

Trade Facilitation and Poverty Reduction in Asia and the Pacific: A Case Study of South Asian Corridor

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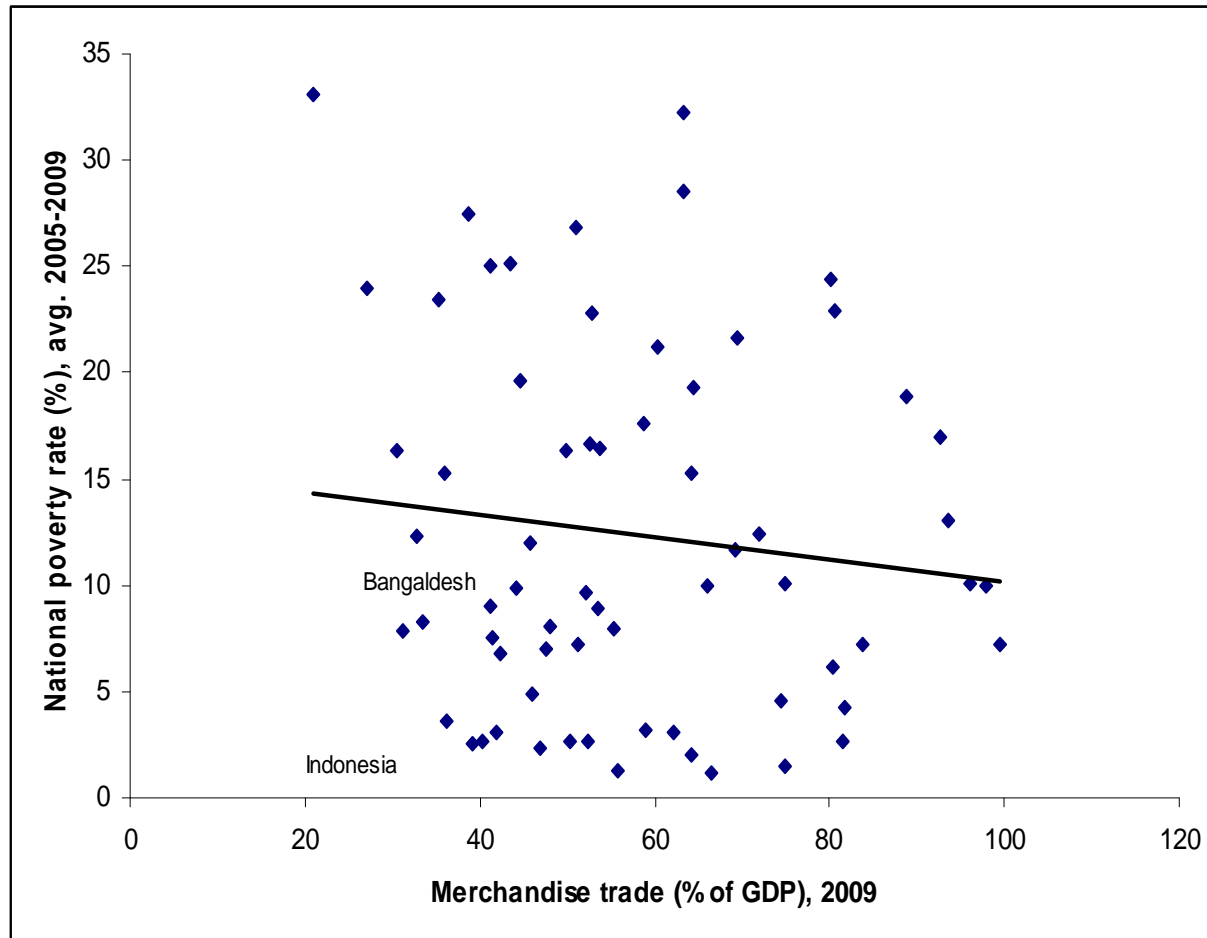
Outline

- Introduction – any link between trade facilitation and poverty reduction?
- Case study on SAARC Corridor 1 – data and methodology
- How much trade SC 1 carries? Trade between India and Pakistan and India and Bangladesh
- Major findings of the primary survey
- Conclusions

Is there any link between trade facilitation and poverty?

- Trade liberalisation has long been seen as an important element of an effective and sound economic policy and trade facilitation is a necessary step for achieving it.
- Tariff liberalization is almost a 'dead' issue, non-tariff policy issues important such as trade facilitation, NTMs, TBTs, etc.
- Trade facilitation is aimed at ensuring the movement and clearance of goods across borders within the shortest time at the minimum cost
 - Two elements which form the crux of the issue are time and cost.
- Relation between trade, inequality and poverty within countries is not beyond controversy.
- Under free trade and competitive conditions, trade promotes growth, and growth reduces poverty.
- Reducing trade costs can have a profound impact on poverty.

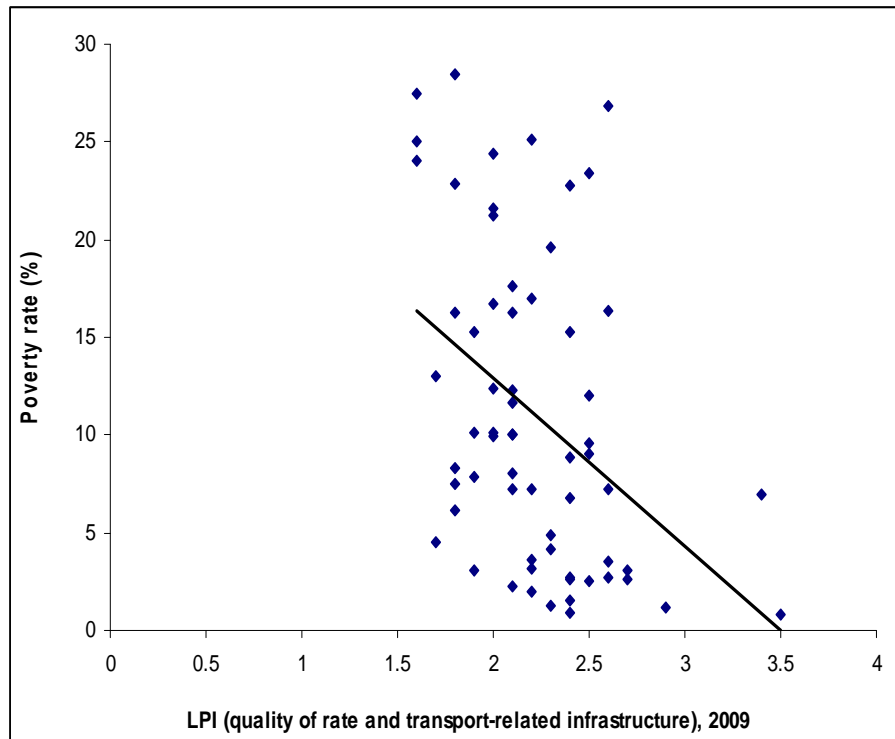
Trade – poverty scatter



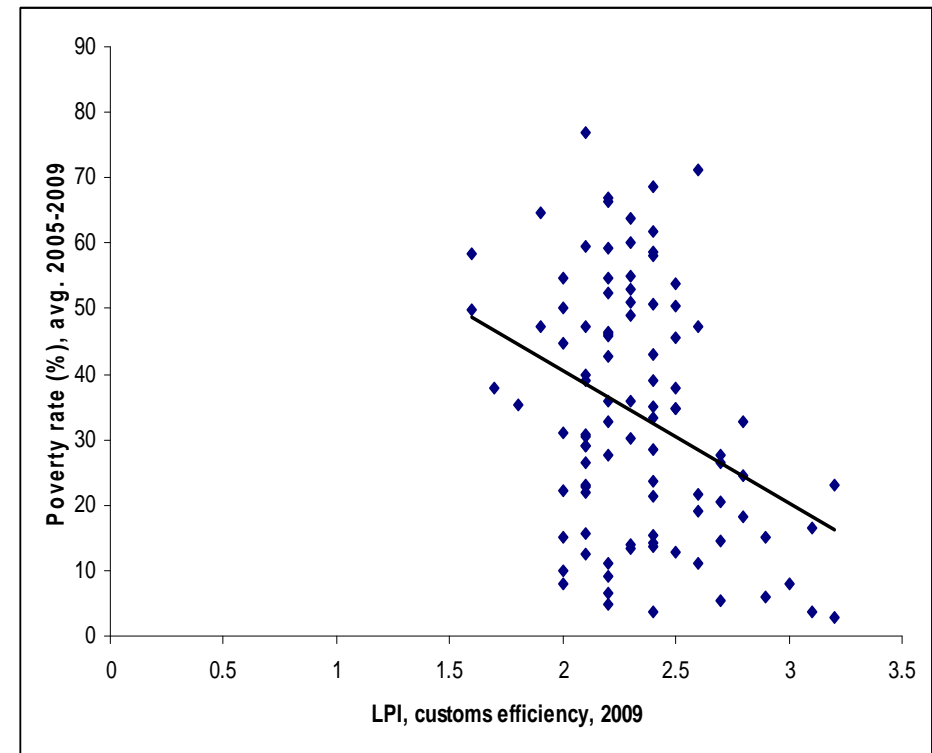
Data source: WDI Online Database

Trade facilitation – poverty scatter

(a)



(b)



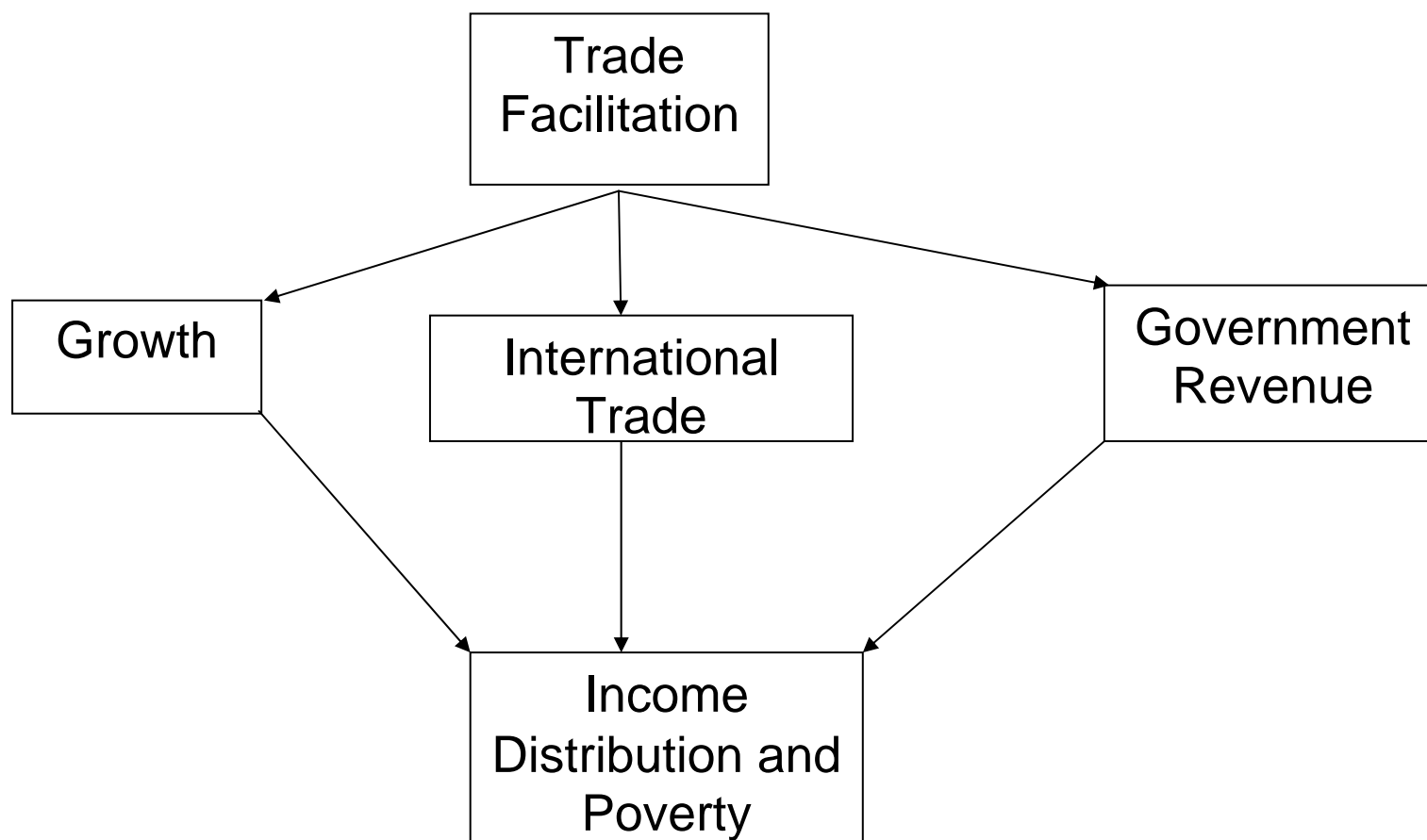
Data source: WDI Online Database

Income distribution impact of trade facilitation in developing countries

Channels	International trade, economic growth and government revenue
Direct benefits	Rising exports and foreign investment, rising employment, fall in poverty
SMEs	Main beneficiaries, since trade transactions costs fall disproportionately on small firms
Resource redistribution	Enhance trade-induced growth, increases average incomes providing more resources with which to tackle poverty.
Market access	Improvements in infrastructure allow the poor to trade more easily and profitably in domestic as well as in international markets.
Social progress	Rise in government revenue which can benefit the poor if used to finance social expenditures

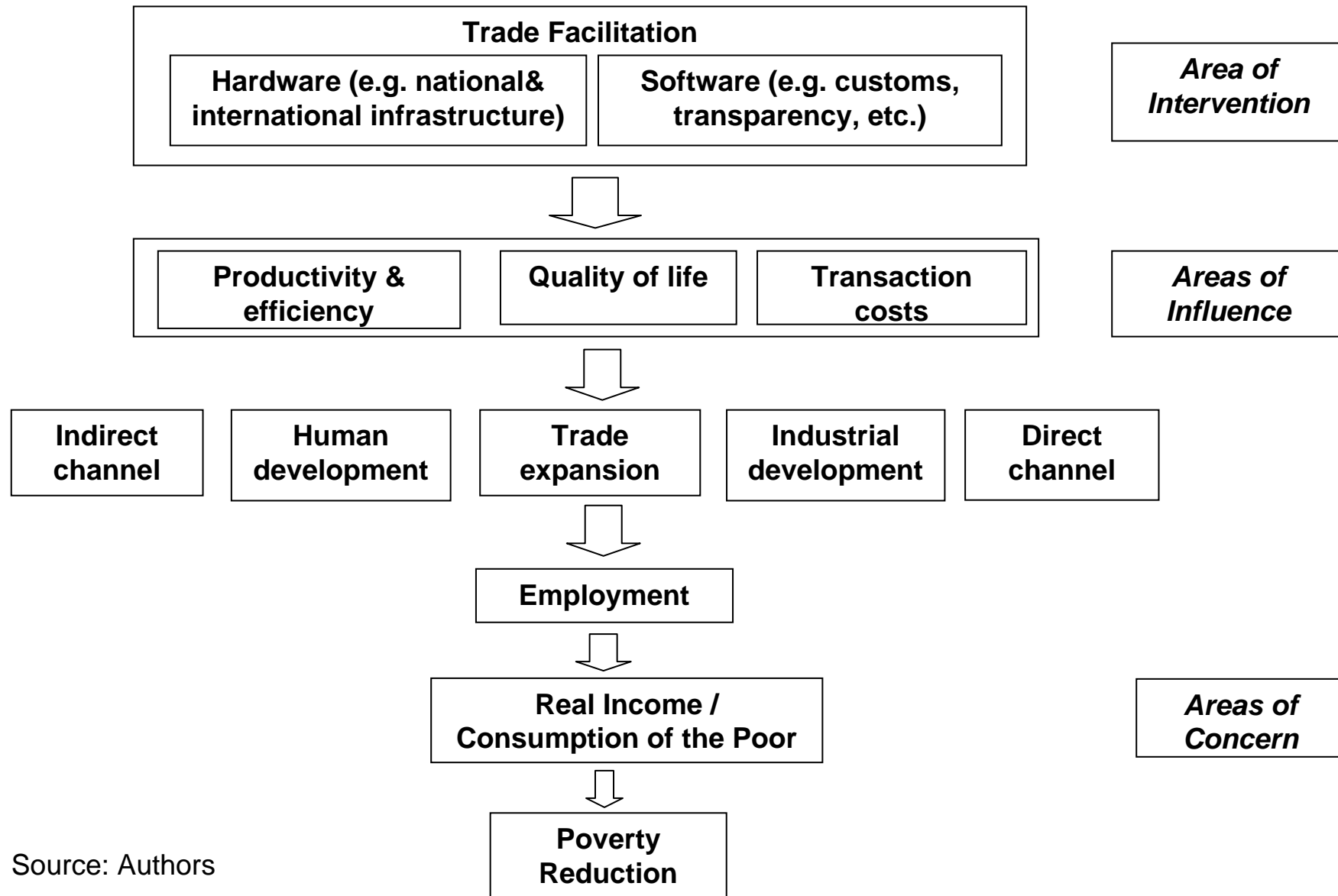
Source: UN (2003)

Trade facilitation and poverty linkages



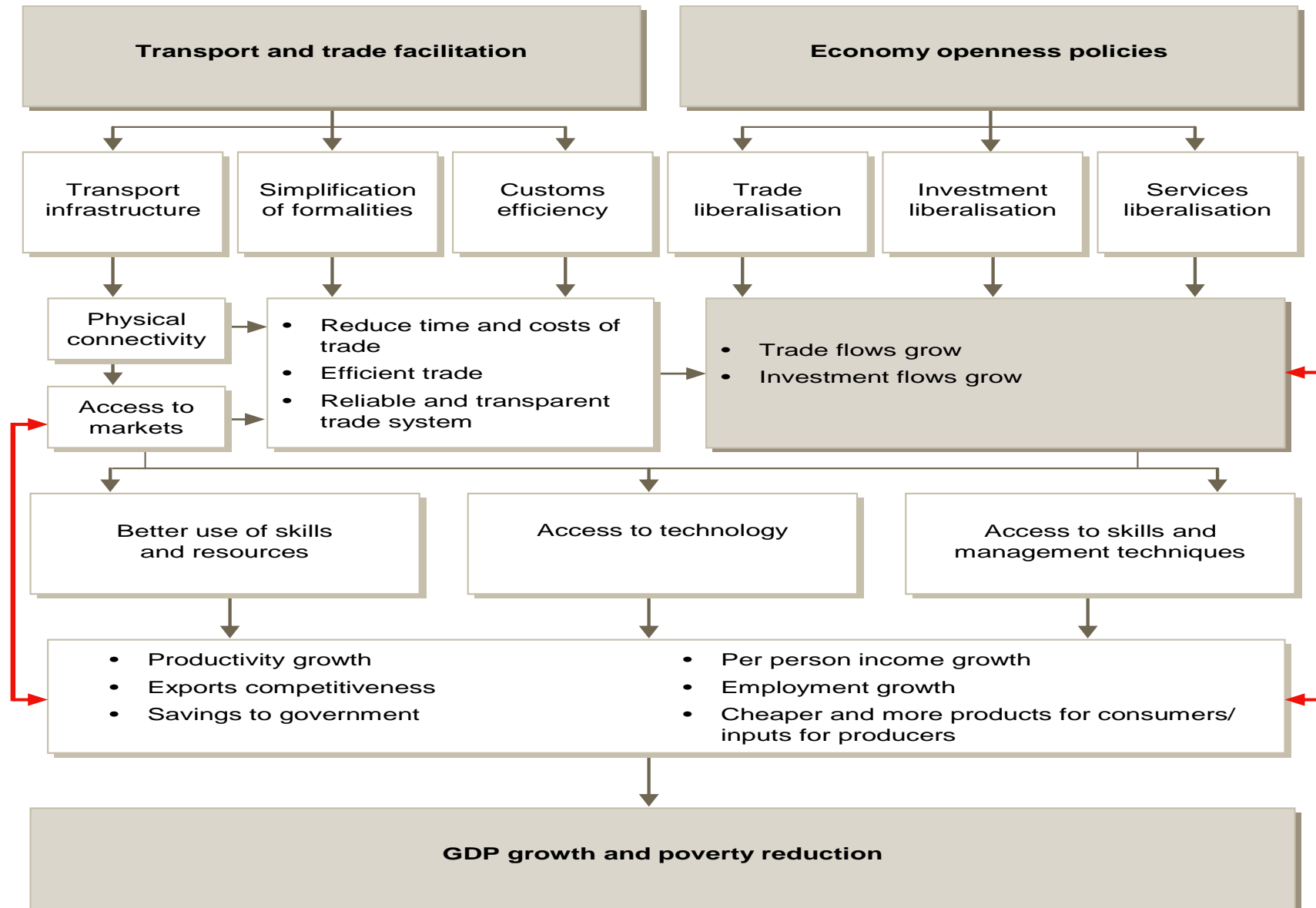
Source: UN (2003)

Trade facilitation helps in the reduction of poverty



Source: Authors

Trade facilitation and economic outcomes



Summing-up

- Improved trade facilitation makes the trade efficient which tends to increase average incomes, providing more resources to tackle poverty.
- Positive impact of trade facilitation on income and poverty reduction is proved through growth;
 - Efficiency trade facilitation is equally important as its quantity.

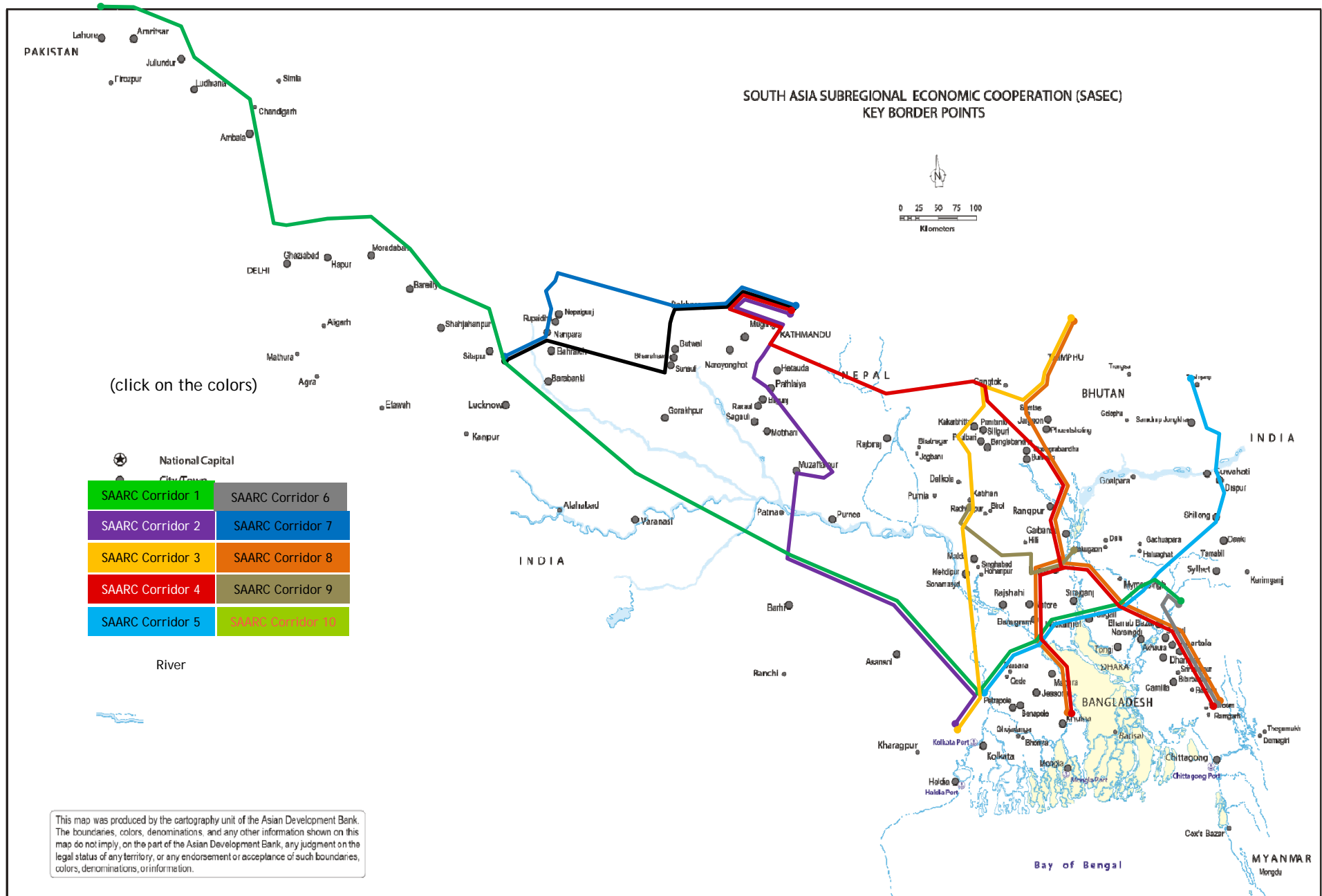
Case study on SAARC Corridor 1

– data and methodology

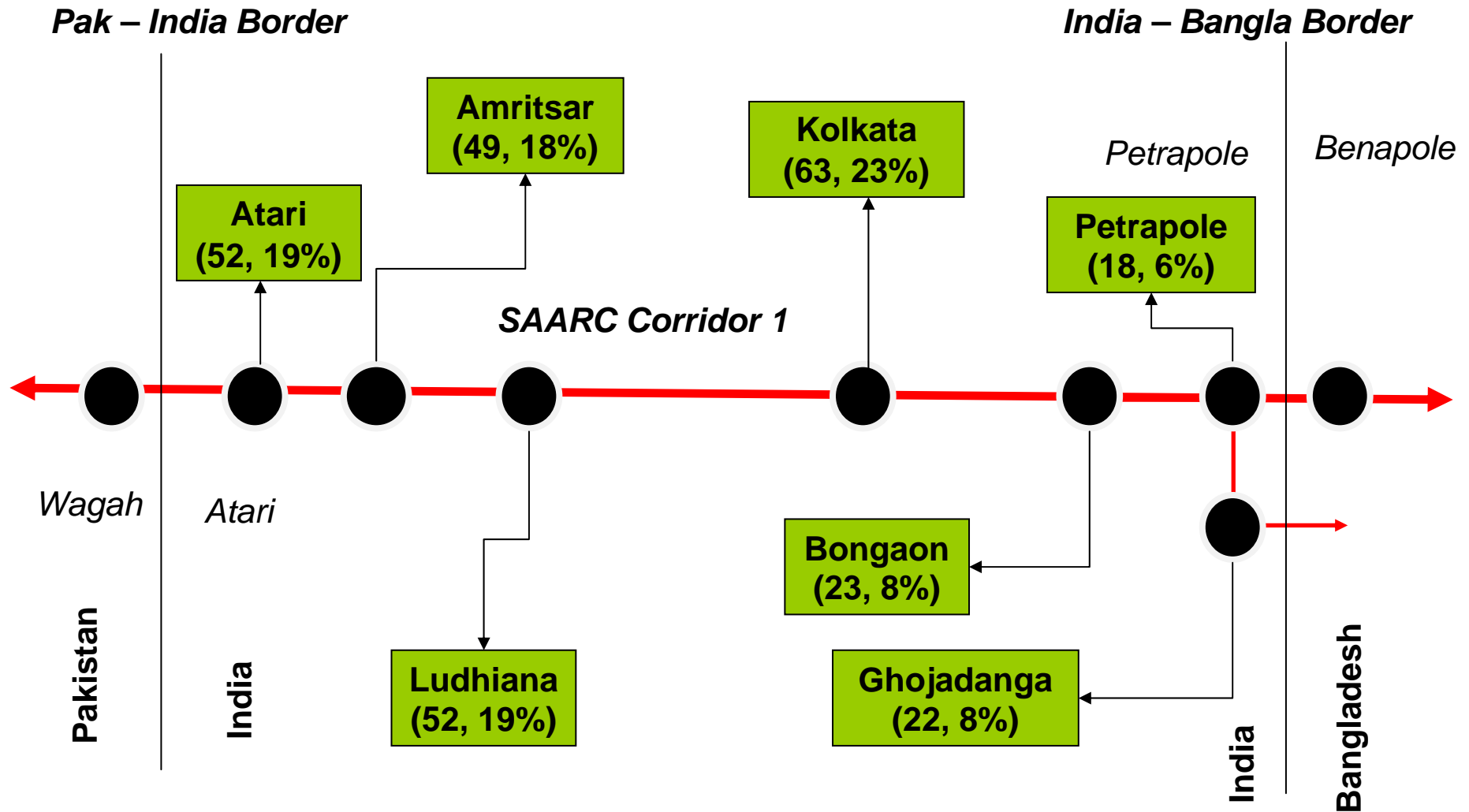
Data and methodology

- Selected SAARC Corridor 1 (2453 km) – tested the hypothesis only on Indian side of the corridor
- Primary survey through structured questionnaires (two types)
- Sample size:
 - Firms (100) use SC 1 and trade with neighbouring countries
 - Individuals (179) depend on trade
- Surveyed six places
 - 3 in western part
 - 4 in eastern part
 - 3 border Customs
 - 3 industrial clusters

Regional corridors in South Asia



Sample size and distribution



Total sample = 279 (firms 100 + individual 179)

How much trade SC 1 carries?
Trade between India and Pakistan
and India and Bangladesh

India – Pakistan Trade

India's Trade with Pakistan

	Export	Import	Total Trade
	(US\$ million)		
1990	43.49	44.86	88.35
1995	70.4	37.37	107.77
2000	163.33	65.05	228.38
2005	647.19	158.42	805.61
2010	2252.89	310.44	2563.33
CAGR (%)			
1990-1999	9.22	9.88	9.56
2000-2009	27.45	17.32	25.18

Source: COMTRADE

India's Trade with Pakistan at Atari-Wagah Border

Year	Export	Import	Total
	(INR Billion)		
2007-08	17.399	34.67	52.07
2008-09	43.534	42.119	85.65
2009-10	79.805	39.592	119.40
2010-11	37.167	4.621	41.79

Source: ADB (2012)

India – Bangladesh Trade

Bangladesh's Trade with India

Year	Export	Import
	(US\$ million)	
1990	21.68	170.27
2000	50.13	945.45
2010	320.91	3859.82
CAGR (1990s), (%)	9.61	22.06
CAGR (2000s), (%)	20.49	12.59

Source: COMTRADE

India's Exports through Major Ports (%)

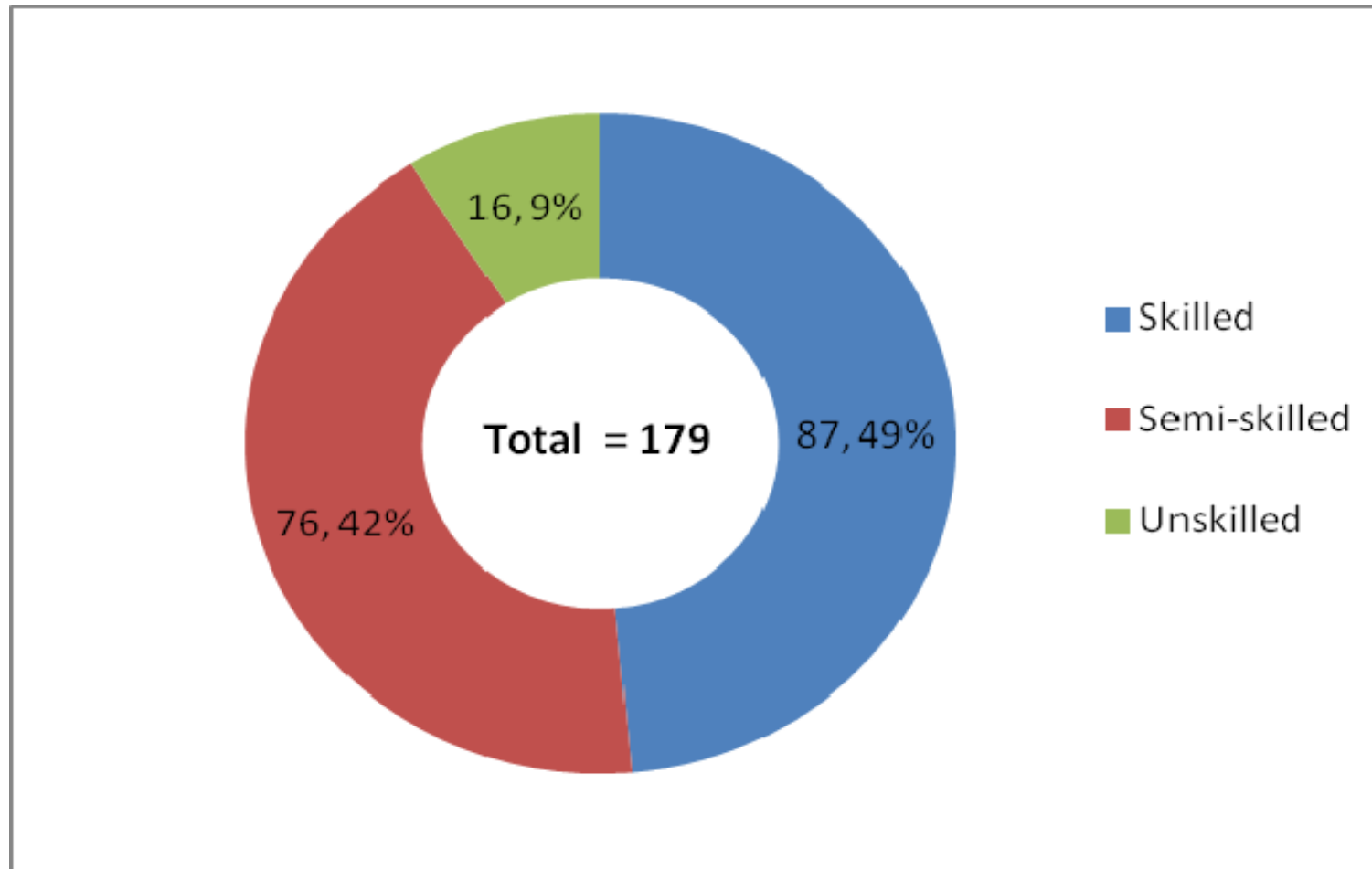
	1996-97	2003-04	2010-11*
Land (Road and Railways)			
Petrapole (mainly Road)	56.6	36.2	57.2
Ranaghat (Gede) (Rail)	5.2	11.5	17.5
Radhikapur (Rail)	0.6	1.9	2.4
Hili (Road)	2.9	5.9	6.1
Kotwaligate (Mohedipur-Road)	4.3	6.9	2.8
Sea			
Mumbai	9.3	1.3	0.6
Nhava Seva	3.3	5.3	7.1
Chennai	1.9	2.5	1.3
Tuticorin	1.8	1.5	0.7
Vishakapatnam	0.7	2.8	1.1
Kakinada	0.9	2.5	0.4
Others	12.5	21.7	2.8

Source: Calculated based on DGCIS

Major findings of the primary survey

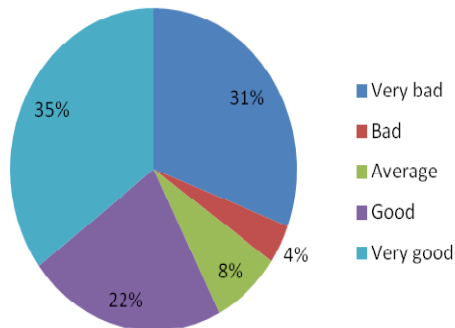
Individuals

Skill composition

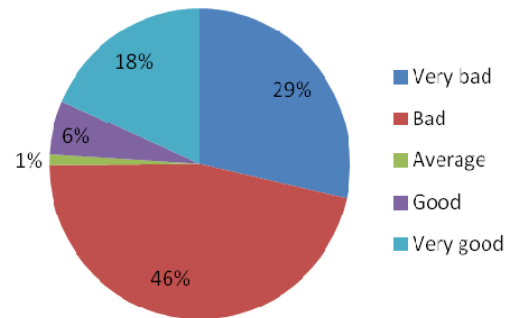


Opinion about quality of trade infrastructure

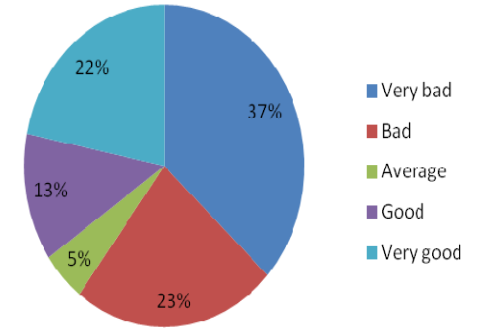
Transport Infrastructure



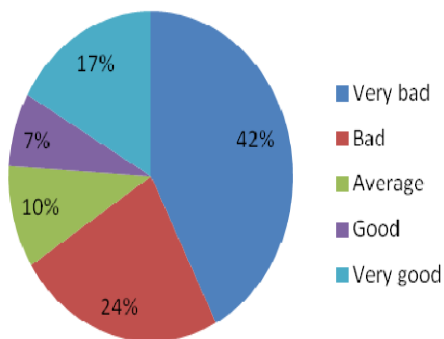
Hotels and restaurants



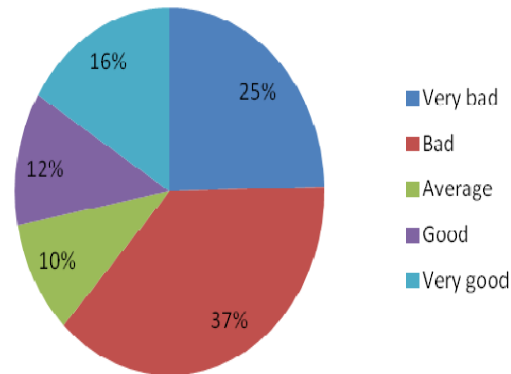
Banks



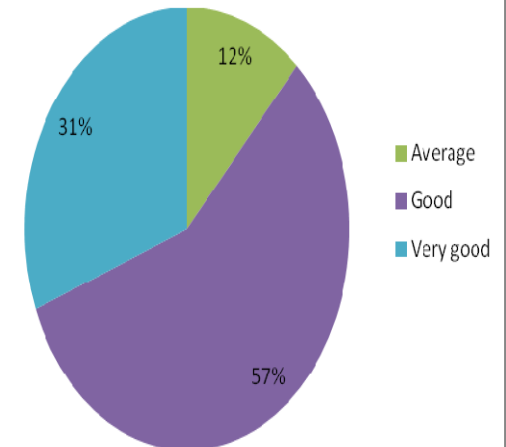
Servicing facilities



Communications facilities

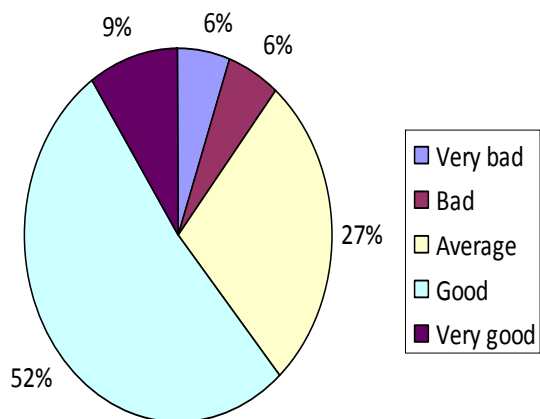


Customs

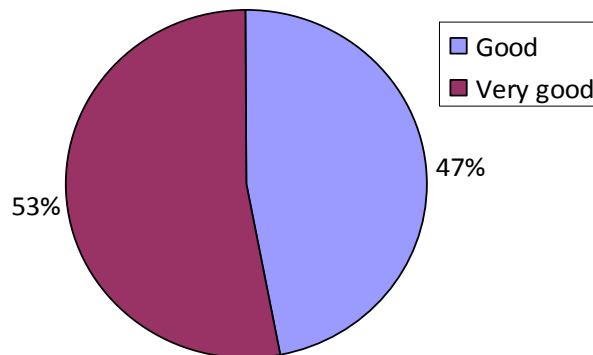


Opinion on governance

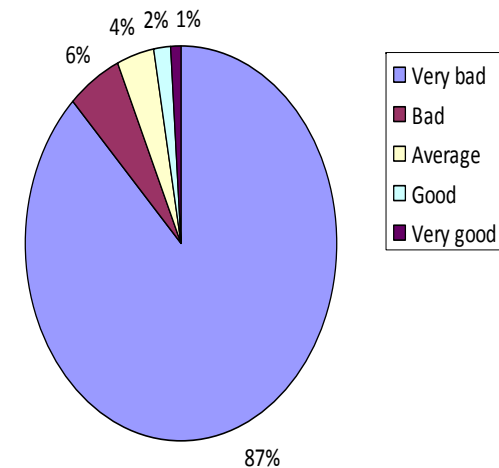
Non-transparency in information



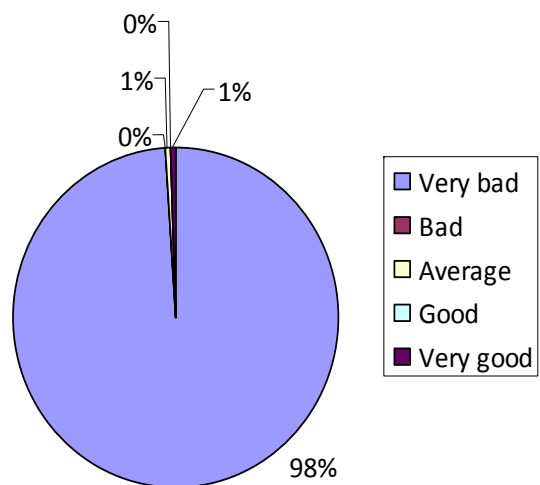
High security



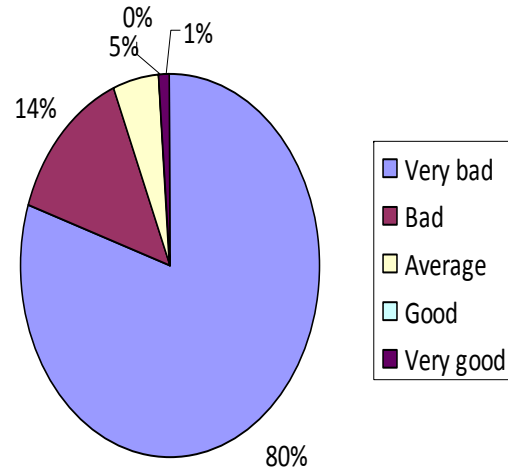
Local mafia



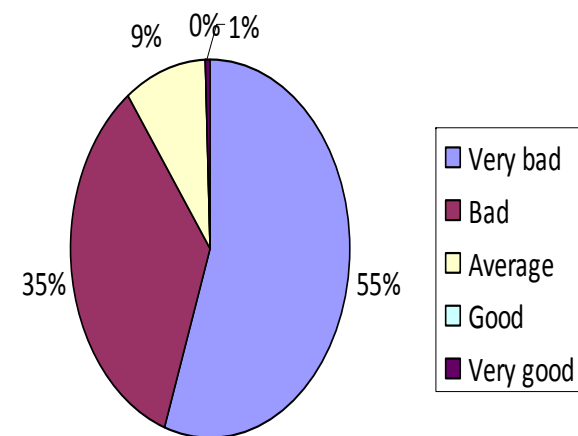
Minority / religious tensions



Cheating and frauds



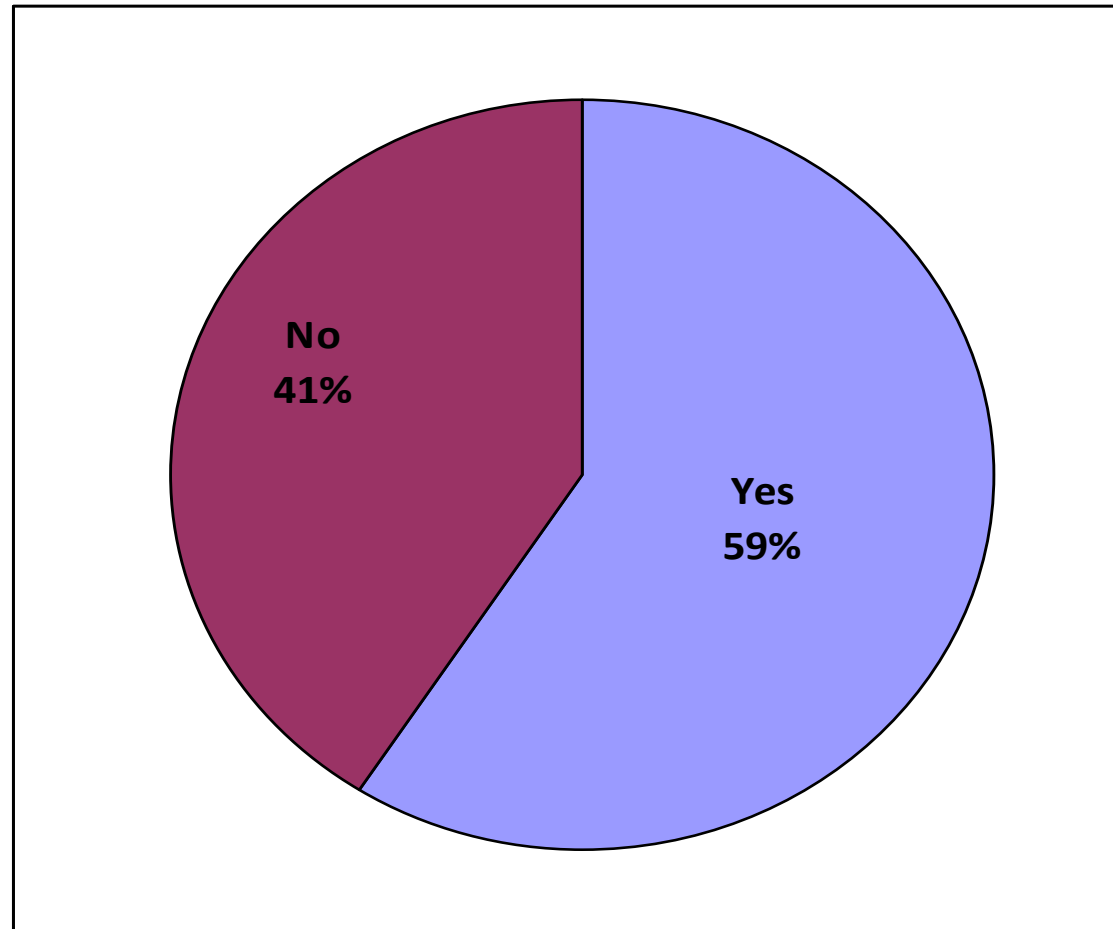
Strikes and closedown of operation



Marginal effects in elasticity of ordered probit regression

Variables	Skill levels	Experience	Annual Income
Customs	0.0730	-0.2238	0.1978**
Transport	-0.0453	0.0374	-0.0424
Banks	-0.1446	-0.0716	0.1411
Hotels	0.0645	-0.2767	0.2609**
Servicing Facilities	-0.2052	-0.3206	0.1744
Communication	-0.2171	-0.3736*	0.1734
Lack of Security	0.2607	0.0760	0.0328
Mafia dominance	4.4633***	-1.6234	-0.4178
Lack of transparent Information	-2.0745***	-0.5506*	0.1208
Cheating in transactions	4.0489***	0.2563	-0.3357
Strikes by workers	-2.1594**	-0.0024	-0.4132

Opinion on trade to reduce poverty



Logit regression on trade facilitation to reduce poverty

DV = Log odd ratio that poverty has reduced

Variables	Estimated Coefficient
Better Customs	-2.488***
	(1.853)
Better Transport infrastructure	-1.801***
	(0.360)
More Banks	0.677*
	(0.493)
More Hotels and restaurants	-0.324
	(0.779)
Better Servicing facilities	1.387**
	(0.883)
Better Communications facilities	-0.0737
	(0.786)
Higher security	-1.732*
	(0.933)

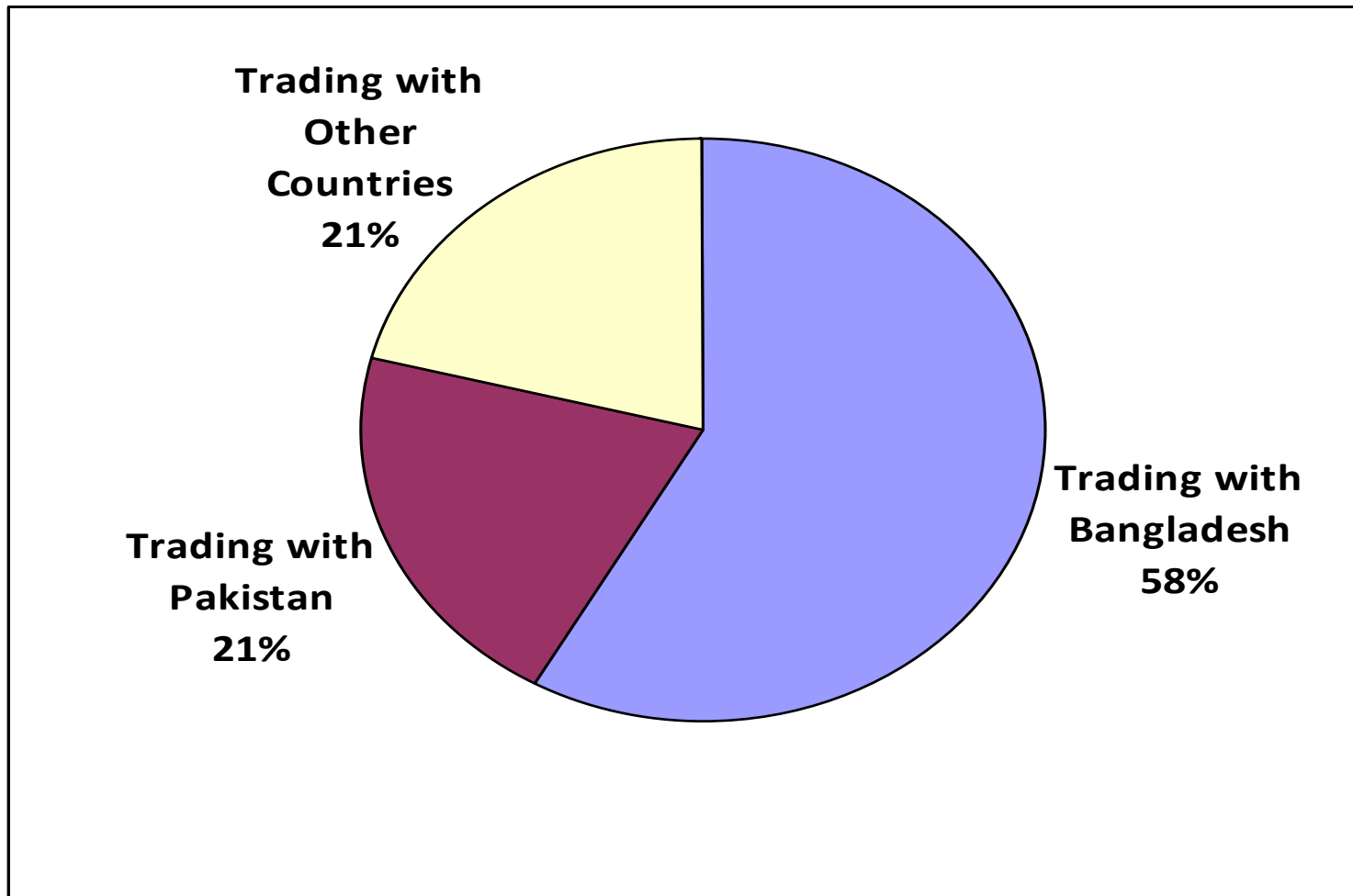
Less Local mafia	-1.163**
	(0.490)
More transparency in information	1.015**
	(0.577)
Less Cheating	1.541**
	(0.735)
Less Strikes and closedown of operation	-0.586
	(1.203)
Constant	19.56***
	(12.145)
Observations	175
Pseudo R2	0.6188
Wald chi2(11)	113.26
Prob > chi2	0

Notes: Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

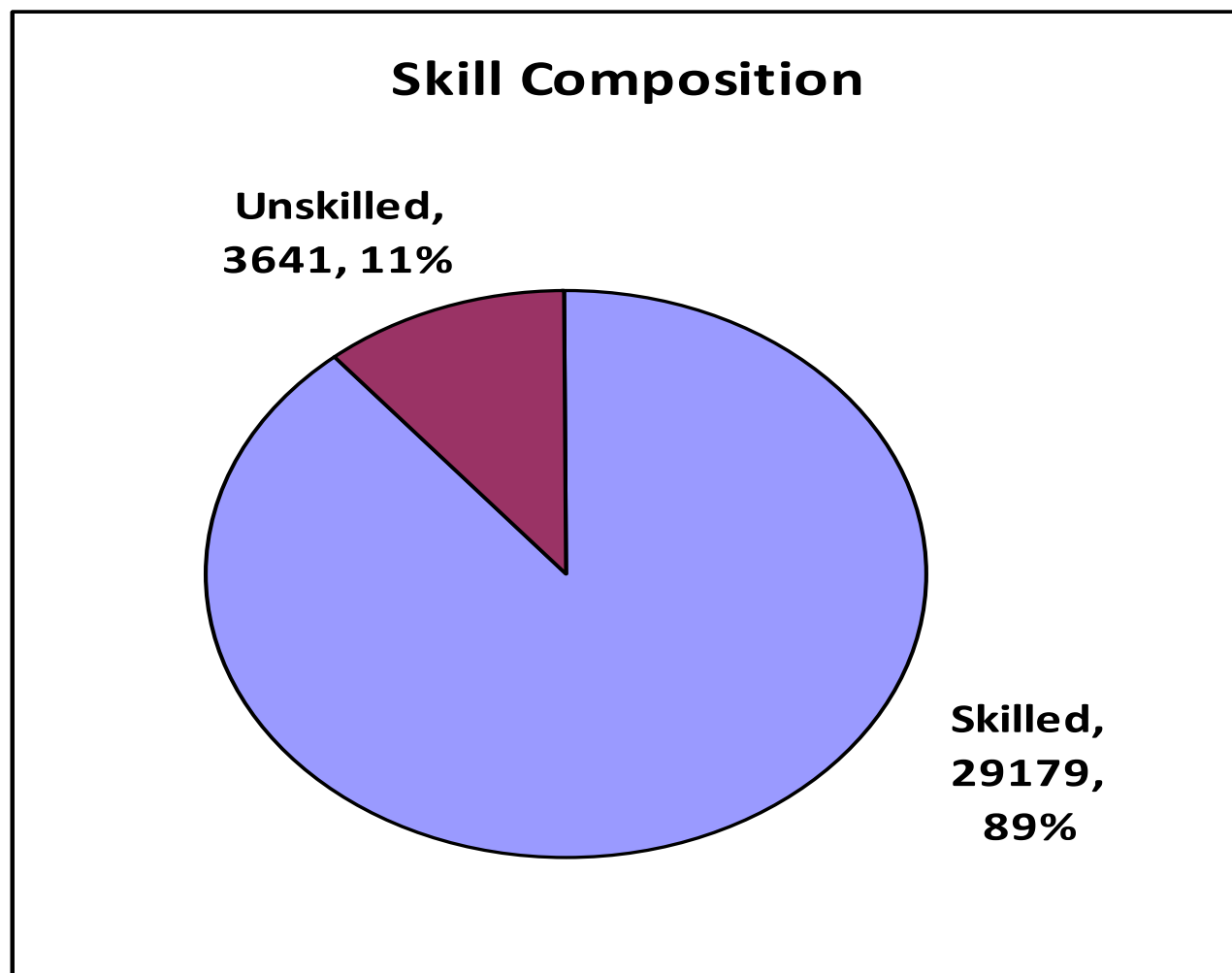
Major findings of the primary survey

Firms

Distribution of firms in terms of trading partners



Skill composition in employment



Physical and Non-Physical barriers at Indian borders dealing trade with Bangladesh and Pakistan

(a) Availability of Facilities

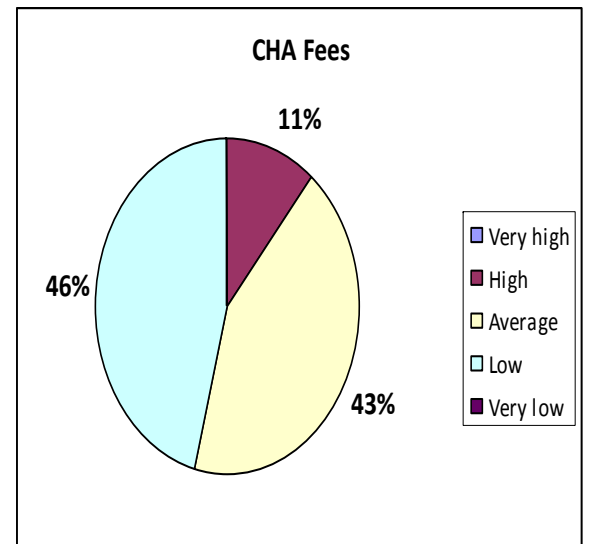
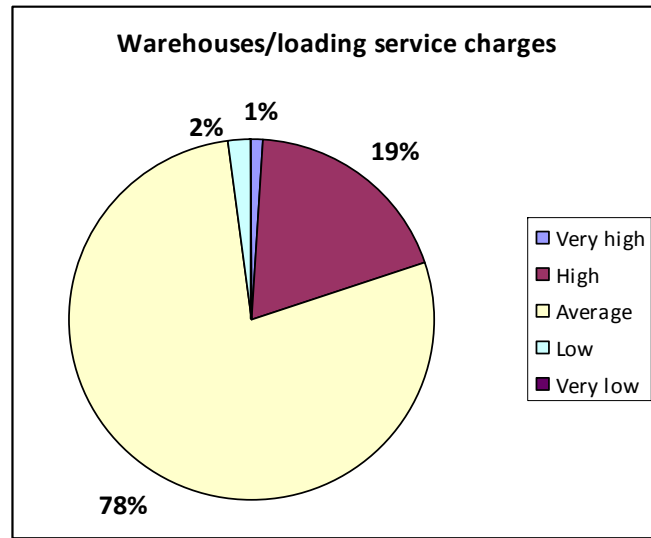
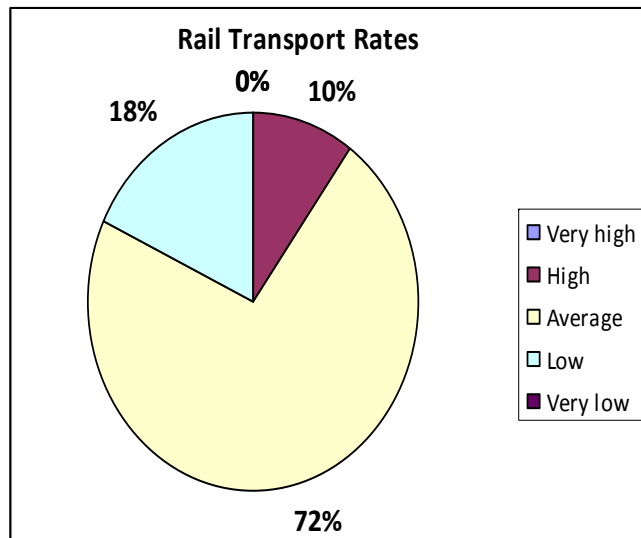
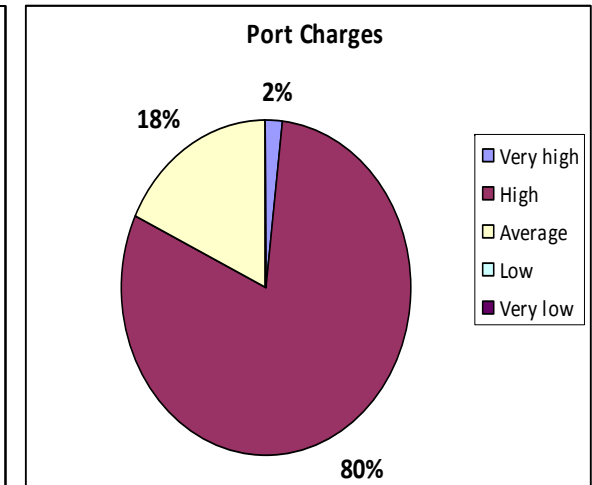
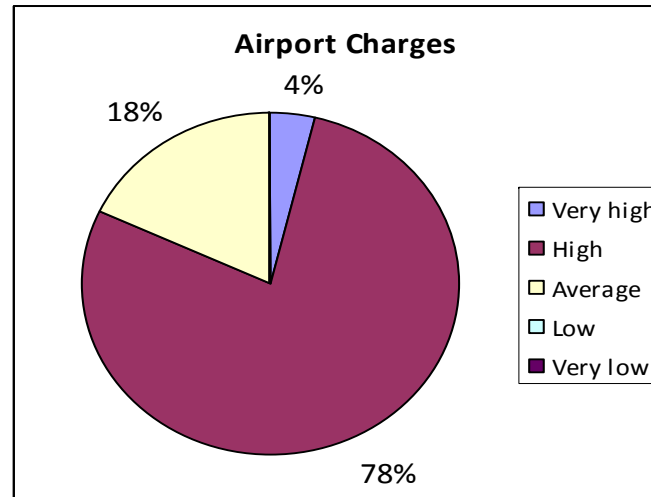
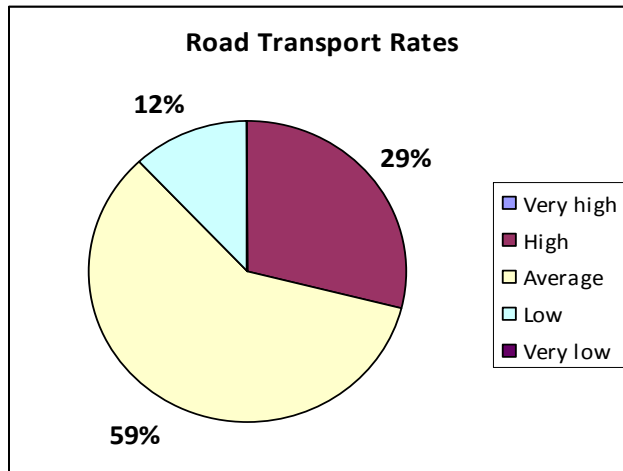
Availability	Perception (%)
Weigh bridge	100
Dispute settlement	100
Telephone	67
Customs	56
Security	56
Container handling yard	56
Standards (Customs)	56
Internet	46
Shops, hotels and restaurants	36
Immigration	33
Warehouse and parking	33
e-commerce of Customs	23
Currency exchange	23
Container handling equipment	10

Physical and Non-Physical barriers at Indian borders dealing trade with Bangladesh and Pakistan

(b) Non-availability of Facilities

Non-availability	Perception (%)
Bank	100
Health	100
Waiting room	100
Post office	100
Fast Track Cargo Clearance	100
Transit	100

Opinion on operational logistics costs



Perception about transaction time at border

(a) Indian Export to Pakistan

Time	Without physical inspection	With physical inspection
1 day	97%	
2 days	3%	
1 day		12%
2 days		88%

(b) Indian Export to Bangladesh

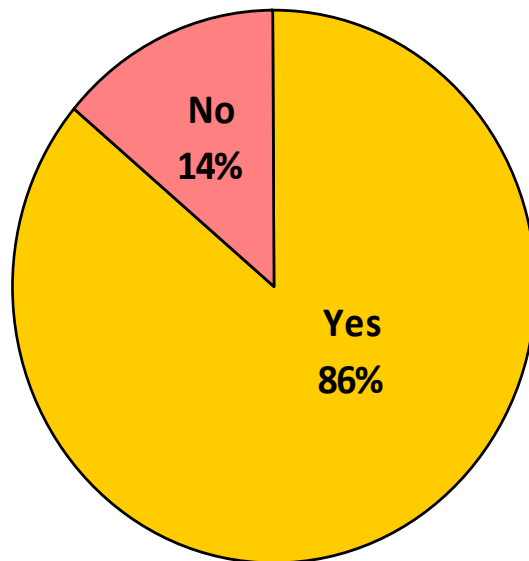
Time	Without physical inspection	With physical inspection
1 day	66%	
2 days	27%	
3 days	7%	
1 day		66%
2 days		12%
3 days		22%

Perception about Customs at border (%)

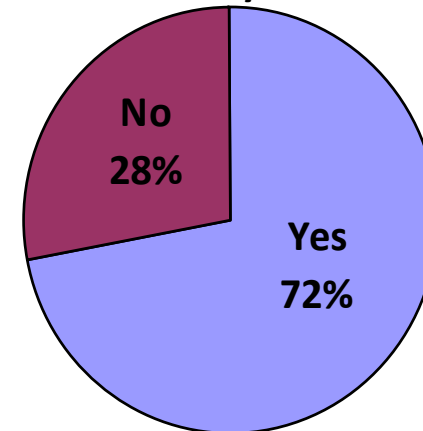
	Yes	No	Do Not Know
Can Customs declaration be submitted online?	23	77	
Does Customs allow for pre-arrival clearance of merchandise/shipments for imports?		100	
Does the Custom code require importers to use a licensed Custom Broker to clear goods?	100		
Does Custom use post clearance audit for imports?		100	
Are you and your customers able to choose the location of the final clearance of the goods for imports?		100	
Can goods be released pending final clearance against an accepted guarantee?		100	
Are you and your peers invited for dialogue by Customs through a formal process (periodic meeting, consultative forum or committee or the like)?	100		
In case of dispute with Customs or other border agencies, is a review/appeal procedure available?	65		35
Do you receive advance notification of binding changes with respect to tariff classification, valuation or rules of origin?	100		

Perception about poverty and trade facilitation

**Do You Think Poverty Has Gone Down
over the Last 5 years?**



**If Yes, Do You Think Trade with Pakistan
and Bangladesh is One of the Major
Responsible Factor for Reduction of
Poverty?**



Logit regression: Trade facilitation to reduce poverty

DV = Log odd ratio that poverty has reduced

Variables	Estimated Coefficients
Better Infrastructure at check-post	9.591***
	(1.413)
Better Transportation infrastructure to access the check-post	31.70***
	(1.552)
Better Telecommunication infrastructure at check-post	-6.756***
	(0.518)
Less Bureaucracy and red-tape at check-post	47.09***
	(2.863)
Less Corruption and bribery at check-post	-15.87***
	(1.035)
Faster handling equipment	27.96***
	(1.577)
Less Lengthy paper work at check-post	-79.31***
	(1.526)
Observations	100
Pseudo R2	0.8693
Wald chi2 (Prob > chi2)	70.91 (0)

Conclusions

- Mixed result in performance of trade facilitation and governance.
- Better trade will reduce poverty through creation of more jobs, higher skills, better income opportunities and higher local production, among others.
- Poverty reduction, in the perception of the individuals connected with border trade, depends on reduction in trade barriers through better trade facilitation.
- In the perception of the firms, better infrastructure which facilitates more trade is tagged with a positive response about decline of poverty. However, the same is not true for some governance variables like cheating or lengthy paper work.