



Trade facilitation and poverty reduction in Asia and the Pacific: A case study of a South Asian Economic Corridor



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## **Trade facilitation and poverty reduction in Asia and the Pacific: A case study of a South Asian Economic Corridor**

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**Abstract:** 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. In general, 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. Trade facilitation is aimed at ensuring the movement and clearance of goods across borders within the shortest time at the minimum cost. Reducing trade costs can have a profound impact on trade and therefore on poverty. Based on primary survey data, this study assesses the potential impact of trade facilitation on poverty reduction in the region falling under SAARC Corridor 1, which is one of the leading corridors in South Asia that handles considerably good amount of overland trade between three major South Asian countries, namely, Bangladesh, India and Pakistan and also their global trade. One of the conclusions of this study is that poverty reduction, in the perception of the individuals connected with trade, depends on reduction in trade barriers through better trade facilitation. However, in the perception of the trading firms, better infrastructure which facilitates more trade is tagged with a positive response about decline of poverty.

**Keywords:** South Asia, Trade, Trade facilitation, Poverty, Economic Corridor

**JEL codes:** F14, F15

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## Introduction

The relationship between trade, inequality and poverty within any country is not immune to controversy. Under free trade and competitive conditions, trade promotes growth; that growth, in turn, reduces poverty. Reducing trade costs can have a profound impact on poverty (Winters and others, 2004). In general, trade liberalization has long been seen as an important element of an effective and sound economic policy, and trade facilitation is a necessary step towards achieving that objective (Winters, 2002). Trade facilitation is aimed at ensuring the movement and clearance of goods across borders within the shortest possible time at the minimum cost.

During the past two decades, import tariffs have decreased significantly and non-tariff measures aimed at further reducing international transaction costs have gained more importance in promoting trade across countries. Removal of non-tariff measures has been shown as a significant element in easing a country's economic isolation (Arvis and others, 2012). Efficient transportation networks have become a more important factor in regional cooperation, both in absolute and relative terms. Better trade and transportation infrastructure (termed as economic corridors) would encourage fragmentation of production across borders, enhance regional and global trade, and help in realizing the economic integration process.<sup>1</sup>

Economic corridors became popular due to the Asian Development Bank (ADB) project in the Greater Mekong Subregion (GMS).<sup>2</sup> An economic corridor can be national (e.g., the Delhi-Mumbai Industrial Corridor), regional (e.g., GMS corridors) or even international (e.g., submarine telecommunication cables). In South Asia, the South Asian Association for Regional Cooperation (SAARC) Regional Multimodal Transport Study (SRMTS) has identified 10 highway corridors for the region; the SAARC Corridor 1 (hereinafter referred to as SC 1) was selected for this study to assess the empirical relationship between trade facilitation and poverty reduction.<sup>3</sup>

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<sup>1</sup> See, for example, Brooks and Stone (2010).

<sup>2</sup> The economic corridor concept is one in which regions, covering two or more countries, are identified where infrastructure is specially promoted to strengthen trade and economic integration. The basic idea behind this concept is not just the promotion of trade across borders, but also economic development along such trade routes (Wiemer, 2009). The main advantage of promoting economic corridors is realized when trade across such corridors is sufficiently liberalized and seamless, thus lowering the cost of cross-border trading.

<sup>3</sup> It was necessary to select a SAARC Highway Corridor (SAARC Corridor) for this study as the region, unlike GMS, does not yet have an economic corridor in operation. Annex 1 contains a map of SC 1, which originates in the State of Tripura, located in north-eastern India, passes through Bangladesh, re-enters India from the east and then moves north into Pakistan through India's western border.

Distinct economic corridors can have the following specific benefits:<sup>4</sup>

- (a) Improvement of national and regional connectivity by making it faster, cheaper, and easier for people and goods to move within and across borders;
- (b) Aiding the reduction of poverty by improving poor people's access to economic opportunities, lowering the cost of the goods and services that they consume, and providing better access to essential infrastructure services such as electricity supply.

For most developing economies, economic corridors are viewed as stocks of public capital, thereby constituting a major constraint to growth. Shortages of economic corridors (i.e., infrastructure) cause congestion and, as a result, a strong tendency towards diminishing returns on capital in industry. A consequent low rate of return acts as a disincentive to investment and trade facilitation.

The issue of poverty reduction is always an important one, and trade facilitation may help in the process since it enhances competitiveness of a country or a region.<sup>5</sup> The objective of the current study is to identify some causal factors that relate trade facilitation to poverty reduction. It is important to assess the trade facilitation and poverty linkage, since it can help countries to undertake policy reforms in order to facilitate trade (e.g., by making improvements in trade logistics).

In particular, this study attempts to assess the potential impact of trade facilitation on poverty reduction in SC 1. The focus of the study is on the Indian side of the corridor since India has undertaken trade facilitation measures relatively more intensively than its neighbouring countries who are connected by this corridor.<sup>6</sup>

Rest part of this study is structured as follows. Section 2 carries a literature review on

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