The October, 2015 issue comes with the theme of Non-Tariff Measures (NTMs) and trade cost. The first article on “Demystifying non-tariff barriers (NTBs) in South Asia?” emphasizes on the significance of dealing with NTMs for promoting intra-regional trade in South Asia. The article clarifies the difference between NTMs, which are in most cases legitimate, and NTBs, which are discriminatory and illegitimate. The article underscores the need for developing the capacities of domestic firms to meet the justified SPS and TBT standards in other countries and strengthening the capacities of the National Standards Authorities so that certificates issues by them are accepted in other countries. Furthermore, the article calls for harmonization of standards, custom procedures, establishing mutual recognition principle, improvements in relevant infrastructures and reducing procedural obstacles in South Asian countries through regionally coordinated efforts. The second article on “Decomposing bilateral trade costs between LDCs and non-LDCs” uses a balanced panel data for 130 countries, and explores the factors affecting trade costs while Least Developed Countries (LDCs) trade with their non-LDC partners, and the relative importance of those factors. The regression results suggest greater importance of improving the quality of logistic performance of the LDCs for the reduction in trade costs between LDCs and non-LDCs, and highlights the greater significance of liberalization of the tariff regimes in the LDCs for attaining lower trade costs with their trading partners. The interview session features an interview of Dr. Syed Humayun Kabir, Director General of the South Asian Regional Standards Organization (SARSO), where he elaborates the importance, functions, and current and future activities of the SARSO. Dr. Kabir attaches immense importance to developing harmonized standards for the region to facilitate intra-regional trade.

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Israt Jahan

“The policy makers in the 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.”

Demystifying non-tariff barriers (NTBs) in South Asia

Selim Raihan

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 countries. High tariff rates have come down substantially over the years since the formation of SAARC due to increased globalization of trade, establishment of WTO regime, and South Asian Free Trade Agreement (SAFTA). Despite significant reduction in tariff rates in the region, the intra-SAARC trade has been quite static as before, about only 5% of the total trade of this region. Now the popular hypothesis is that it is not the high tariff rates, but the Non-Tariff Measures (NTMs) and the resulting trade barriers, i.e., Non-Tariff Barriers (NTBs) 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). In contrast, NTBs are thought to be policy measures that surely affect the quantity traded and prices and have proven discriminatory effects against foreign firms (Nictia 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, appropriate and specific analysis is 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 (Nictia and Peters, 2013). And these costs may be higher for some countries or firms than for others. For example, compliance costs are often fixed costs when small firms are in a disadvantageous position. Most of the small and medium sized firms in South Asia face this challenge, especially with respect to meeting the 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.

Furthermore, 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 infrastructures. Since the intra-regional trade in South Asia happens predominantly through the land borders, a large part of the NTM related complaints in South Asia are related to weak infrastructure at the land custom stations in the South Asian countries as well as due to lack of testing and laboratory facilities nearby the land custom stations. In this process, many of the legitimate NTMs turn into NTBs affecting the intra-regional trade. Therefore, improvements in relevant infrastructures should be on high priority.

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. In South Asia, a significant part of the NTBs is related to procedural obstacles. Therefore, policy effort is critical to ensure that NTMs serve their intended legitimate purposes.


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Decomposing bilateral trade costs between LDCs and non-LDCs

Selim Raihan and Nafiz Ifteakhar

Trade cost performance of a given country varies significantly depending on trading partners, as well as the type of goods traded. The World Bank-UNESCAP trade cost database provides a bilateral measure of trade costs which includes all costs involved in trading goods internationally with the partner. It includes not only international transport costs and tariffs but also other trade costs such as direct and indirect costs associated with differences in languages, currencies as well as cumbersome import or export procedures. Another important characteristic of the database is that it provides trade costs in ad valorem equivalent form, i.e. in percentage of value of goods traded. This article explores the factors affecting trade costs while Least Developed Countries (LDCs) trade with their non-LDC partners, and the relative importance of those factors. Table 1, 2 and 3 present the top and bottom 10 pairs of countries in terms of ad valorem rate of total trade cost, agricultural trade cost and manufacturing trade cost respectively in 2010 while LDCs are reporters and non-LDCs are partners. The bilateral trade cost is symmetric. For example, in Table 1, the bilateral total trade cost between Senegal and Zimbabwe is 934%, which is the same irrespective of whether we consider Senegal as the reporter and Zimbabwe as the partner, or vice versa.

In order to decompose the bilateral trade costs between LDCs and non-LDCs, we use a balanced panel data for 130 countries (26 LDC and 104 non-LDC), where trade cost is taken as the dependent variable. The aim of our regression is to explain the effect on the bilateral trade cost between LDCs and non-LDCs by two variables namely Logistics Performance Index (LPI) and weighted average of Effectively Applied Tariff (EAT). The data of LPI is taken from the World Bank database and the data of weighted average of effectively applied tariff is taken from WITS. As control variables, we consider several indicators and their data are derived for different sources. For example, data of distance, common language dummy and landlocked dummy are taken from the “GeoDist” data base of CEPII; and data of island dummy and common border dummy are taken from Wikipedia. Due to the availability of LPI data for the years of 2007, 2010 and 2012 only, which correspond to the availability of trade cost data, we construct our panel data taking into account these three years. We also include time dummies to control for the time fixed effect.

We use three types of trade costs, which are overall trade costs, agricultural trade costs, and manufacturing trade costs in three separate regressions. From the regression of overall trade costs we find that all the control variables have expected signs, and after controlling for these variables, LPI index of both LDCs and non-LDCs have negative and significant associations with the bilateral trade costs between LDCs and non-LDCs. However, a rise in the LPI of LDCs by 1 unit is associated with the fall in the bilateral trade costs by 62 percentage points, whereas a rise in LPI of non-LDCs by similar magnitude is associated with the decline in the bilateral trade costs by 40 percentage points. This implies that after controlling for other factors, improvement in LDCs’ logistic performance status compared to the same of non-LDCs has a larger positive association with the reduction in the bilateral trade costs. In the case of effectively applied tariff it is also found that the reduction in tariff rates in LDCs has a larger positive significant association than those of non-LDCs with the overall trade costs between the two groups of countries. Results from regressions involving agricultural trade costs and the manufacturing trade costs as the dependent variables are consistent with the regression results of total trade costs. In the case of agricultural trade costs, a rise in the LPI index of LDCs by 1 unit is associated with the decline in the bilateral agricultural trade costs by 242 percentage points, whereas, the LPI index of non-LDCs has much lower impact on such trade costs. In the case of manufacturing trade costs, improvement in the LPI index of LDCs by 1 unit is associated with 76 percentage point decline in bilateral manufacturing trade cost which is almost three times higher than the effect of similar improvement in the LPI of non-LDCs. Similarly, reduction in the effectively applied tariff of LDCs has much larger positive significant impact than those of non-LDCs on the decline in both agricultural and manufacturing trade costs between these two groups of countries. The aforementioned analysis points to the greater importance of improving the quality of logistic performance of the LDCs for the reduction in trade costs between LDCs and non-LDCs. The World Bank’s LPI has six indicators related to the quality of Customs, Infrastructure, International shipments, Logistics quality and competence, Tracking and tracing and Timeliness. Most of the LDCs are seriously lagging behind in these indicators. Furthermore, the study finding highlights the greater significance of liberalization of the tariff regimes in the LDCs for attaining lower trade costs with their trading partners.

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Table 1: Top and bottom 10 pairs of countries in terms of total trade cost in 2010 while LDCs are reporters and non-LDCs are partners

<table>
<thead>
<tr>
<th>Top 10 pairs</th>
<th>Bottom 10 pairs</th>
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<tbody>
<tr>
<td>Reporter (LDC)</td>
<td>Partner (non-LDC)</td>
</tr>
<tr>
<td>Senegal</td>
<td>Zimbabwe</td>
</tr>
<tr>
<td>Senegal</td>
<td>Venezuela</td>
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<tr>
<td>Burkina Faso</td>
<td>Belarus</td>
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<td>Bhutan</td>
<td>Spain</td>
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<td>Ethiopia</td>
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<td>Burkina Faso</td>
<td>Hong Kong</td>
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<td>Nepal</td>
<td>Romania</td>
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<td>Cambodia</td>
<td>Mauritius</td>
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<tr>
<td>Maldives</td>
<td>Russia</td>
</tr>
<tr>
<td>Burundi</td>
<td>Norway</td>
</tr>
</tbody>
</table>

Data source: http://databank.worldbank.org
"...to develop harmonized standards for the region to facilitate intra-regional trade..."

Dr. Syed Humayun Kabir has been serving as the Director General of South Asian Regional Standards Organization (SARSO) since its beginning in 2014, at its headquarter in Dhaka, Bangladesh. Dr. Kabir had served the Bangladesh Standards and Testing Institution (BSTI) since its formation in 1986. His expertise lies in core areas of national quality infrastructure including standardization, conformity assessment, accreditation, planning and development.

SANEM: How does SARSO play its role in harmonizing standards among SAARC Member States for regional trade?

HK: Standardization is a key element to push up the capacities of export and competition, and a necessary process for ensuring effectiveness in any product or services. They are vital because they provide a common language among the buyers and sellers from different economies. For this reason, the South Asian Regional Standards Organization (SARSO), a specialized body of SAARC, has been established to achieve and enhance coordination and cooperation among the SAARC Member States in the fields of standardization and conformity assessment, and is aimed to develop harmonized standards for the region to facilitate intra-regional trade and to have access in the global market. Furthermore, SARSO’s aims are to build capacity and provide technical assistance to the SAARC Member States in the fields of standards development, metrology and conformity assessment procedures.

One of the objectives of SARSO is to promote and undertake harmonization of the national standards of the SAARC Member States with a view to removing the technical barriers to trade and facilitate flow of goods and services in the region. In doing so, SARSO is providing a platform to the stakeholder of SAARC Member States to harmonize their National Standards and ultimately develop SAARC Regional Standards on the products having impact on import and export within SAARC region.

SANEM: What is your assessment about the capacity of the National Standards Bodies for SAARC countries?

HK: The capacity of the National Standards organizations in SAARC Member States is proportional to their economy. Some Member States like India, Pakistan, Sri Lanka and Bangladesh have a good set up in development of National Standards and have affiliation with international partner organizations. On the other hand, Nepal, Bhutan and Afghanistan have limited capacity to develop National Standards; meanwhile Maldives has no official national standards body yet. Therefore, SARSO aims to develop capacity of less developed Member States to ensure active participation of all members. In addition, it is required to develop quality infrastructure along with competency of staff of standards organizations. We are working on these issues in a close coordination with each Member State.

SANEM: What progress has been achieved so far?

HK: After SARSO started its operation in 2014, there has been significant progress in the area of SAARC Regional Standards development process as all Sectoral Technical Committees (STCs) of SARSO organize meetings according to their schedules. Experts from SAARC Member States through STCs are involved in developing SAARC Regional Standards for about 35 products on priority basis and among them seven Standards have been finalized that include Refined sugar, Biscuits, Code of hygienic practices on Dairy products, Hessian, Cotton Twill and Cotton Drill. Furthermore, SARSO is making effort in bilateral cooperation with some International as well as regional counterparts. We hope, SARSO will sign MoUs with International Organization for Standardization (ISO), International Electro technical Commission (IEC) etc. by the end of this year in order to adopt international practices at regional level. In addition, SARSO is also involved in different standardization activities such as capacity building, interactive sessions and many more.

SANEM: How are the standards set?

HK: In SARSO, we have six Sectoral Technical Committees (STCs) i.e. Food and Agricultural products; Jute, Textile and Leather; Building materials; Electrical, Electronics, Telecom & IT; Chemical and Chemical products; and Conformity Assessment. The STCs are represented by technical experts from the SAARC Member States. These STCs are responsible to develop a draft SAARC Regional Standards through consensus among SAARC Member States. These draft Standards are finally recommended for endorsement from Technical Management Board and then from Governing Board of SARSO.

SANEM: What process do you follow to reduce the distance in national and regional level standards?

HK: As per the Agreement, SAARC Member States will take measures to harmonize the National Standards and participate actively in the development of those Standards that are related to the products and or processes having trade implications for them. Therefore, SAARC Regional Standards are developed by SARSO with equal participation of SAARC Member States. So, for the development process of SAARC Regional Standards, available national standards of SAARC Member States are taken into consideration and experts of each SAARC Member State are given equal opportunity to discuss during particular STC meeting. Each SAARC Member State is given enough time for internal consultation and for submission of their national inputs to develop consensus among SAARC Member States. Since SAARC regional Standards are developed with the abstention of sustained negative comments from SAARC Member States, therefore, I think, Member States will adopt SAARC Regional Standard as National Standards in order to facilitate trade.

SANEM: How do you prioritize between standards?

HK: Standards development work in SARSO started with initially 12 identified products by the Member States. During the standardization process, the concerned Sectoral Technical Committee identified another 25 items for the development of SAARC Regional Standards that have been traded within the SAARC Region. In addition, Member States are asked to give their list of top 10 products that have impact on import and export of the country, from which we will prioritize products where common standards are required.

SANEM: What are the major challenges that you face in case of setting standards?

HK: SARSO is a budding organization; it started its work from April 2014. The main concern in setting standards is the existing regulations and we are trying to solve this problem by consulting with regulators. For example, India has a huge regulatory body in their food sector whereas such regulatory bodies are absent for the same sector in other countries. Therefore, we are arranging a meeting with regulators of this region to establish the importance of strong regulations and coordination in this sector. The problems of testing facility or inspection by only selected authority will be solved once the “SAARC Agreement on Multilateral Arrangement on Recognition of Conformity Assessment” is signed. Only Nepal has not signed it. This agreement contains list of laboratories of this region that all members must accept to obtain assurance certificates. Another agreement on implementation of regional standards is now under consideration.

SANEM: Which countries of this region play significant roles in setting standards?

HK: India, Pakistan, Bangladesh and Sri Lanka are the major economies as well as the major trade partners in this region. Therefore, their contribution in standards setting is more compared to other Member States. However, it does not mean that other Member States are not participating in the standard setting procedures.

SANEM: Whom do you mostly follow in setting standards? How the standards are updated?

HK: SAARC Regional Standards are mostly based on Member States’ National Standards. References are also made to international standards such as ISO, IEC, CODEX, ITU, IPPC etc. For the development process of SAARC Standards, ISO/IEC directives and guides are being followed. Standards are usually updated every five years and SARSO will also follow the international practices.

SANEM: How SARSO can work in collaboration with research organizations?

HK: We can work with research organizations like SANEM to get a clear picture of the real issues regarding trade facilitation and standardization of products. We believe that existing issues in borders can be addressed through joint academic researches. And SARSO can take initiatives to resolve these matters.

SANEM: Thank you very much for your time.

HK: The pleasure is mine. Hope to work with you in future.
SANEM to organize its first Annual Economists’ Conference

CALL FOR PAPERS AND PARTICIPATION
SANEM Annual Economists’ Conference 2016
“Bangladesh: Way towards a Middle Income Country”
20th February, 2016
BRAC Centre Inn Auditorium, Mohakhali, Dhaka

SANEM is announcing call for papers and participation for its first Annual Economists’ Conference on “Bangladesh: Way towards a Middle Income Country” to promote quality economic research among academicians, researchers, policy advocates, students and young aspiring economists. SANEM encourages young researchers and students to submit their papers. There will be a separate session for the students/yong researchers in the conference. The papers should be relevant to the themes including economic growth, trade and regional integration, poverty and inequality, labor market, remittance and migration, and environment and climate change.

It will be expected that the paper will have some relevance with South Asia in general and Bangladesh in particular. Selected papers will be published as chapters in an edited volume. Important dates for the conference are given below.

Important Dates:
- Last date of abstract submission: 22nd October, 2015
- Selection of abstracts: 1st November, 2015
- Last date of application for registration: 15th December, 2015
- Last date of first draft submission: 31st December, 2015
- Feedback by SANEM: 15th January, 2016
- Revised/final paper submission: 10th February, 2016
- Power-point presentation submission: 15th February, 2016
- Conference: 20th February, 2016

**For paper submission process, registration, important dates and further details, please visit http://sanemnet.org or email at sanem.conference@gmail.com

UNESCAP Expert Group Meeting held at New Delhi, India

United Nations (UN) ESCAP organized an Expert Group Meeting on “Regional cooperation for inclusive and sustainable development: South and South-West Asia development report, 2015-16” during 17-18 September, 2015 at ESCAP South and South-West Asia office, New Delhi, India. Dr. Nagesh Kumar (Head, ESCAP South and South-West Asia Office) provided introductory remarks and shared the objectives of the meeting. Dr. Selim Raihan (Executive Director, SANEM) was one of the distinguished participants of this meeting.

SANEM to conduct Better Work Bangladesh Impact Assessment Study

SANEM is going to start a new project on impact assessment of the intervention program of Better Work Bangladesh (BWB) with Better Work Global (BWG) in the textile and garment industry in Bangladesh. The intervention is a global program for improved labor standards in global supply chains jointly by the International Labour Organization (ILO) and the International Finance Corporation (IFC). The objective of this project is to design a system to evaluate the impact of the newly established Better Work Program in Bangladesh. The impact assessment will explore whether improved working conditions, as driven by BWB operations, lead to changes in working conditions, workers’ wellbeing, performances of firms. It will also assess the mechanisms through which social dialogue at factory level can change the above mentioned outcomes and so on.

SANEM Associate attended symposium in Sri Lanka


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MCCI organized discussion session at Dhaka

Metropolitan Chamber of Commerce and Industry (MCCI) organized a discussion on “Policy Action Plan for Boosting Trade, Exports and Investment in Bangladesh” on 16th September, 2015 at the Lakeshore Hotel, Dhaka. The welcome address by Mr. Syed Nasim Manzur (President, MCCI) was followed by Dr. Selim Raihan’s (Professor, Department of Economics and Executive Director, SANEM) session on “Why do we need Reform for Investment”. Dr. Ahsan H. Mansur (Executive Director, PRI) provided the keynote address during the discussion session. A special address was delivered by the Chief Guest, Mr. Abul Kalam Azad (Principal Secretary).

SANEM Associate attended symposium in Sri Lanka


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