner countries may set up accreditation centers in collaboration with a designated National Agency to facilitate mutual cooperation with necessary capacity building under technical and financial assistance from mutlilateral or bilateral development partners. Seventh, structured programs should be initiated, or endorsed by the SAARC Secretariat (in case of third party initiatives) to increase the interactions between the business community and key government officials in each SAARC country on a regular basis to exchange views in order to reduce/eliminate procedural obstacles and duplication of documents. Eighth, each SAARC country should expedite and prioritize introduction of increased automation of their customs clearance procedure. The resources for customs automation may be mobilized by support from multi-lateral development agencies under various Aid for Trade schemes. Finally, the South Asian Regional Standards Organization (SARSO), a common certification panel for the member-countries of SAARC—which aims to develop harmonized standards for the region to facilitate inter-regional trade—needs to be strengthened.

6.6. Need for an effective policy advocacy strategy of the secondary institutions

The secondary institutions in the BBIN sub-region need to pursue policy advocacy to deal with NTMs. Raihan (2016b) suggested five steps to develop such a policy advocacy strategy in South Asia:

> *Step 1*: Identify the major stakeholders in country 'X', which include policymakers (ministries and affiliated organizations), business associations, think tanks and the media.
>
> *Step 2*: Understand the salient features of NTMs in country X in South Asia.
>
> *Step 3*: Understand the major NTM issues for exporters of country X in South Asia.
>
> *Step 4*: Create an advocacy group for policy advocacy in country X with answers to the following questions: (i) How can this advocacy group be formed in country X? (ii) What should be the objectives of the policy advocacy group in country X? (iii) Who in country X can make these objectives to be fulfilled? (iv) What do the policy makers in country X need to hear from the advocacy group? (v) Whom do the policy makers in country X need to hear it from? (vi) How can the policy advocacy group in country X make sure that the policy makers hear it? (vii) What is the current status of policy advocacy in country X on NTMs? (viii) What does the policy advocacy process need in country X? (ix) How does the policy advocacy group in country X begin to take action? (x) How to know that the policy advocacy in country X is working? (xi) What are the risks involved in the advocacy process?
>
> *Step 5*: Develop an action plan for the policy advocacy in country X.

Raihan (2016b) argued that the policy advocacy group should aim at the harmonization and transparency of all kinds of NTMs and reduction of NTBs in other South Asian countries which exporters face. Also, the policy advocacy group should aim at the harmonization and transparency all kinds of NTMs and reduction of NTBs which the importers encounter.

Raihan (2016b) also pointed out that primarily as far as the market access of the exporters from South Asia to other South Asian countries is concerned, many of these NTMs can be solved through bilateral negotiations, but can be more effectively solved under regional initiatives; and in this case relevant policy makers from all the eight countries in South Asia have the prime responsibilities. The SAARC Secretariat and its different forums should be directed under this policy advocacy at the regional level. One of the major forums of the SAARC Secretariat for enhancing regional economic cooperation is the SAFTA COE, where the members are the representatives from Ministry of Commerce and Ministry of Finance from all eight South Asian countries. The policy advocacy group should therefore maintain links with the representatives of Ministry of Commerce and Ministry of Finance and assist them in the regular analysis on NTMs the exporters face in other South Asian countries. Above all, regional cooperation issues are dealt with the Ministry of Foreign Affairs. Therefore, there is a need to maintain close link with the Ministry of Foreign Affairs. In the case of NTMs at home, which the importers face, the policy advocacy should be directed at different ministries and affiliated organizations depending on the nature of the NTMs.

Raihan (2016b) further argued that policymakers need to receive very clear analysis, information and updated data on NTMs in the country and the region as a whole. These need to be relevant and accompanied by concrete examples for which effective measurable actions can be undertaken. Any vague analysis or recommendations should be avoided, which might make the advocacy ineffective. Analysis should address how much of the magnitude of any NTM has to be solved by the partner country and how much of it is actually related to exporters' lack of capacity to meet the required standards. There is a need to develop the capacities of the exporters so that they can meet the justified SPS and TBT standards in other countries. Also, there is a need to develop the capacity of the National Standards and Testing Institution so that certificates issues by them are accepted in other countries.

Finally, the policy advocacy group will have to produce credible analysis, supported by data and reliable information that policymakers will find useful. This will help them to devise effective actions. The advocacy group should follow up with the policymakers through regular formal and informal interactions. Formal interactions could be in the form of workshops, presentations etc. and informal interactions could be done through personal engagements. The policymakers should be briefed regularly on relevant matters with relevant analysis which are the simplified and summarized versions of lengthy technical papers. Leaflets, newsletters containing information regarding NTMs/NTBs on imports and exports as well as highlighting any policy changes may be published by the advocacy group.

6.7. Effective use of the favorable external factors

There are some favorable external factors in the BBIN sub-region that should be exploited to the maximum. An ADB-funded study by De and Iyengar (2014) identified 10 regional proposed road networks as South Asian Corridors, seven of which have been identified in the BBIN region. The ADB, under its SASEC program, is helping six South Asian countries (Bangladesh, Bhutan, India, Maldives, Nepal and Sri Lanka) to increase trade and cooperation within South Asia, create linkages to East and Southeast Asia, ensure fast and least-cost cross-border movement of goods, people, and business, and improve opportunity and the quality of life for the people of the SASEC sub-region. Since 2001, SASEC countries have implemented 37 regional projects worth more than US$6.75 billion in the energy, transport, trade facilitation, and information and communications technology (ICT) sectors. SASEC helps countries strengthen road, rail, and air links, and create the conditions necessary to provide reliable energy and boost intraregional trade in South Asia to cater to the needs of the region's growing economies.

For instance, the SASEC Road Link Project 11 (Elenga-Hatikamrul-Rangpur Highway Four-Lane Upgradation project) received approval from the Bangladesh Government’s Executive Committee of the National Economic Council (ECNEC) in September 2016. The ADB will loan Tk 93.39 billion while the remaining Tk 25.41 billion will be provided by the government. Once completed, the project will ease communication between Dhaka and Rangpur, increase traffic movement along the route and make travel to India and Bhutan easier.[12]

In August 2016, the Bangladesh government approved the construction of the Akhaura-Agartala dual gauge railway link project, which aims to improve rail connectivity and boost trade between the Bangladesh and India. The project on the Bangladesh side will cost about Tk 477.81 crore. Of the amount, Bangladesh will provide Tk 57.05 crore while the rest will come from India as grant. The rail link will open up markets in India’s northeastern states for Bangladesh, enhance smooth transportation of goods and facilitate people to people contact. The connectivity will also lower transportation costs and time. The railway link might be considered a corridor of the Trans Asian Railway Network and the sub-regional connectivity.[13]

VII. Conclusion

This paper has explored the possibilities of enhanced regional economic cooperation through dealing with NTMs in the BBIN sub-region in South Asia using a political economy approach developed by Raihan (2016a). The paper argues that the economic needs and drivers and political economy drivers for a deeper integration in the BBIN sub-region are more prominent compared to these countries’ integration with the rest of South Asia. However, though there are substantial potentials for rise in intra-regional trade, BBIN countries are facing escalated challenges related to their limited export capacities, lack of diversification of their export baskets, and various NTMs and POs both at home and in each other’s market. Due to various procedural obstacles, which are related to complicated bureaucratic process, delays, corruption, and frequent changes in the policies, many legitimate NTMs turn into NTBs. Therefor, streamlining of NTMs and removal of associated POs are likely to intensify further market integration in the BBIN sub-region through development of regional value chains. This will also encourage larger intra and extra regional investments in the BBIN sub-region which can be instrumental for growth integration among these countries. Also, domestic capacities of the exporters in Bangladesh,

[12] http://bdnews24.com/economy/2016/09/06/tk-118-billion-elenga-rangpur-4-lane-highway-project-gets-ecnec-green-light
[13] http://www.thedailystar.net/country/ecnec-okays-akhaura-agartala-rail-link-project-1270708

Bhutan and Nepal need to be improved to meet different international standard requirements.

The paper highlights that there are some signs of heightened ‘new’ commitment among political elites of the BBIN countries. The recent speedy resolution of LBA between Bangladesh and India, the positive reception of the India-Bangladesh Maritime Arbitration Award announced in July 2014, establishment of border haats along the border between India and Bangladesh, and the BBIN Motor Vehicle Agreement are signs of such political commitments. However, the aforementioned ‘new’ commitments have not yet been translated much to resolve the issues related to NTMs and POs discussed above. There is a need to put renewed emphasis on this.

The paper argues for cooperation among different relevant standard institutions in the BBIN countries and to pursue a policy advocacy strategy to deal with NTMs and POs in South Asia. The policy advocacy group should be formed in the South Asian countries with representatives from the major stakeholders. There is a need for very clear analysis, information and updated data on NTMs in the country and the region as a whole for which effective measurable actions can be undertaken.

Finally, a deeper regional integration in South Asia requires clear and visible leadership from the political elites in this region, especially from India, in taking the agenda forward. The political elites have to be convinced and act accordingly to reduce the ‘trust deficit’. Regional institutions, like SAARC Secretariat, have to be institutionally reformed and reoriented with much stronger engagements from the respective ministries and relevant organizations of the member countries. Business associations, civil society organizations and media have to pursue the regional integration agenda in South Asia more pro-actively than ever.

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