

Cross Border Trade and International Relations: Some Concerns and Policy Propositions (A Study with Special Reference to Northeast of India and Bangladesh)

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1. INTRODUCTION

The North Eastern Region with its rich natural reserves accords the region with the possibility of being India's powerhouse of trade and investment. Determinants like geographic proximities, socio-cultural and ethnic affinities, economic complementarities, infrastructure development and mutual interdependence extensively bolster the promotion of trade at borders. Development of the trade at India's border between the neighbouring countries thus is conceived as a necessary precondition for the economic development of the NER.

Foreign trade plays an important role in the economic development of India. While considering foreign trade between closed economics, we often face the phenomenon of illegal international trade in the form of **cross border trade**. While much effort has been made by economists to track these illegal transactions through legal channels via under and over as well as false invoicing, unofficial trade outside official channels has received little attention so far.

Taking into consideration Indo-Bangladesh trade, it has have pursued trade liberalisation policies since early 1990s. However the preference of cross border trade flow in these neighbouring countries is largely preferred at land borders are at two levels:

1. Cross border trade outside official channel and
2. Illegal trade through official channels via false invoicing

2. OBJECTIVES OF STUDY

Present study is based on following objectives:

- To understand the cross border trade concentration pattern of India with bordering countries of North East India like Myanmar and Bhutan.
- To study the various issues of cross border trade i.e. trade legality, financial aspects and security matters with a special reference to India-Bangladesh bilateral and cross border trade.
- Recommendations and policy propositions for diverting this informal trade into formal bilateral trade between the two nations.

3. METHODOLOGY OF THE STUDY

The study is generally descriptive type. Some literatures, books and articles have been followed to prepare this paper. Data like nature, volume, types of commodity, its economic impact, its attribution to the livelihood options for the people of northeast of India have been critically analyzed to reach to a progressive solution.

4. INDO-MYANMAR SECTOR

Myanmar is the gateway to ASEAN and the only country of this grouping that shares a land and maritime boundary with India. In spite of being geographically located close to each other having inconvenient transport and communication facilities forced the countries to maintain trade through sea routes. The cross-border contact and movement of the people have not led to any strong economic interdependence between the regions across the border so far. Moreover, due to the state-centric security perception the border area development did not get sufficient attention from either of the countries. As a result, importance of the geo-economic potentials of the border region is less than geo-political considerations.

5. INDO-BHUTAN SECTOR

India has a free trade agreement with Bhutan. India and Bhutan share 643 km unfenced border. There are three Land Customs Stations on Indo-Bhutan border, namely Darranga, Hatisar and Ultapani (all are in Assam) but formal trade is executing through Hatisar Land Customs Station. Government of Assam has taken initiative for setting up border trade centre at Darranga for promotion of international trade with Bhutan.

6. TRADE BETWEEN INDIA AND BANGLADESH:

Trade with Bangladesh is important for both the nations. From India's point of view it is essential for socio-economic development of the North Eastern Region of India. While for Bangladesh, it is important as it will wider the area of cooperation, investment and will help in overall development of the country. Local markets called border haats have been opened to facilitate trade between small scale industries and farmers, with a view to generate market opportunities for them. In their mutual trade, they enjoy the advantages of reduced transaction costs and quicker delivery due to geographical proximity, common language and a heritage of common physical infrastructure. The overall goal is to frame proposals for improving India-Bangladesh trade through land route which will in turn generate welfare outcomes such as new market opportunities for small-scale manufacturing and agrarian sectors, especially for Border States.

The trade profiles of Bangladesh and India are different from each other. While Bangladesh's overall export is dominated by labour-intensive manufacturing, its import from India is dominated by primary commodities. Their shares in total exports to India were 51 and 45 percent in 2001 and 2011 respectively. Trade between India and Bangladesh is mostly carried out via land routes as it is the most convenient and cheapest mode.

Table 1.1: Top Products in Bilateral Trade between India and Bangladesh

Sl. No	Product Label	Bangladesh's exports to India (in US\$ 1000)		
		Value In 2010	Value In 2011	Value In 2012
1)	Textile fibres, paper yarn, woven fabric			
2)	Other textile articles, sets, worn clothing, etc.	51,599	65,582	79,147
3)	Edible fruit, nuts, peel of citrus fruit, melons	20,142	42,731	59,275
4)	Fish, crustaceans, aquatic invertebrates, etc.	38,668	87,565	36,395

	Product label	India's exports to Bangladesh (in US\$ 1000)		
		Value In 2010	Value In 2011	Value In 2012
1)	Cotton	936,373	958,402	1,389,222
2)	Cereals	157,126	257,889	451,975
3)	Vehicles other than railway, tramway	249,885	262,200	412,692
4)	Machinery, reactors, boilers, etc.	91,216	169,813	272,534
5)	Sugar and sugar confectionery	356	184,827	263,809

Source: ITC Trade Map Database (September 2013)

7. COMMODITIES EXPORTED FROM INDIA TO BANGLADESH

Bilateral trade is dominated by Indian exports to Bangladesh. India's exports to Bangladesh increased from about US\$200mn in 1991 to US\$4.56bn in 2011. India exports a wide range of products to Bangladesh. **Some major commodity categories are following:**

1. Agricultural Product Trade

In the year 2013- 2014, India's total export of agricultural commodities to Bangladesh was of the order of US \$ 2413.0 million. India's principal exports during this period were: onions, wheat, rice, maize (corn), soya bean etc. India's share in Bangladesh total global agricultural import is 36.86% (2013).

Table 1.2: Top agricultural exports to Bangladesh

Value in USD million				
S No	Commodity	2012-2013	2013-2014	
1	milk and cream in powder, granules or other solid forms containing fat not exceeding 1.5% by wt	47.24	101.15	
2	Onions	80.41	145.51	
3	durum wheat		157.09	
4	other wheat		366.23	
5	other maize (corn)	30.31	127.19	
6	semi/wholly milled rice w/n polished/glazed	13.58	241.7	
7	solid residue obtained from soya-bean oil extraction	129.5	129.01	
8	other residues of rape seeds	22.22	45.63	
9	oil-cake and other residues resulting from extraction of other oil-seed	15.06	44.28	
10.	cotton	609.63	698.68	

India's total agricultural export to Bangladesh

1881.96 2413.05

8. INDUSTRIAL TRADE

According to Bangladesh's import statistics, India is supplying fairly constant shares of Bangladesh's imports of basic raw materials, intermediate goods used for domestic production, capital goods etc. Also Bangladesh offers a well educated and industrious workforce with the lowest labour cost in the region. So a large number of Indian firms, both public and private sector have been working on different turnkey projects in Bangladesh, thereby generating employment for the Bangladesh people. The sectors include power, transmission lines and chemicals and engineering. Some substantial amount of software products are also being exported from India to Bangladesh due to its high cost in Bangladesh.

9. BANGLADESH EXPORTS TO INDIA

Market share of India's imports from Bangladesh in the year 2003 were 0.6 percent which increased to 4 percent in 2012 (ITC Trade Maps database). This growth in market share by India shows that Bangladesh's total exports are likely to increase in future in India and are expected to be around 12.4 percent in the year 2015. According to the various informal trade surveys, smuggled merchandise exports from Bangladesh to India by the bootleg route are also very low.

10. PATTERN OF BORDER TRADE IN NORTH EAST INDIA

The North Eastern Region of India is endowed with useful natural, mineral and water resources. However in respect of infrastructural development, this region could not make much progress so far. Therefore, the resources are going waste. Agriculture and allied activities still regarded as priority as this sector remain the major contributor of the Region's GDP. Therefore, border trade has special significance for the economics of northeastern states of India as all the states share a large segment of international border.

11. IN CROSS BORDER TRADE IN NORTH EAST OF INDIA, SOME MAJOR COMMODITIES INCLUDE:

1. Textiles

Three quarters of Bangladesh's exports are ready made garments. Bangladesh RMG producers appear to have a marked labour cost advantage over RMG producers in India, owing to lower wages and similar labour productivity. Bangladesh RMG exports to India-almost entirely woven cotton shirts grew rapidly after 1999/2000. However Bangladesh's textile industry-especially the fabric sector has high cost, as a result, Bangladesh's RMG exporters rely mainly on imported yarns and fabrics.

2. Fish, Nuts and Raw Jute

During 2003/04 exports of these products from Bangladesh to India were \$29 million. Of this, approximately \$20 million was raw jute, Hilsa fish (\$5 million), betel and some other nuts

(\$2.2 million) and the rest consisted of very small volumes of frozen shrimp and fruit drinks and tobacco. All except raw jute are also exported on a much larger scale to India.

Cross-border trade generates employment for households and has become over time the only source of meaningful livelihood in the border areas. In remote areas, where employment is scarce and salaries low, cross-border trade generates income and is more profitable than other economic activities. Typically, cross-border trade and commerce with neighbouring countries increases interdependency and economic integration in terms of exchanging of goods and services, sharing resources, labour and expertise as well as fostering investment flows. Truck drivers, auto drivers, hotel owners, grocery and fruit vendors are some of the groups that earn their livelihood from this cross-border trade. Taxi services, restaurants and stores are mushrooming in these areas. Such new business establishments in these areas generate more employment opportunities to the locals with a wage rate that is substantially higher than what they used to earn earlier. The border trade is important for the North Eastern Region (NER) of India as it exports raw materials like coal, limestone, stone chips, and bamboo to Bangladesh and imports finished products like cement, plastic goods, readymade garments, processed food and drinks. On the Indian side, cows are brought from states like Rajasthan, Punjab, and Haryana and smuggled through Assam and West Bengal, which indicates huge involvement and networks. This illegal profit-making trade involves around 1.5 million cattle worth US\$500mn being smuggled every year across India and Bangladesh.

The vendors selling their products in Border Haats are local residents who live within a 5km radius. As per the report by India's commerce ministry, an estimated US\$20mn worth trade can take place annually between India and Bangladesh through the Border Haats. Similar consumption pattern along with interdependence of needs between the two sides of the political boundaries have given rise to informal channels of trade in goods and services.

Some Issues

There were several issues both in terms of trade and infrastructural concern. However some other important issues were focused mainly on:

1. Legal Issue

The most important legal issue is mis-use of Brand. Poor quality or sub standard products are being exported from India in official brand names. Moreover legal formalities like patent and copyright are also being ignored and there is no concrete policy to check this legal deformity. Income taxes are also not being fulfilled.

2. Financial Issue

The main financing issue is that of improper pricing. Traders do not get fair price of their commodities and are required to pay extra money at the border areas.

3. Security Aspect

We see many cases that police harassing the people who do local trade in the border areas as well as the rickshaw pullers who mobilize from India to Bangladesh as daily wage earners are exploited by these policemen. There is lack of insurance security for both Bangladesh and Indian citizens in case of death or accident in the opposite nations.

12. RECOMMENDATIONS

A number of policy and other reforms that would serve the economic interests of both India and Bangladesh by channelling trade away from the bootleg routes to the formal routes and by reducing the incentives and scope for corrupt practices in the formal routes:

- Both countries would improve accelerate efforts to streamline the infrastructure –physical and administrative structures that affect land border trade, especially Customs administration at their land border Customs posts. This would need to be done in a coordinated way.
- Bangladesh would bring down its presently very high tariffs protecting import substitution industries by reversing the policies under which protection rates have been drastically increased over the past 6 or 7 years by the use of para-tariffs on top of Customs duties.
- Cross border market both in India and Bangladesh border can be legalised with certain norms to make this into a formal trade system.

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