

# Trade Facilitation Issues in the India-Sri Lanka FTA

Suwendrani Jayaratne & DharshaniPremaratne

Institute of Policy Studies, Sri Lanka

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## Introduction

- TF is broadly, improving processes associated with trading across national borders.
  - processes: coordinated movement of goods, documents, money & other associated interactions between different parties
- Not an absence of control but rather improved control.  
i.e. if measures are taken to automate systems → lower physical contact → lower rent seeking activities
- TF → an essential dimension of economic development marked by growing inter-dependency & integration.
- Progressive reduction of tariffs →
  - reducing practical constraints that delay transactions at & behind national borders
  - increasing efficiency of supply chains & associated logistics costs.

### Introduction contd..

- Inefficiencies in placing orders, delivering goods and making payments
  - negative impact on the competitiveness of businesses.
- Delays at border crossings, harbours and docks
  - an additional burden for businesses
- The hidden costs of trade high
  - OECD (2002) trade transactions costs amount to as much as 2 to 15 % of the value of traded goods globally.
  - Welfare enhancing

### Introduction Cont...

- Role of TF in increasing and maximizing benefits of trade widely acknowledged.
- Improved trade facilitation → consistent, transparent and predictable environment for moving goods across borders smoothly
- Developments in technology → raised prospects for paperless customs clearance and exchange of information increasing potential gains of trade facilitation as well as creating the necessity for common standards.
- Benefits to Government
  - enhanced revenue collection
  - better governance and administrative controls
- Businesses
  - faster customs clearance
  - lower costs of doing business
- Consumer would benefit from goods that are relatively cheaper.



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### Rational & Objectives of Study

- Trade between India & Sri Lanka increased substantially over the last past decade , the bulk of India's exports to Sri Lanka are outside the FTA (Kelegama & Mukherji, 2007).
- Utilization rates of the ISFTA by Sri Lankan exporters has declined to 75 % in 2008.
- Therefore, high potential for growth and diversification of exports between the two countries.
- Constraints to trade identified include measures that relate to the trade facilitation agenda including customs processes & assessments of rules of origin.
- Significance of bilateral trade & future prospects of trading with India, this study seeks to analyse trade facilitation issues that traders face when importing and exporting goods using the ILFTA



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## Methodology

- Secondary data/literature to evaluate current status of TF in the two countries
- Primary Data collection to assess contemporary issues related to TF affecting Indo-Lanka trade
  - included a survey of firms that trade between India and Sri Lanka.
- Top imports from and exports to India were identified using Sri Lanka Department of Customs data
  - For each of the top 10 exports and imports, at least 2 firms were selected on a random basis from the EDB directory of traders, and made sure that at least one of the two firms was a SME.

## Methodology Cont....

- The selected firms were interviewed
  - feedback on trade processes entailed in trading with India
  - key bottlenecks arising in such processes & perspectives on measures that can be adopted to overcome these constraints.
- The sectors covered in the survey included
  - Wood products, Gloves, Steel, Copper wire, Textiles, Tyres , Motor vehicles, Mandarin , Strawberries
- For India, questionnaires prepared by the IPS team were sent through Indian trade chambers to obtain feedback from traders; limited responses
  - Federation of Indian Chambers of Commerce and Industry
  - South Indian Chamber of Commerce and Industry
  - Tamil Chamber of Commerce
  - Andhra Chamber of Commerce and Industry
  - India-ASEAN-Sri Lanka Chamber of Commerce and Industry

## Trade Facilitation in Sri Lanka and India

### Selected Indicators of Trade Facilitation, 2010-2011

Country	Mean	Singapore	India	Sri Lanka
Prevalence of Trade Barriers	4.6	6.2	4.2	4.2
Burden of Customs Procedure	4.2	6.3	4.0	4.2
Infrastructure	4.3	6.6	3.6	4.4
Transparency of government policymaking	4.4	6.3	4.7	3.8
Irregular payments and bribes	4.3	6.6	3.7	4.1
Burden of Government Regulation	3.3	5.5	3.0	3.3
<b>Global Competitiveness Index (Rank)</b>	-	<b>3</b>	<b>51</b>	<b>62</b>

Source: The World Competitiveness Report



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## Trade Facilitation in Sri Lanka and India

### Trading Across Borders: India and Sri Lanka – 2010

Trading Across Borders	India	Sri Lanka
Documents to export (number)	8	8
Time to export (days)	17	21
Cost to export (US\$ per container)	945	715
Documents to import (number)	9	6
Time to import (days)	20	20
Cost to import (US\$ per container)	960	745

Source: World Bank, Doing Business Report 2010



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#### Trade Facilitation in Sri Lanka and India contd...

- Multilateral Agreement on Trade Facilitation: An Important but Complex Agenda for South Asia –Weerakoon et al. (2005)
  - Laws, regulations, formalities and procedures
  - Use of Electronic Data Interchange
  - Dwell time
  - Fees, charges, penalties and appeals
  - Corruption-related costs
  - Personnel at government agencies
- The Impact of Information Technology in Trade Facilitation on Small and Medium Enterprises in Sri Lanka - Wijayasiri and Jayaratne (2009)
  - Partial implementation of the EDI system
  - Lack of connectivity with the stakeholders and the additional cost of using EDI; discourage traders from using the EDI system and require traders/agents to manually visit the relevant agencies in order to process an import/export consignment



#### Trade Facilitation in Sri Lanka and India contd...

- An Evaluation of the Need and Cost of Selected Trade Facilitation Measures in India: Implications for the WTO Negotiations - Chaturvedi (2006)
  - Customs valuation
  - Submission of documents for clearance
  - Technical or sanitary requirements
  - Obtaining import license
  - Identification of origin of goods and payment of fees and penalties
- De and Rout (2008)
  - Higher transportation costs have raised the price of imports, which have escalated the cost of production due to the expensive imports.
  - Higher transportation costs are seen as taxes on trade.
  - Transportation cost is relatively more important than tariff in enhancing India's merchandise trade.
  - Identify improvements in trade facilitation, logistics services and related infrastructure that can be achieved in the short – term to medium – term and that would have a significant impact on trade competitiveness of India.



## Trade Facilitation in the ISFTA

- Trade facilitation related provisions are limited in the ISFTA.
- Provisions related to consultation regarding rules of origin are included with institutional mechanisms for appeal procedures being in place.
- No provisions on publication & availability of information:
  - publishing trade regulation, internet publication, notification of trade regulation, establishment of enquiry points/Single National Focal Points or other measures
- Specifications on the time between publication of new regulations and the time it comes in to force are not stated. The agreement does not specify other measures that can be undertaken to enhance impartiality, non-discrimination and transparency.



### Trade Facilitation in the ISFTA Cont....

- No provisions on,
  - fees & charges related to importing/ exporting.
    - \* no provisions or guidelines on the related charges
    - \* reduction of number and diversity of fees and charges
    - \* publication/notification of fees and charges, their periodic review & other related measures.
- Does not state the formalities/procedures & data/documentation requirements, which constitutes an important aspect of TF.
  - \* No provisions on reduction of formalities & documentation
  - \* the use of international/regional standards or provisions on commercially available information is not included.



#### Trade Facilitation in the ISFTA Cont....

- It does not propose or state the role of automation in the process or on working towards a single window.
- TF measures on the release and clearance of goods has not been included in the agreement.
- Exchange and handling of information, customs valuation and harmonization/ standardization are also not addressed in the agreement.



#### Documentation Requirements

		Maximum time taken	Minimum time taken
Sri Lanka	Acquiring documentation	3 days	1/2 day
	Preparing documentation	1 ½ days	1/2 day
	Submission of documents	3 days	1 day

- The number of documents required vary significantly from product to product.
- Textile imports from India require 18 documents from point of order to shipment. i.e. PI, PO, L/C, RO, CUSDEC, CI, B/L, Packing List
- They have to visit 7 agencies in the process of importing: Bank, shipping agent, DOC, Customs, BOI, Sri Lanka Ports Authority



## Main Trade Facilitation Issues Identified

- *Delays in Acquiring the Necessary Documents*
  - Shipments reaching the ports prior to the documents
  - Issuance of the Certificate of Origin by the DOC of Sri Lanka only after the shipment is been effected.
- *Demand for Additional Certification and Checks*
  - Additional checks/ certifications on the goods by Indian authorities although previously tested and certified by relevant, approved authorities in Sri Lanka
- *Non-availability of a Formal Body in Sri Lanka/India to Address Problems that Arise when Exporting under the ISFTA*
  - The absence of a fixed body to address problems arising when trading under the agreement

## Main Trade Facilitation Issues Identified Contd...

- *Lack of Knowledge about ISFTA among officials and Bureaucracy*
  - Instances where requests have been made by officials for duty to be paid for zero duty items due to the lack of knowledge/awareness of the concessions offered by the ISFTA
- *Ambiguity in terms of Related Procedures and Corruption*
  - Trading procedures are not laid down and that there is "total ambiguity" on the procedures, which has resulted in corruption.
- *Difficulties in obtaining Information*
  - SME players who require specific information on the concessions offered and the processes attached to acquiring the preference as there is a different procedure for those who trade using the ISFTA.

#### Main Trade Facilitation Issues Identified Contd...

- *Non-Availability of Testing Services in Proximity to the Main Ports*
  - The requirement to carry out checking/conformity of edible items at the Centre for Food Testing and Research Institute (CFTRI) in areas that are situated at a distance from the port in India
- *Necessary Technological Requirements*
  - The non-adaptation of modern communication and technology creates delays, i.e. Modern methods of communication not used by some agencies, relying on registered post to communicate in some instances creating substantial delay.



# Thank You!

[suwendrani@ips.lk](mailto:suwendrani@ips.lk)

[dharsani@ips.lk](mailto:dharsani@ips.lk)

