VIF Discussion Paper

Prospects of Developing Regional Value Chain in South Asia

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Introduction

South Asian region has traditionally been backward in terms of connectivity and trade integration. The World Bank (2019) reports the region among the least integrated regions in the world. Currently the intra-regional trade in South Asia is less than 3%. To enhance co-operation a few tasks were undertaken by forming regional blocks like South Asian Association for Regional Co-operation (SAARC) and enforcing South Asian Free Trade Agreement (SAFTA) in 2004. But due to several political and diplomatic differences among the members of the trade agreement, it has never been utilized to its potential. To boost the trade in region, it is pivotal to enhance regional co-operation and broader economic exchanges among the nations. At the same time it is also very important to develop the Regional Value Chain (RVC). It is in this context, this discussion paper attempts to examine two major questions, first, if RVC can be developed in South Asia, and, second, is the South Asian region ready for this development? We are premising our arguments on the marginal rise in trade volume over the last decade, coinciding with the removal of a number of tariff and para-tariff barriers particularly by India, and the recent focus on developing a multi modal transportation infrastructure in the region as well as measures to facilitate trade and logistics being undertaken by India and the neighborhood. The paper is confined to India, Bangladesh and Sri Lanka.

Conceptual framework

Regional Value Chain refers to the cross-border flows of goods, investment, services, know-how and people associated with the regional production and market networks. Over the past few decades, they have emerged as the new paradigm for the organisation of production across various regions globally. Today, most production processes across the world are vertically fragmented. Goods and services are produced in separate stages, and production is often located in different countries. The assembly of different parts takes place either sequentially along the supply chain or in a final location.[1]

1 Zachariadis Ioannis (2019) 'Global and Regional Value Chains: Opportunities for European SME's internalisation and growth', European Parliamentary Research Service, Brussels.

Regional Value Chains in South Asia

As mentioned above, the Regional Value Chain in South Asia is in a poor shape compared to other regional groups. Indeed, except for Sri Lanka, regional trade barely took off among South Asian nations till the last decade. This is mainly due to the poor trade logistics and connectivity. Due to these issues efficiency in regional trade was poor, and not cost effective. Evidently South Asia remained one of the least integrated regions. The wheel started moving as major economies in the region had hit high growth trajectory. Bangladesh's economy performed tremendously during the last a few years featuring among the fastest growing economies in the World Bank ranking.[2] The region has also witnessed cross border infrastructural development in recent times. Indian infrastructure investment in almost all the South Asian nations have helped to boost regional connectivity to a very large extent.

Along with India, the region has also witnessed major investments by several multilateral agencies and development banks in the areas of connectivity. Cross border multimodal transport opportunities started evolving in the region, giving fresh impetus to trade and paving way for a situation to examine the RVC potential that would bring transformational change in the regional trade and investment paradigm.

As a result, it is expected that the regional trade and commerce will improve with more facilitation initiatives being undertaken at borders and within economies. The simple rationale is that with easier cross border movement, costs will drop and growth in trade volume will spur. The thrust on efficient cross border multimodal transportation, as supported by multilateral institutions and development banks, has led to building of highway networks, cross country rail connectivity and cheap coastal shipping arrangement, creating a cobweb of transport networks in the sub- region of South Asia.

This coupled with the lessons of COVID-19 that necessarily points to an understanding that geography plays a key role in safeguarding against global value chain shocks as was seen during the pandemic. Institutions like IMF have also highlighted the important of regional co-operation to fight against the economic downfall brought by COVID-19. The pandemic created both supply

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2 Rahul Choudhury (2019), 'The Rise and Rise of Bangladesh', 21 April, South China Morning Post, Hong Kong. Available at https://www.scmp.com/business/article/3006802/rise-and-rise-bangladesh?fbclid=IwAR13LS9smhQj9Gc15pl8goIP_5bkLtrSfHGDYZQq_GDDtONzUxFDUsHw90s

and demand-side shocks to global trade. The creation of production centres within geographical proximity has many benefits. The disruptions in supply chains and lack of raw materials and production of goods can be minimized when they are in a closely adjoining areas, leading to the assumption that the region will benefit from developing Regional Value Chains. It has been suggested that companies with localized industries and supply chains were able to mitigate the shocks better.[3] This is not to suggest that bilateral value chains do not exist, but they are not robust enough and are often subjected to domestic vagaries and several other regulatory mechanisms. The political factor cannot be minimized. It is also reasonable to assume that value chains among states more aligned politically are better positioned to withstand sudden supply chain shocks, compared to economies which are aligned only on the basis of trade needs.

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This region has the largest working-age population, a recognized but small group of entrepreneurs and an increasing industrial growth. With the cross-border transport connectivity being put in place and more importantly, with the right combination of resources to boost agriculture, industry and investment, the possibility of developing Regional Value Chains seems imminent now.

India has been able to participate in a limited way into the global value chains in some items like gems and jewellery, automotive parts and services, but has not been able to develop any Regional Value Chains in many products. For instance between India and Bangladesh, the government to government co-operation between India and Bangladesh has been flouring well even during the COVID-19 crisis. In fact a new water transport facility was inaugurated recently with Bangladesh connecting Tripura in Northeastern part of India[4], but disruptions in cross border trade between the two countries could not be entirely avoided during

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3 'The Impact of Covid 19 on global supply chains', Oxford Business Group 24 April 2020 at https://oxfordbusinessgroup.com/news/impact-covid-19-global-supply-chains

4 Debraj Deb, 'In successful water route trial run, boat from Bangladesh reaches Tripura', Indian Express ,6 September 2020 at https://indianexpress.com/article/north-east-india/tripura/in-successful-water-route-trial-run-boat-from-bangladesh-reaches-tripura-6584592/

COVID-19 crisis due to blockades in the adjacent state of West Bengal in India. Despite warm relationships between the governments, bilateral trade has not gained any significant development in decades, except the recent surge of Bangladeshi ready made garments products due to duty disadvantage neutralized as a result of reforms in General Sales Tax (GST) replacing CESS, a para-tariff imposed on imported apparels.

Along with Bangladesh, Sri Lanka also offers a great deal of opportunity for the creation of RVC. Trade infrastructure is well developed in Sri Lanka and Colombo port plays a crucial role in transshipment in SAARC region. It is a relatively matured economy with decent value chain in existence and is located in close proximity to India's most developed States endowed with good infrastructure.

Along with possibilities there are some challenges too in this region. Contrary to India-Bangladesh warm ties, India's political and diplomatic rivalry with Pakistan has always been a major obstacle in developing region value chain in South Asia. Experts also site political differences between these two neighbors as the responsible factor for the failure of SAARC. Furthermore, the lack of intra-regional FDI flows is also instrumental in understanding the low level RVC. There have been very limited initiatives by the respective governments to boost regional investment flows.

Remedial Measures

It is evident that to boost the economic growth and take leverage of regional competitive advantage in the age globalization, countries need to participate in the global and Regional Value Chains. It has been suggested for RVC to take off, India and all others too, will have to improve its cross border infrastructure, remove tariff and non-tariff barriers, speed up the implementation of rules for harmonisation of regulations and technical standards which could offer seamless trade among the countries of the region . There have been several studies that identified the potential for developing RVCs for several products. For example, the production of bamboo items, including furniture, cloth and artefacts and creating RVC between North Eastern India, Myanmar, and Bhutan; for herbal products amongst Nepal, India and Bhutan. (Nag and Choudhury[5], 2018) India, given its geography shares some value chains in few products like jute, agro and textile, with several other neighbors including Bangladesh, but the possibility of building RVC amongst Northeast India, Bangladesh, Bhutan and Nepal has often been discussed but not tapped yet.

Apart from sourcing of raw materials, other issues such as, cross border trade facilitations, standardisation of quality parameters and quality testing facilities are requirements for such regional trade to grow and development of Regional Value Chains. Undoubtedly, possibilities exist within the sub- region, but large numbers of constraints have held back this process from successful materialization. But given the recent experience of disruption due to the COVID-19 pandemic in global value chains it seems appropriate to revisit the need to build strong RVC in South Asia. While hard infrastructure projets are being implemented in the sub-region, the development of corresponding soft infrastructures and more importantly the last mile connectivity is critical to enabling an environment that leads to greater intra-regional trade and investments. Despite some improvements in the ease of doing business, the ground conditions need more development. To develop a robust RVC we would need to implement all the above and more importantly ensure that the political will exits.

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Developing Trade Linkages

Trade is a primary vehicle for developing a wider and deeper economic relation – including foreign direct investment and value chain integration between countries. Roughly 70% of international trade today involves global value chains, as services, raw materials, components cross borders before

5 Nag Biswajit and Rahul N. Choudhury (2018) "Potential of BCIM Growth Area: Its implication on India-China Trade" "in the book entitled, BCIM Economic Cooperation: Interplay of Geo-Economics and Geo-Politics, Rutledge London)

they take the shape of the final products. ‘Exports from one country to another often involve complex interactions among a variety of domestic and foreign suppliers. Even more than before, trade is determined by strategic decisions of firms to outsource, invest, and carry out activities wherever the necessary skills and materials are available at competitive cost and quality,’ according to OECD in their introduction to global value chain.

Indian manufacturing sector is part of the global value chain for many products. Diamonds mined across the world reach India for cutting and polishing. (As in 2019, diamond was the second top export items of the country.) India has world’s fourth largest automobile industry, contributing 7-8% of country’s GDP. The vast auto-component industry alone contributes over 2% of GDP. The country is the fifth largest exporter of pesticides – with USA, Brazil, Japan, France and Belgium as top buyers. The pharmaceutical exports of the country crossed $19 billion in 2018-19 (April-March), financial year. Global value chain plays a key role behind India’s success in each of these sectors, including fertilizer.

However, considering 70% of the global value chain is concentrated in China; the manufacturing capacity of India is way behind the potential. The situation may change post-COVID, as many major economies, including India, are trying to deleverage their dependence on China. India, Australia and Japan proposed to build Resilient Supply Chain Initiative (RSCI) in the Indo-Pacific.

The disruption in the global trade framework has opened an array of opportunities for smaller economies to get a greater share of the global value chain. Smaller economies in SAARC which enjoy preferential trade arrangements with India may capitalize on India’s ‘Atmanirbhar Bharat’, Make in India as well as the Look East Policy will all support initiatives that can help develop the value chains in the region. Initiatives like BCIM and BIMSTEC can be used to strengthen regional co-operation.

A number of recent studies have identified the products with high potential for regional trade, but more often than not these studies have had focus on national export interests, and did not capture the full spectrum of other important factors of developing a Regional Value Chain. For assessing the potential of the Regional Value Chain for a particular product, it is critically important to assess the impact on the backward and forward linkage industries of that product in the member countries, and the potential for exports beyond the region. The impact on prices, investment, employment in the member states, and the policy and regulatory regime affecting the investment and trade flow of that product are also equally important and need to be examined.

Key Factors affecting Trade

The key factors other than trade laws, tariff and fiscal regimes, national incentive schemes, etc. that influence production, supply, and cross border trade of a particular product include, but not limited to, the following broad issues:

i) Domestic supply capacity

ii) Effective market demand in the regional and international markets

iii) Transportation and shipping

iv) Port operations

v) Customs procedures

vi) Consumer preferences

vii) Quality

viii) Information and product promotion

ix) Marketing

x) National and cross-border investments

xi) Competition

xii) Value Chain

These 12 factors affecting trade (FAT) can be broadly grouped into following 3 categories:

a. **Trade Infrastructure and Facilitation:** Includes transport and shipping, and port and customs operations and procedures.

b. **Market**: Market factors directly related to production and supply capacity, market demand, product information, market promotion, trade with non-regional partners, consumer preferences – cultural, demographic, and otherwise.

c. **Regulatory:** Related to product quality standards, and quality infrastructure; investment regime, banking and financial regulations, etc., and broad policy and regulatory environment.

Analysis of India's Trade and Investment in SAARC

Regional trade is still costly as was elaborated by a 2018 World Bank Study[6]. However, the scenario started improving from the last decade due to unprecedented focus on regional trade, infrastructure and connectivity. This coupled with India's unilateral offer to LDCs for duty-free access to 98% of their tariff lines; and multiple initiatives of development cooperation - particularly for India's Eastern neighbours – made South Asia an important trade partner of India over the last decade (2019-2020). A look at Exhibit-1 will indicate the dramatic growth in India's export performance in SAARC region between 2010 and 2019.

The development cooperation initiatives; slew of infrastructure projects under implementation and, the changing trade dynamics (like entry of energy trade) are summarized in Exhibit-2.

With major connectivity projects nearing completion in the sub-region and with India on an investment rush to improve domestic logistics efficiency; the regional trade is expected to be cheaper and faster in the coming decade. Also, huge investments underway in the Northeast India towards infrastructure building will create fresh market access opportunity for neighbours. Exhibit-3 offers a snapshot of India's trade framework with neighbours.

6 Kathuria, Sanjay. 2018. A Glass Half Full : The Promise of Regional Trade in South Asia. South Asia Development Forum;. Washington, DC: World Bank. © World Bank. https://openknowledge.worldbank.org/handle/10986/30246 License: CC BY 3.0 IGO."

Exhibit-1

India's export to SAARC

Exhibit-2

Improved cooperation in the East

- India-Bangladesh relationship improved dramatically since 2010.
  - Border issues resolved (2015)
  - $8 bn line of credit and aid mostly to improve trade and transport logistics. Road, rail and IWT connectivity projects under implementation. Coastal shipping agreement in 2015. River protocol route extended to 2 new routes & 5 more ports.
  - BD granted NE India access to Chittagong port. LPG supplies to Tripura going through BD
- India granted duty-free access to LDCs 98% tariff lines in 2012. DFTP(2008), fully operationalized in 2012 and amended in 2015.
- Focus connectivity.
  - BBIN-MVA stalled but India taking up connectivity projects bilaterally with Eastern neighbours.
  - Second rail connected ICP with Nepal (Jogbani-Biratnagar) under implementation.
  - Nepal granted second access port at Vizag. Rail bottleneck removed: Kolkata-Birgunj 3day to 1 day.
  - **Wide array of connectivity options opening up between India, NE, Bhutan and Bangladesh.**
  - India-Myanmar land border connectivity improving
- Rising energy trade:
  - Electricity trade with Nepal, Bhutan and Bangladesh. Neighbours to participate in Indian electricity trade platforms.
  - Had petroleum product trade with SL and Nepal. Added Bangladesh.
  - First SA Petroleum product pipeline between India-Nepal in 2019. India-Bangladesh pipeline under construction. India started exporting petroleum products to BD by rail.

Exhibit-3

India's trade framework with neighbours

- India offers preferential duty treatment to neighbours under various mechanisms.
- As per the declaration made at Hong Kong ministerial of WTO in 2005, India granted duty free tariff preference (DFTP) to all LDCs[7] in 2008. The scheme[8] was fully operational in 2012 and was amended in 2015, offering duty-free access on more than 98% of India's tariff lines. Among neighbours Bangladesh, Nepal, Bhutan, Myanmar, Afghanistan are eligible to trade under the scheme. This coupled with the preferential trade offered under SAFTA[9], allows Nepal, Bangladesh, Afghanistan and Bhutan to enjoy duty-free, quota-free access to Indian market on wider range of export items.
- Sri Lanka which is not an LDC but enjoys the option of trading either through SAFTA or the India-Sri Lanka FTA, signed in 1998 and being implemented since 2000. The FTA offers Sri Lanka duty-free access to Indian market for number of items including apparels.
- India-Nepal trade has some extra features. First, Nepal pegged its currency with Indian rupee in 1993, thereby cushioning the foreign exchange volatility risks. Second, considering its landlocked nature entered the bilateral trade treaty in 1996 and upgraded in 2009; featuring some unique concessions by India to Nepal, over and above the benefits offered by India under SAFTA and those for the LDCs.
- For example, goods manufactured by small scale units in Nepal enjoy the same benefits as SSIs in India with regard to tax exemption. Articles manufactured in Nepal, which do not fulfill the criteria for preferential access under SAFTA are provided MFN access to the Indian market. India also agreed to Nepal's direct access to Bangladesh both by road and rail.

According to data available with International Trade Centre (ITC), between 2010 and 2019, the share of SAARC in India's total exports went up from 5% to 7%. The share of the region in India's total imports increased from 0.6% to 0.8%.

During the 10-year period, India's total imports increased by over 36.5% to $478 billion and exports shot up by 46.8%. In comparison India's exports to SAARC countries doubled from $11 billion to $22 billion and imports from SAARC increased by 80% from $2 billion to $3.6 billion.

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7 UN list of LDCs, United Nation, https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/ldc_list.pdf

8 'India's duty-free tariff preference scheme for LDCs'. International Trade Centre, 2015. http://www.intracen.org/uploadedFiles/intracenorg/IndiaDutyFreeTariff.pdf

9 Operationalization of SAFTA. PIB release, February 12, 2014 http://pib.nic.in/newsite/PrintRelease.aspx?relid=103587

Clearly India's trade with SAARC countries is witnessing a sharper rise when compared to its total export or import trade. This is a significant achievement for three reasons:

First, SAARC is not an integrated territory when it comes to business. Accessibility continues to be a major hurdle to optimize the full potential of India-Afghanistan trade, as Pakistan denies land route connectivity between India and Afghanistan through its territory. India controls 5% of Afghanistan's $7.4 billion imports and 41% of $884 million exports.

Second, India and Pakistan are unwilling partners. The bilateral trade is hovering around $2 billion for last 10 years.

Third and the most important, the Indian initiative was faced with unprecedented competition from China in SAARC region in the last decade. Leaving aside Pakistan and Afghanistan, where it controls 25% and 16% of import trade; China increased its share of imports in both Bangladesh and Sri Lanka during the period.

Understanding rising trend share of China vis-à-vis India, with Sri Lanka and Bangladesh

Data available with International Trade Centre (ITC) suggests, between 2010 and 2017, China's share in Sri Lankan's imports doubled from roughly 10% to 19.7%. China's share in Bangladesh's imports increased from 17.5% to 21.5% during 2010 -2015. In comparison, India's share remained stagnant at 12% of imports in Bangladesh and 21% in Sri Lanka.

It essentially points to India's failure to take advantage of the geographic proximity in meeting the rising demand from both these countries. This may be due to a) better and wider manufacturing capacity of China, b) lack of Regional Value Chain, c) costly trade logistics in the region, or other reasons.

However, neighbours surely enjoy better export opportunity in India as against China. Nepal and Bhutan direct 70-80% of exports to India. Though both India and China exports goods of identical value to Sri Lanka; India imports goods worth $ 994 million from the island nation as against China's import of $396 million. Overall, India is third largest importer of Sri Lankan goods.

Sri Lanka has excellent trade logistics. Despite having competing product categories (like textiles and tea) it has developed a reasonable value chain with Indian producers. The cross-investment with India is maximum compared to any other SAARC nation. As Check Exhibit-4, explains India's apparent failure in expanding market share in Sri Lanka vis-à-vis Chinese competition is therefore linked to relative strength of China in terms of either cost-efficiency or some other factor(s).

Exhibit-4

Sri Lanka: Trade, Inv and value chain

- ✓Growing suffering. Volatility in politics. But, economic relations are deep & two-way
- ✓As in 2019, India is largest trade partner. Position keeps changing.
- ✓India largest contributor (12%) to FDI stock of $12.75 billion. China contributed 30% flow between 2012-16.
- ✓Outstanding trade logistics. Colombo Port handles 30% of India's transshipment container traffic.
- ✓Most competitive and diversified product basket - with fair share of goods and services – among smaller countries in South Asia.
- ✓Significant cross investment. Developed value chain even in competing product categories like textiles.
- ✓From SL, Brandix,Damro, MAS holdings, John Keels ,Hayley's, and Aitken Spence – invested in various sectors starting from garments, hotels, furniture to logistics.
- ✓Indian investments in petroleum, tourism & hotel, manufacturing, real estate, telecommunication, banking and financial services.
- ✓India is the largest (18%) source of tourists coming to Sri Lanka. 3.55 Lakh in 2019.
- ✓Sri Lanka is among the top ten tourist sources for the India. 1.07 lakh in 2019.

A similar factor cannot be ruled out in case of India's stagnant export share (vis-à-vis China) to Bangladesh. However, unlike Sri Lanka it is difficult to arrive at any immediate conclusion due to apparent inefficiencies in border trade logistics and distinctly low incidence of cross-investment, which is a yardstick of value chain. The issues are summarised in Exhibit 5.

Bangladesh earns 85% of its global export revenue from ready-made garments (RMG). Considering India has a more integrated textile sector and barely leaves space for imports, Bangladesh is banking on the recent removal of para-tariff (CESS on imported apparels) disadvantage, due to introduction of a flat non-discriminating GST, to push exports to India. Indian exports are not enjoying any similar fiscal benefits in Bangladesh, but it remains the 2nd largest source of imports for Bangladesh, and the trade surplus continues to be in favor of India in Bangladesh-India bilateral trade.

Exhbit-5

Bangladesh: developing relation, weak value chain

- Fastest growing economy. Soon to lose LDC status.
- Limited business and econ relation before 2010. Mega investment proposal from Tata Steel (2004) failed to cut ice.
- Paradigm changed in 2010. Trade boomed.
  - But, land border trade logistics still costly due to long neglect.
  - Rail movement of cargo has to wait till Padma bridge is completed.
  - One-way traffic makes cargo movement by ship costly. IWT is a developing story used by bulk cargo.
  - Over dependence on costly road transfer.
- Bangladesh exports - $46 billion but 85% textiles. Services weak. Low compatibility with India.
- Passenger movement is also one-sided. 21 Lakh Bangladeshi arrivals in India. Top medical tourist group. But 1.5 lakh Indian tourists. Little tourism.
- Restrictive clauses on capital movement hurting FDI attraction potential:
  - Indian FDI stock $725 mil/$17.7 billion. 2019 – India $149m/3.9bil. Indian inv diversified to power, textiles, telecom etc. Stable growth for last 10 years.
  - China (excl HK) FDI stock $833 mil. 2019- $625 mil: $562 mil power & $ 30 mil textile. Focused inv
- Very little cross inv from Bangladesh. Due to restriction on forex movement.
- B2B relationship still weak. G2G is mainstay.

Exhbit-6

Building India-Bangladesh value chain

- Improved connectivity to open new opportunities this decade.
- Current model of exporting RMG will not be successful in India.
- Developing complimentary product basket will help.
- Bangladesh's SEZ plan is good. Should be backed by rehash of FDI policy and infra creation.
- **Mid-term approach**
- For Bangladesh a comprehensive plan for FDI attraction and creating value chain with India is Possible:
  - Textile value chain.
  - Active Pharmaceutical ingredient and Active Ingredient (Chemical and pesticide) should find easy market in India. Now Bangladesh imports them.
  - Local level value chain between NE and Bangladesh in Food may be explored. CUTS did a study.
- **Short-term approach**
  - Transshipment and logistics started some kind of value chain creation. Bangladeshi lines dominate coastal shipping. Bidding for river terminal operation and boat manufacturing in India.
  - Development of transshipment port in India can generate return cargo and make trade logistics cheaper???
  - Development of tourism sector in Bangladesh is long overdue. River cruise finding takers.

Measures to develop RVC through reduction of tariff and non-tariff barriers

For any effective initiative to develop a Regional Value Chain, the following broad activities need to be undertaken:

i) Initially select 3-4 products for each country in South Asia region, or a sub-region therein, for which there is domestic supply capacity and trade with the rest of the world, but no or limited trade in the region while there is demand and import of the same products in the partner country/countries from the rest of the world.

ii) Identify the effective tariff and para-tariffs, and applicable non-tariff measures (NTM) for the products in the partner country/countries in the region.

iii) Analyze how these tariff and non-tariff measures restrictions are applied to assess the barriers/restrictions they create on trade value and volume of the products, if any, and express the same in quantitative terms.

iv) For the same products, analyze the influence of other 3 broad categories of key factors mentioned above, quantify them in appropriate manner, and find out the existing co-relations among them, if any

v) Develop a methodology for quantitative and qualitative analysis for material significance of NTBs, and other key factors influencing value and volume of trade in the region for the selected products.

vi) Formulate a set of recommendations.

vii) For India, there is a need to identify state-specific restrictions as well.

There is an urgent need to develop robust connectivity so that the goods & services may reach the market inexpensively and within the time frame. It is important to mention that after 2014, significant progress has been made regarding physical and regulatory connectivity. For example, the border issues with Bangladesh has been resolved; India's Northeast region was granted access to Bangladesh's Chittagong port; the Indian government has granted duty-free access to the Least Developed Countries (LDC); there have been changes in energy trade; implementation of the Goods & Services Tax (GST) has helped neighbours extensively and many more by de-facto removal of discriminating para-tariffs that existed in form of various CESS tax in India. However, there are many other areas that need to be developed especially the regional trade. There has been a marginal increase in regional trade and participation in the recent years This reflect India's ground level practices restricting inflow of goods from neighbors, arising from non-tariff measures and procedural obstacles in association with under-developed connectivity and trade facilitation infrastructure.

The trade profile of the region, being the third factor remains weak. For instance, in the case where India sends ten containers to Bangladesh, only one comes back with goods. Creating an enabling environment is another critical challenge. The bilateral issues and the state level challenges are difficult to address. For example, Indian coal extraced in Meghalaya is transported to Bangladesh via Assam and Tripura due to restrictions imposed on mining operations in Meghalaya as a result of ongoing law suits by environmental groups, and pass as originating from states other than Meghalaya, and thus bypass the restrictions. The trading opportunities for sugar and oil are restricted in Bangladesh. Therefore, the policymakers from the region need to collaborate and engage in discussions to eliminate restrictions and enhance RVCs.

Notably, while there is potential to trade with Nepal, Bangladesh, and Sri Lanka, but there are weaknesses in developing it. India has weaknesses in the export of finished goods with a limited basket of products that compete in the region. India could use the opportunity to provide raw material to Bangladesh; and through Bangladesh's productivity for finished products could reach the wider markets. RVCs can help further reach out to wider markets like the US and Europe. For instance, Marks and Spencer (a major British multinational retailer) gets products from Bangladesh and India Therefore, a better deal with the company can be negotiated for the development of both countries.

Nepal is a unique case in the region as it is an import-dependent country. The Nepalese government is dependent on the trade revenue, and more than half of the trade lies with the consumption-based goods. More than 80% of Nepal's trade is held with India. Without India, Nepal would not be able to integrate with the global economies. Nepal looks at the vast potential of the RVCs. However, the country has poor connectivity. The transportation is costly from Kolkata (India) and Birgunj (Nepal) and then from Birgunj to

Kathmandu (Nepal). Also, Nepalese has started liberalising, and it will take a decade for Nepal to contribute to global trade. Nepal is not an industrialised nation and has to largely depend on India.

Sri Lanka also faces trade barriers and recently, it has adopted inward-looking and protectionist policies, which will eventually act as a major barrier for developing RVCs. The barriers in the form of Tariff Barriers (TB) and Non-Tariff Barriers (NTB) continues to exist. There are issues of Red Tape and therefore, it is not easy to sustain the growth of RVCs. There has been ad-hoc involvement of the private sector, which has not helped in comprehensive advancements of economic interests.

The Way Forward

The region must remain competitive regarding market structure and access and reforms are required in domestic policies and standardization of regulations and administrative procedures, and harmonizing quality standards and risk management procedures following international norms, to make RVCs more robust. For instance, off-border clearances can be started to ensure smoother customs clearances. The regulatory connectivity could harness the potential of digital connectivity. Undoubtedly there is a need to enhance trade and connectivity – both physical and digital. India with its developed digital sector can play crucial role in bringing digital connectivity at the regional level. Further, countries need to address regulatory constraints.

Fortunately, South Asia has several alternative means to trade, such as the waterways, railways and the like. More initiatives could be undertaken; for instance, the railways near the Petrapole (the Indian side of Petrapole-Benapole checkpoint between India and Bangladesh) - the old express could be revived. The waterways in Nepal could be used – Gandak and Kosi rivers. Moreover, the development of infrastructure in Sahebgunj in Jharkhand on River Ganga should be developed as a ‘Port of Call’ for custom clearance. These will be the environment-friendly solution, which further assists in generating employment opportunities.

India has reached its capacity with Bhutan, where Bhutan’s 80% trade is held with India. Trade with Afghanistan is mostly air-based and thus restricted. Therefore, the future growth prospects need to be explored with Bangladesh, Sri Lanka. With Bangladesh, specific issues need to be addressed immediately.

The exports to Bangladesh are huge, but are mostly concentrated in the textile sector. The land border trade costs are high, and the Inland Waterways transport is a developing story. Around 21 lakh Bangladesh nationals arrive in India for medical tourism, but few Indians go to Bangladesh. Surely, the tourism potential could be enhanced.

Similarly, Sri Lanka handles 30% of trade with India and has a diversified product base. Indians comprise the most significant number of tourist arrivals in Sri Lanka. For a small nation, tourist volume from Lanka to India is substantial to many...Quoting from Indian High Commission sire: "The total number of tourist arrivals from India to Sri Lanka during January-December 2019 was 355,002 i.e. approximately 18.2% of the total tourist arrival into Sri Lanka. Sri Lankan tourists too are among the top ten sources for the Indian tourism market. In 2019, more than 107,360 tourist visas were issued by the High Commission of India in Colombo to facilitate travel between India and Sri Lanka, along with 14,597 Business Visas."

Therefore, the services sector provides a golden opportunity to develop RVCs further. The cooperation in the services sector is necessary, as currently there is more considerable attention given to the goods.

Therefore, the services sector provides a golden opportunity to develop RVCs further. The cooperation in the services sector is necessary, as currently there is more considerable attention given to the goods. In Sri Lanka there is immense scope for Information-Technology (IT) and other enabled services. The movement of labour across countries must be utilised to enhance the RVCs.

There is a need to encourage cross investments. At present, investments are G2G (Government-to-Government) driven, and therefore huge potential lies in B2B (Business-to-Business) relationships. The time and cost need to be rationalised, and the finances for the projects needs to be enhanced. One of the crucial suggestions to enhance trade facilitation was to build up a regional single-window clearance for creating robust value chains.

It was recommended that the number of products traded informally is less and concentrated in a few sectors. However, the region could explore the potential of Border Haats (open-air business venues) and slowly transform them into Border Economic Zones.

The idea of developing of developing a special mechanism for easy trade facilitation towards developing value chains is one of the options that the countries could adopt. There is a need to closely examine the bottlenecks of Regional Value Chains, starting by reviewing the RVC potential of a few selected products, and carrying out a detailed review of the factors of trade mentioned earlier. The goods and services need to move freely. The incremental positive changes taking place in the last few years must continue, and the countries must change their mind-set to help cooperate and collaborate in the RVCs. Especially in the Post-COVID-19 world, the setting up of RVCs would help in integrating trade in the region. The governments in the region would need to initiate domestic policies reform and reduce the regulations to ensure trade in goods and services grow and flourish in the days to come.

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The Vivekananda International Foundation is an independent non-partisan institution that conducts research and analysis on domestic and international issues, and offers a platform for dialogue and conflict resolution. Some of India's leading practitioners from the fields of security, military, diplomacy, government, academia and media have come together to generate ideas and stimulate action on national security issues.

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