

# Expansion of North East India's Trade and Investment with Bangladesh and Myanmar

## An Assessment of the Opportunities and Constraints



**RIS**  
Research and Information System  
for Developing Countries

Ministry of Development of  
North Eastern Region



North Eastern Council

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October 2011



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## *Executive Summary*

India's North Eastern Region (hereinafter NER) has 9 per cent of India's geographical area and contributes 3 per cent to the country's gross domestic product (GDP). In relative terms, it is one of India's economically laggard regions. However, given its natural resources base and strategic location, NER has the potential to become India's "powerhouse" in terms of trade and investment. Although the NER is rich in resources like hydrocarbons and other minerals, and has immense potential to produce hydroelectricity, absence of adequate infrastructure has impeded its development.

NER is unique in terms of the economic opportunities it offers. About 98 per cent of the region's borders form India's international boundaries; it shares borders with China, Bangladesh, Bhutan and Myanmar. Given its strategic location, the region can be developed as a base for India's growing economic links not only with the Association of Southeast Asian Nations (ASEAN) but also with neighbouring countries, viz. Bangladesh, Bhutan, and Nepal.

Over the past several years, India has been a part of a number of regional and sub-regional initiatives that countries in South and South East Asia have taken to deepen their economic integration. These include the South Asian Free Trade Agreement (SAFTA), which is the first step towards an eventual South Asian Economic Union, the Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation (BIMSTEC)<sup>1</sup> and the Asia-Pacific Trade Agreement (APTA)<sup>2</sup>. Further, as a part of its "Look East" policy, India has increased its engagements with the members of the ASEAN and countries belonging to the East Asia Summit (EAS)<sup>3</sup>. As is clear from Figure 1, the centrality of the NER is critical in effectively pursuing these initiatives.

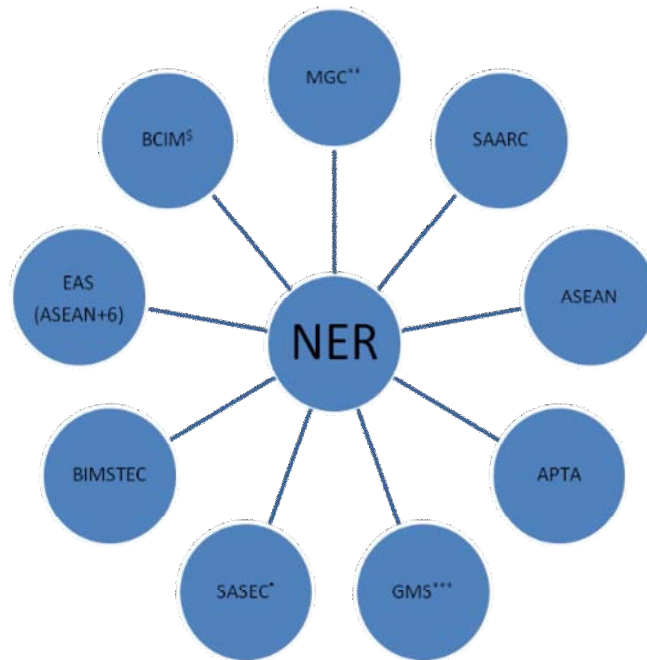
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<sup>1</sup> Members of BIMSTEC are Bangladesh, India, Myanmar, Sri Lanka, Thailand, Bhutan and Nepal.

<sup>2</sup> Members are Bangladesh, India, Lao People's Democratic Republic, the Republic of Korea and Sri Lanka

<sup>3</sup> EAS Summit includes ASEAN plus India, Australia, New Zealand, China, Japan and Korea.

**Figure 1: NER as India's Gateway to the East**



Notes:

\* South Asia Sub-regional Economic Cooperation (SASEC)

\*\* Mekong-Ganga Cooperation

\*\*\*Greater Mekong Sub-region (GMS)

\$ Bangladesh, China, India, Myanmar Forum on Regional Cooperation

Set against this backdrop, the present study attempts to better understand the existing level of trade links through both formal and informal channels between India and its neighbours around the country's North East by focusing on two of its neighbours, viz. Bangladesh and Myanmar. More specifically, the study analyses the scope of utilising nine Land Customs Stations (LCSs) for improving border trade with two countries. Three sets of issues are examined in the study. These are: (a) pattern of border trade between India and its two neighbours and the possibilities of expanding it; (b) supply-side constraints that may exist in the NER which inhibit India's two-way trade with its two neighbours; and (c) exploring India's investment opportunities in Bangladesh and Myanmar with buy-back provisions that can promote border trade through the LCSs.

Formal trade links between India and its two neighbours, Bangladesh and Myanmar, have remained at a very low level. While the share of Bangladesh in India's total trade was about 0.6 per cent in 2009-10, Myanmar had an even smaller share of about 0.3 per cent. In absolute terms, India's two-way trade with Bangladesh increased from US\$ 1.8 billion in 2005-06 to US\$ 2.6 billion in 2009-10. It should be pointed out that the level of two-way trade between the two dipped slightly in 2009-10 from the record level of US\$ 3.2 billion registered in the immediately preceding year. In the same period, India's two-way trade with Myanmar grew almost three-fold between 2005-06 and 2009-10 to reach US\$ 1.5 billion.

These low levels of trade do not factor in the informal trade that takes place through the local trade points, which have not been systematically recorded thus far. People living in the border regions have had economic and cultural links going back to several centuries and drawing of the political boundaries has failed to sever their ties. The interdependence of the peoples on the two sides of the political boundaries has given rise to informal channels of trade in goods and services. In fact, much of the trade taking place through the borders are through informal arrangements, including through the border haats, whose importance seems to have hardly diminished despite the restrictions that have come into being in the past few decades. Informal trade has thus provided sustenance to the economies of the region.

The importance of border trade is immense for the NER, for it brings direct tangible benefits to the region. However, border trade involving both Bangladesh and Myanmar face a plethora a problems. Supply-side constraints, among others, are inhibiting two-way trade across the borders with its two neighbours. There is urgent need to strengthen not only transport and communication infrastructure but also the institutional support for enhancing the existing level of trade and economic linkages.

Government of India has taken initiatives to improve the policy regime aimed at promoting trade on the borders with both Myanmar and Bangladesh. India concluded a border trade agreement with Myanmar in 1994, which allows border trade to take place initially through two points i.e. Moreh and Champhai, and subsequently through any other points to be identified by mutual agreement. The border trade agreement allowed 22 locally produced commodities to be traded by people living along both sides of India-Myanmar Border, as per the prevailing customary practice including the barter mechanism. In 2008, the two countries took several significant decisions regarding the existing border trade arrangements. One, trade through the Moreh-Tamu and Zokhawthar-Rhi border points was upgraded to normal trade. All goods except a handful of restricted items were allowed to be traded at these points at MFN rates. Two, decision was also taken to open a new border trade point at Avakhung-Leshi. Three, the list of list of items for barter trade identified under the 1994 Agreement was expanded to 40. And, finally a decision was taken to operationalise new banking arrangement for trade.

Border trade arrangements between India and Bangladesh remained largely undeveloped until the decision was taken by the Prime Ministers of the two countries in January 2010 to establish border haats. A formal agreement was signed in October 2010 to establish border haats, as a pilot project, at two locations. The two countries also agreed to open border haats in other locations based on factors like historical location, difficulty in access, interdependence of the population on both sides of the border and availability of suitable location.

### **NER-Bangladesh Border Trade: Emerging Pattern**

Resource-industry linkages determine the pattern of India-Bangladesh border trade taking place through the NER. Some critical minerals, which are available in the NER but not in Bangladesh, provide the basis of NER-Bangladesh trade. What follows is that NER's exports to Bangladesh are distinctly different from major export lines from rest of India to Bangladesh. The product-wise trade between NER and Bangladesh indicates a complementarity between the resource availability in the NER and the demand structure of Bangladesh. Bangladesh lacks mineral resources like coal and limestone which the country

imports from the NER. In return, the NER imports finished products from Bangladesh. This provides a firm basis for trade expansion between the two regions.

To summarise, the following are the features of India-Bangladesh border trade:

- (a) Exports from NER to Bangladesh dominate NER-Bangladesh trade.
- (b) The NER exports raw materials like coal, limestone, stone chips, bamboo, to Bangladesh and imports finished products like cement, plastic goods, readymade garments, process food and drinks.
- (c) Minerals from Meghalaya are exported to Bangladesh through the LCSs of Assam and Meghalaya.
- (d) Trade flows through Tripura-Bangladesh sector is dominated by imports from Bangladesh.
- (e) As the resource structure of the NER and demand structure of Bangladesh are complementary to each other, there exists a huge potential for trade between these two regions. As the NER exports industrial raw material to Bangladesh, trend of the NER's export is found to be stable.
- (f) Export trade in exhaustible resources like coal and limestone suffers from severe limitations in that the trade dries up with the depletion of stock of resources. As a result, for sustainable growth it is important to diversify the export basket and also to add value to export by switching over from export of raw materials to export of processed/semi-processed goods.

### **Trade between NER and Myanmar**

At present, four LCSs are in operation, through which trade between India and Myanmar is conducted.

Moreh in Manipur is the busiest LCS, handling almost 99 per cent of the NER's trade with Myanmar. Exports through Moreh LCS increased from US\$ 0.1 million in 1995-96 to a peak of US\$ 13.5 million in 2006-07 and then declined to US\$ 1.5 million in 2009-10. Imports, on the other hand, witnessed relatively less fluctuations, increasing from US\$ 1.7 million in 1995-96 to US\$ 2.1 million in 2009-10. The interesting development is that the second half of previous decade witnessed a rise in Indian export through Moreh, compared to previous two periods, whereas import declined consistently from US\$ 72 billion in 1995-96/1999-2000 to US\$ 38 billion in 2005-06/2009-10.

The field survey conducted across nine LCSs in the NER clearly shows the LCSs suffer from tremendous 'infrastructure deficit'. Unavailability of electricity, bad road, manual handling of goods, unfriendly exchange rate and many such barriers are making the trade at border a costly affair. Undoubtedly, these are the barriers which are prohibiting the official trade to grow at the NER. As a result, unofficial (informal) trade is very much rampant. Although congestion at border is not a problem in the NER, unfriendly trading environment is making the trade expensive. The field survey shows transaction costs at LCSs are very high, which vary between Rs. 2500 to Rs. 500 per transaction. The high transaction cost at border can be



mitigated through implementation of trade facilitation measures and policies, one which should focus on reducing the number of agencies providing clearances.

Our assessment is that trade creation can take place only if measures are taken, in particular to improve the quality of infrastructure at border, connectivity to the rest of state and the region and improvements in the supply capacities from the Indian side. Informal/illegal trade is a feature of border trade taking place with both neighbours. This trade is taking place through well-established trade points that have historically been by the people of the region. The informal/illegal trade taking place through Moreh-Tamu is thriving on the back of the supplies being provided by both China and Thailand. As a result, trade comprises of products that are well beyond the 40 items that have been identified by India and Myanmar as a part of their Border Trade Agreement of 1994, as amended in 2008. The magnitude of informal/illegal trade taking place on Moreh-Tamu border may prompt the authorities to put regulations to check the growth of this trade. In this context, our assessment is that since the trade point existing in Moreh symbolises the historical links that existed between the people living in the border areas, it would make little economic sense to impose policy induced barriers. Rather, steps must be taken to recognise the so-called informal trade and to get it included in the formal statistics. Further, the available infrastructure and connectivity must be improved to enable greater trade flows to take place through border trade points like Moreh.

Our view is that trade flows can be improved by adopting two sets of strategies for Bangladesh and Myanmar. In case of the former, there are immense possibilities of promoting vertical trade or “fragmentation”, provided appropriate investments are made on two sides or the border on activities that give rise to trade complementarities. For instance, the NER, which is a hub of fresh fruits and vegetables, can act as a source of raw materials for the upcoming food processing sector in Bangladesh. Furthermore, Indian entrepreneurs and technologists can help strengthen the food processing sector by extending the development of this sector. And, finally, this investment should take up primarily in the SME sector.

Yet another sector that can be considered in this regard is the textiles and clothing sector. NER has traditionally been a treasure trove of handloom and niche fabrics like the “Assam muga”. Although the uniqueness of “Assam muga” has been recognised through the grant of “geographical indication”, the artisans have remained in the poverty trap because of inadequate demand for their product. Linking the “Assam muga” producers to the clothing industry would provide a definite boost to these producers.

While the above examples were intended to highlight the potential for vertical integration that exists between the NER and Bangladesh, the strategic imperative of promoting these activities cannot be overlooked. As mentioned above, promotion of such activities would lead to strong trade complementarities, thus promoting trade between the two countries. Thus, India’s exports of raw materials can be matched by its imports of processed products from Bangladesh. This pattern of trade will enable Bangladesh to export higher value added products and can thus help reduce its large trade imbalance with India.

In case of border trade with Myanmar, efforts would have to be made by both Government of Manipur and the Government of India to address the supply-bottlenecks that have caused a huge trade imbalance against India in the trade taking place through the informal trade point, or “Gate No. 2”. There is evidence of demand for Indian products in Myanmar and therefore it is important to widen the market for these products. While the market for traditional products is well recognised, it is important that non-traditional products are identified for possible export to Myanmar.

Government of Manipur has been arguing that industrialization must precede the opening up of trade. The Government has argued that local industry like agro-processing, horticulture, textiles, etc. must be encouraged through the employment-led expansion of the regional market, which can result in substitution of imported product with local produce while at the same time servicing external demand. It has further been pointed out that there is ample scope for the development of manufacturing/processing units for medicines, rubber goods, cycles and cycle parts, pharmaceuticals, edible oils, petroleum products, cement, cotton yarns, etc.

We would argue that a well-honed strategy, which has a medium-term perspective, needs to be put in place. This strategy should be developed in the context of the closer economic integration that India is seeking with its immediate neighbourhood, the ASEAN region. While the infrastructure needs have been given serious attention, including the discussions on the Asia Highway Project that would go through Moreh, the stakeholders seem to be some distance away from putting in place plans that would help in exploiting the markets in the South East Asia. From India's point of view, the lack of initiative on this score seems particularly stark given that the country had signed the India-ASEAN Free Trade Agreement almost a year and a half ago, and that the first phase of implementation of this FTA have already been gone through since the FTA became operational in January 2010.

### **Policy Recommendations and the Way Forward**

NER is critically located for it holds the key to India's economic integration efforts with its neighbours in South and South East Asia. A logical starting point for an exercise for enhancing trade and investment cooperation involving the neighbouring countries, with whom India shares common land frontiers, is to study the dynamics of trade taking place through the local trade points. Over the years, both the Government of India and the Governments of the State where these trade points exist, have realised the importance of these trade points and have set up Land Customs Stations (LCSs) with the objective of bringing the informal/illegal trade taking place onto the formal channels. An elaborate plan has now been drawn up to convert a number of these LCSs into Integrated Check Posts (ICPs), which would provide better facilities to the traders.

The recommendations of this study are presented in four parts. The first relates to the policy measures that are needed to provide impetus to border trade. The second would cover the infrastructure and trade facilitation measures that must be taken to provide added incentives to the traders. The third relates to the payments arrangements, without which trade will always face impediments. And, finally, suggestions would be made as to how the supply-side issues can be addressed, keeping in view a medium term perspective.

### **Policy Measures**

1. Development of "border haats", alongside upgrading the LCSs into ICPs, would provide tremendous boost to border trade. While steps have already been taken to open border on the India-Bangladesh border, similar initiatives can also be taken on the India-Myanmar border.
2. The Border Trade Agreement between India and Myanmar needs to be revisited with a view to substantially increase the list of products in which barter trade is allowed at present. The list of 40 items has lost its relevance while the normal or regular trade has gained the popularity over time. With almost all possible tradable items being traded through Moreh, the most important trade point on the India-Myanmar border,

artificial barriers like the ones imposed through the Border Trade Agreement would only result in the development of a parallel economy. Government may, therefore, allow normal trade to take place in accordance with the Foreign Trade Policy.

### **Infrastructural bottlenecks**

1. All the LCSs covered by the study lack essential infrastructure necessary to promote border trade. Road connectivity needs to be improved. Government of India and the State Governments should give priority to upgrading of the National Highways and the State Highways linking the LCSs with the rest of the country. Up gradation of the road infrastructure will help in improving the supplies of goods from the rest of the region and would help in reducing the large trade imbalances that India faces exist at some of the trade points, in particular at Moreh. This study has pointed out that there is a demand for Indian products in Myanmar, and possibly, beyond, which can be satisfied by connecting these trade points with the rest of the country. Local enterprise will also receive an additional incentive to go beyond the borders if the problems of connectivity are addressed.
2. Although the LCSs exist in most of the border trade points that were included in the study, inadequate infrastructure and other facilities at these LCSs prevent conducting high volumes of trade. Communication systems are in a general state of disrepair in most of the border trade points. In some cases, like Moreh, where communication systems are in place, the service is highly erratic. Most of the other infrastructural facilities are either non-functional or are unavailable. These include weighbridges, warehouses and dumping sheds.
3. Since food items account for a significant proportion of trade taking place through the border trade points, specific infrastructural needs of these products would have to be addressed. Animal and plant testing and quarantine facilities, conforming to international standards, need to be put in place near the LCSs to prevent spread of undesirable pests and pathogens. Since a significant proportion of the traded products are in the nature of perishables, establishment of cold storages would not only fetch better value for the products; there would be an additional incentive for expanding both the volume of products being traded at present and the range of products being traded through the LCSs.
4. Upgrading the infrastructure should be done with a view to improving the efficiency of the customs authorities so that the lead-time for clearances is reduced to the bare minimum. Appropriate trade facilitation measures are needed to reduce the transactions cost. These would involve reducing the number of clearances required for trade transactions. It may be mentioned in this context that the use of information technology (IT) and information technology enabled services (ITES) has provided fillip to trade facilitation in many countries and these experiences need to be replicated in India to facilitate border trade.

## Payments Arrangements

1. India-Myanmar trade has steadily increased over the past decade. Two-way trade between the two countries increased from around Rs. 1,000 crores in 2000-01 to more than 7,000 crores in 2009-10. India faces a huge trade deficit: in 2009-10, the deficit was in excess of Rs. 5,100 crores. The trade deficit should register a decline during the previous fiscal year since in the first nine months of the fiscal, exports from India had exceeded the level recorded in 2009-10, and imports were barely one-half of the previous year's level.
2. The official statistics, however, does not provide the true indication of the level of trade relations between India and Myanmar because of the presence of informal trade. This form of trade takes places almost entirely through the land border that connects Moreh in Manipur to Tamu in Myanmar. Imports consist of precious stones, agricultural commodities including beans, vegetables and fruits, besides electronic equipment. Quite clearly, the goods that are traded through the informal/illegal channels are well beyond the 40 items that have been included in the Border Trade agreement between India and Myanmar. Most of the products coming through Moreh are not of Myanmar origin - they are produced in China and elsewhere.
3. Trade through the informal channel takes place through head-loads. Consequently, there are no official accounts kept on the volume/value of trade. Trade seems to be flourishing since there are no explicit checks at the border by the governments on either side. The magnitude of trade taking place is phenomenal. According to the traders, daily imports are in the vicinity of Rs. 3-4 crores. As is usually the case, any estimate of this kind are likely to be underestimates of the actual level of trade taking place. This is borne out from the evidence presented by studies conducted around 2009, which have estimated that the value of informal border trade transacted through Moreh is estimated at about Rs. 2000 crores a year. Thus, even if the number provided by the traders is considered, annual trade taking place through informal channels is between Rs. 1100 and Rs 1450 crores. And, this trade balance is hugely against India given the large quantities of Chinese (and some Thai) products being imported. As against this, imports to India through the LCS in Moreh were a mere Rs. 16 crores during 2009-10. The numbers for informal/illegal trade clearly suggest that these trade and related activities are sustaining the economy of the region.
4. Informal trade is heavily skewed against India. Traders on the Indian side of the border report that the infrastructure facilities are well developed on the other side of the border at Namphalong (Tamu). About 700-800 well stocked shops form the basis for imports from Myanmar. The situation across the border in Moreh is in sharp contrast – there are less than 100 shops. There is clearly no momentum in India's exports to Myanmar.
5. At the same time, however, there is evidence that there is a market for Indian products in Myanmar, some of which are currently being supplied at sub-optimal levels. Field surveys undertaken have revealed that products like tea, confectionery products, cosmetics, tyres utensils, fruit juices and processed food products are in considerable demand, although they face serious competition with the Chinese products.

6. Besides supply-bottlenecks, trade expansion from India seems to have suffered because payments arrangements remain the most serious hindrance. The absence of a realistic exchange rate appears to be a major factor impeding growth of exports to Myanmar.
7. The official exchange rate of the Kyat is hugely inflated. According to some estimates, in 2010, one US \$ was equivalent to 1000 Kyat in the informal market, while the official exchange rate was 5.5 Kyat per US \$. Recent reports indicate a gradual appreciation of the Kyat in the informal market. By June 2011, a 20 per cent appreciation in the value of the Kyat was registered.
8. Going by the official rate, one Kyat is equivalent to over Rs. 8.50. The informal rate, one that is used for the conduct of informal trade, one Rupee was equivalent to 25-30 Kyat. The official rate of the Kyat is therefore 210 times higher than the one being used in the grey market through which the informal/illegal trade is taking place.
9. United Bank of India (UBI) and the Myanmar Economic Bank have entered into MoU for opening letters of credit (LC). At present, settlement can be made in two currencies, viz. Singapore dollars and Euros. However, not even one LC has been opened so far. Given the vexatious problem of the Kyat-Rupee exchange rate, the lack of interest in using LC is not entirely unexpected.
10. The rupee is widely accepted as the currency for conducting India-Myanmar trade at the border. It is therefore strongly recommended that India-Myanmar trade should be denominated in Rupees. There are several advantages that could accrue to India as a result, which are enumerated below:
  - a. Use of Rupees would help avoid the use of third country currency, which not only involve complex procedures, but also result in considerable delays and commensurate increase in transactions cost.
  - b. Rupee has been relatively more stable than most of the so-called hard currencies, including the Euro. With the Euro-zone embroiled in a crisis, there are uncertainties regarding the stability of the Euro, which is one of the currencies that is being used for settlement of India-Myanmar trade. A more stable exchange rate regime that Rupee trade would bring in would help both traders and consumers in both countries.
  - c. Rupee trade may encourage greater use of the formal trade route by traders who are at present engaged in informal/illegal trade at the border. The use of LC should increase and as a result border trade could become more transparent.
  - d. Assuming that the existing patterns of trade would continue to prevail, one of the favourable outcomes of introducing Rupee trade would be that Myanmar would be demanding more products from India in order to use its accumulated rupee resources, thus evening out the large imbalance in bilateral trade faced by India.
  - e. India needs to consider promoting Rupee as a currency for settlement of bilateral trade with as many countries as possible particularly to counter the moves of the Chinese government to push Yuan for trade settlement. Over the past couple of years, China has promoted swap in bilateral trade with a number of countries, and, as the recent trends show, Yuan denominated trade is on the rise. Available estimates show that that by the first quarter of this

year, almost 7 per cent of China's trade was denominated in Yuan. Recent projections made by the HSBC Bank show that by 2015, almost 50 per cent of China's trade would be Yuan denominated. If India has to establish itself as a major economic power in the region it has to use its own currency to derive enhanced benefits from economic engagement with its neighbours.

11. Needless to say, the use of Rupee would require enhanced surveillance by the banking sector so as to ensure that illegitimate use of the currency is eliminated. Banking systems in the two countries, led by the UBI and the Myanmar Economic Bank, should be so developed as to respond to the requirements of the traders.
12. Prompt measures should be taken to promote use of LC. As stated above, the lack of interest on the part of the traders in LC, particularly those involved in border trade, has hampered the development of trade through formal channels. It has to be recognised that even in the best of situations, LC are difficult for the small traders to handle and, therefore, concerted efforts would have to be taken to ensure that this instrument is put to use. It may be suggested that the traders associations involved in border trade together with export promotion councils, like the SHEFEXIL, and the banks undertake a series of programmes to popularise the use of LC.

### **Improving the Supply-side Bottlenecks**

1. While many of the measures suggested in the foregoing would lead to the removal of supply-side bottlenecks on the Indian side of the border, there is a need to take a medium-term perspective to address the supply-side issues so as to make effective use of the border trade points. For so doing, the Government of India, along with the concerned State Government, would have to devise an elaborate plan that links the development of certain sectors in the NER with the trade channels provided by the border trade points.
2. The NER has been the hub of niche products in handicrafts and handloom, much of which is in the state of decline for want of effective government intervention. As their budgetary position has worsened, State Governments have lowered the level of support that was once given to the artisans. It is suggested that these activities need to be revived with Central assistance through a well coordinated programme to promote the artisans. This programme could be modelled on the One Village One Product movement that was initiated in Japan in the late 1970s, which promoted one competitive and staple product from a village to improve the living standards of the population. More recently, Thailand developed the One Tambon One Product (OTOP) programme to encourage village communities to improve the quality and marketing of the locally made products, including handicrafts, cotton and silk garments, pottery, fashion accessories, household items, and foods. The OTOP programme, which is more relevant for the NER, selected one superior product from each tambon (sub-district), granted it a brand ("starred OTOP product"), and provided local and international stage for promotion of these products. Besides promoting the products, the OTOP Programme (renamed as the "Local and Community Products", although the "OTOP" brand name has been retained), led to promotion of tourism in the districts from which the products originate.

3. In case of Bangladesh, the Government of India and the State Governments may also consider developing a tripartite relationship aimed at promoting trade and investment in Bangladesh and India. The focus of these efforts should be the support that India needs to provide to Bangladesh to set up enterprises in the small and medium enterprise (SME) sector, which are based on resources available in India's NER. The sectors that select themselves naturally are food processing and textiles and clothing. The industries set up in Bangladesh with India's support can leverage the vast market in the NER that is waiting to be exploited.
4. Development of local industries is an imperative that must be given high priority, especially in the face of the penetration of imported products into the local economy. Industries like agro-processing, horticulture and textiles in which the NER has natural comparative advantage must be expanded using an employment-led strategy. Such a strategy will not only result in augmentation of domestic demand, but will also create a viable industrial base that can service external demand. At the same time, possibilities of setting up industries for producing rubber goods, cycles and cycle parts, pharmaceuticals, edible oils, petroleum products, cement must be explored since the NER either has the raw materials for their development and/or the demand from the region and the countries around it are large enough to sustain them.
5. Capacity building for officials, entrepreneurs, and traders is needed for strengthening human resources. This would help improve the quality and delivery services in the region. State-level trade promotion centres assisted by the apex industry associations might be the right step for building capacities in the region.

## *Chapter 1*

# **Introduction**

India's North Eastern Region (hereinafter the *NER*) is among the most endowed states in terms of the natural resources, including several critical minerals that it possesses, and has substantial potential for generating one of the preferred low-carbon forms of energy, viz. hydro-electricity. Besides, *NER* sits at the door-step of the East Asia, the region with which India is increasing its economic ties. But despite these advantages, the *NER* has remained one of India's economically laggard regions, which accounts for a mere 2 per cent of India's Gross Domestic Product (*GDP*) in 2009-10. High transactions costs contributed by the bottlenecks in the transport systems connecting the *NER* with the rest of India and the neighbouring countries and the lack of other essential infrastructure have rendered the region perpetually underdeveloped (Bhattacharya and De, 2006; De, 2008).

The relation between trade, infrastructure and economic development within countries (read India) is a much debated issue. Most trade economists have a view of a world in which countries freely exchange goods, factors of production and technology. Free trade in goods leads to equalization of factor prices across countries. In the neo-classical growth models, capital and labour play the central roles as two main factors of production. From the perspective of conventional one sector neo-classical growth theory, international linkages do not matter, but from the trade perspective they are the crucial determinants. Although infrastructure plays an important catalytic role, it gets virtually no explicit mention in the relevant literature on trade and inclusive growth.<sup>4,5</sup> It has also been argued that greater openness of an economy is potentially beneficial to all but appropriate policy designs are essential for realizing the benefits (Basu, 2006). The link between trade and infrastructure development in the *NER* must be seen in this perspective. As the principal nodes of the national market are far away, markets across the border can act as the vents for surplus generated in the *NER*.

The region is unique in terms of the opportunities it offers. While it is an industrial desert where almost all immediate consumables are imported from outside the region, the *NER* is the focal point of trade within a vast area. About 96 per cent of this region's borders form India's international boundaries; it shares borders with the China in the north, Bangladesh in the southwest, Bhutan in the northwest, and Myanmar in the east. *NER*'s locational advantage provides a backdrop to its development as a base for cooperation not only with the Association of Southeast Asian Nations (*ASEAN*) but also with neighbouring countries such as Bangladesh, Bhutan, and Nepal.

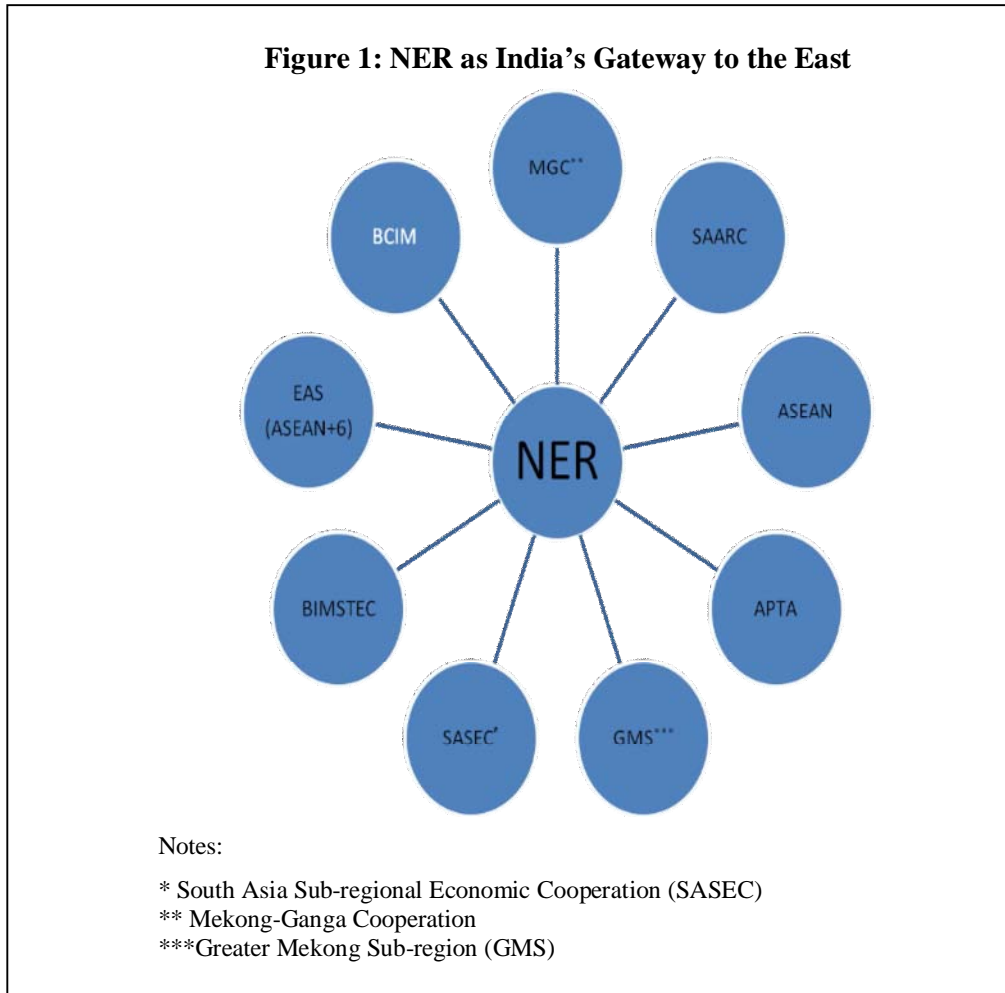
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<sup>4</sup> However, development in endogenous growth theory has introduced the possibility of a productive role of public expenditure on infrastructure with an associated possibility of increasing returns to scale (Barro, 1990 and 1991).

<sup>5</sup> In economics, there is a need to concentrate on economic infrastructure, which includes services from: (a) public utilities, such as power, telecommunications, piped water supply, sanitation and sewerage, solid waste collection and disposal, and piped gas; (b) public works, such as roads, and major dam and canal works for irrigation and drainage; and (c) other transportation sectors, such as urban and inter-urban railways, urban transport, ports and waterways, and airports (World Bank, 1994). See also, Canning (2006), and Straub (2008).



Over the past several years, a number of regional and sub-regional initiatives have been taken by countries in the South and South East Asia, which would help shape the economic geography of the region. These include the enhanced cooperation among the members of the South Asian Association of Regional Cooperation (SAARC) that have agreed to set up a South Asian Economic Union, the Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation (BIMSTEC)<sup>6</sup>, the Asia-Pacific Trade Agreement (APTA)<sup>7</sup>. Besides, India has adopted the “Look East” policy and is engaged in deepening economic cooperation with ASEAN and countries belonging to the East Asia Summit (EAS), which brings together ASEAN and six of its partner countries, including India<sup>8</sup>. Providing fillip to these initiatives is not possible without the NER playing a pivotal role (see Figure 1).



From among the countries that are in the immediate neighbourhood of the NER, Bangladesh and Myanmar have particular significance. The former was integrally linked to the NER in the pre-partitioned India and the economic links that then existed have perpetuated till today through the informal channels. Myanmar provides the crucial gateway to the East Asian economies, and hence effective connectivity with this country is of utmost importance. A

<sup>6</sup> Members of BIMSTEC are Bangladesh, India, Myanmar, Sri Lanka, Thailand, Bhutan and Nepal.

<sup>7</sup> Members are Bangladesh, India, Lao People’s Democratic Republic, the Republic of Korea and Sri Lanka

<sup>8</sup> EAS Summit includes ASEAN plus India, Australia, New Zealand, China, Japan and Korea.

coherent strategy ,therefore, needs to be developed for strengthening the existing levels of trade (and also investment) links with these countries.

The formal trade links between India and its two neighbours, Bangladesh and Myanmar, have remained at a very low level. While the share of Bangladesh in India's total trade was about 0.7 per cent in 2010-11, Myanmar had an even smaller share of about 0.2 per cent. In absolute terms, India's two-way trade with Bangladesh increased from US\$ 1.8 billion in 2005-06 to US\$ 4 billion in 2010-11, which is the highest level ever. In the same period, India's two-way trade with Myanmar grew almost three-fold between 2005-06 and 2010-11 to reach US\$ 1.4 billion.

An interesting aspect of India's trade with Bangladesh and Myanmar is that while in case of Bangladesh, India has maintained a large trade surplus, the country's trade balance is negative vis-à-vis Myanmar. In 2010-11, India's trade surplus with Bangladesh had exceeded US\$ 3 billion, which was despite the fact that its imports had increased by more than 62 per cent as compared to that in the previous year. In contrast, India's trade deficit with Myanmar exceeded US\$ 600 million in 2010-11, which was less than half of that seen a year earlier.

These low levels of trade do not include the informal trade that takes place through the local trade points, which have not been systematically recorded thus far. People living in the border regions have had economic and cultural links going back to several centuries and the drawing of the political boundaries has failed to sever their ties. The interdependence of the people on the two sides of the political boundaries has given rise to informal channels of trade in goods and services. In fact, much of the trade taking place through the borders are through informal arrangements, whose importance seems to have hardly diminished despite the restrictions that have come into being in the past few decades. Informal trade has thus provided sustenance to the economies of the

The importance of informal trade is immense for the NER, for it brings direct tangible benefits to the region. Trade across the borders of India with both Bangladesh and Myanmar face a plethora a problems. Supply-side constraints, among others, are inhibiting two-way trade across the borders with its two neighbours. With 96 per cent of India's NER constituting international boundaries, there is an urgent need to strengthen not only transport and communication infrastructure but also the institutional support that is currently available at the border so as to enhance the existing level of trade and economic linkages with countries bordering the NER, including Bangladesh and Myanmar.

Over the past two decades the Government of India has taken several steps for promoting trade on the borders with both Myanmar and Bangladesh. A border trade agreement with Myanmar was concluded in 1994, which allowed trade to take place initially through two points, viz. Moreh and Champhai, and subsequently through other points to be identified jointly by the two governments. Under this agreement, 22 locally produced commodities<sup>9</sup> were allowed to be traded, as per the prevailing customary practices, including barter. A number of conditions were introduced on the barter trade mechanism<sup>10</sup>:

- (a) The transactions could take place only by way of head load or non-motorised transport system;
- (b) The value of goods exported under barter trade could not exceed US \$20,000 per transaction;

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<sup>9</sup> See Annex I for the list.

<sup>10</sup> Reserve Bank of India (2000).

(c) The export of goods from India to Myanmar against import of goods from Myanmar to India should be completed within a period of six months from the date of import. In 2008, the two countries took several significant decisions regarding the existing border trade arrangements. One, trade through the Moreh-Tamu and Zokhawthar-Rhi border points was upgraded to normal trade. All goods except a handful of restricted items were allowed to be traded at these points at MFN rates. Two, decision was also taken to open a new border trade point at Avakhung-Leshi. Three, the list of list of items for barter trade identified under the 1994 Agreement was expanded to 40. And, finally a decision was taken to operationalise new banking arrangement for trade.

Border trade arrangements between India and Bangladesh remained largely undeveloped until the decision was taken by the Prime Ministers of the two countries in January 2010 to establish border haats. A formal agreement was signed in October 2010 to establish border haats, as a pilot project, at two locations, one of which is operational. The two countries also agreed to open border haats in other locations based on factors like historical location, difficulty in access, interdependence of the population on both sides of the border and availability of suitable location.

While efforts have been made to enhance the level of trade with Bangladesh and Myanmar, there is a need to look at opportunities beyond trade that will ensure that the partner countries reap longer term benefits. One of the ways in which this has been possible in several different regions of the world, not to speak of India, is through “trade-induced investments”. A rich body of literature argues that “trade-induced investment-led growth” was at the heart of the process of European integration project (Baldwin 1996). More recently, India has also experienced deepening of its economic relations with Sri Lanka through “trade-induced investments”. The India-Lanka Free Trade Agreement (FTA) prompted Indian firms, most notably, Indian Oil Corporation, to establish their presence in Sri Lanka. More recently, Sri Lankan investments have started flowing into India, which includes Brandix Sri Lanka, the largest textile exporter from the country.

In view of the above-mentioned instances of “trade-induced investments”, including those that India has a part of, this study presents a perspective as to how trade and investment synergies can be developed so that the NER along with Bangladesh and Myanmar can develop a partnership for ushering in virtuous growth in the region.

### **Scope of the Study**

The proposed study analyses the scope of utilising identified Land Customs Stations (LCSs) for improving border trade with Bangladesh and Myanmar. The study exclusively focuses on following set of issues.

First, the study makes an assessment of the pattern of border trade between India and its two neighbours and the possibilities of expanding it given the existing market conditions.

Second, this study attempts to identify products, based on supply-demand balances in the region, and taking note of those in earlier studies (e.g. dairy products, medicines, machinery and engineering goods, construction materials, two-wheelers, car parts, raw materials for textiles, plastic materials, wood and wood products, etc.).

Third, the study examines this possibility on specific local products to enhance their market value.

Fourth, the study also examines what could be gainfully imported by the NER from the neighbouring countries so that the bilateral trade is not unidirectional but provided for a win-win situation.

Fifth, this study discusses the second set of issues that involve assessment of supply-side constraints exist in the NER which are inhibiting India's two-way trade with the two neighbours.

Sixth, it also evaluates the possibilities of investment opportunities by India in both Bangladesh and Myanmar, and vice versa, which can then use the LCSs.

## **Research Objectives and Data Sources**

This study has following specific objectives:

- Review of India's trade with Bangladesh and Myanmar and the changes in recent past (the most recent three-year period may be considered).
  - The focus of this exercise is on India's trade that is taking place through the NER.
- Identification of commodities that can help in expanding India's trade with the neighbours through the NER given the existing resource endowments and market demand for products
  - This exercise entails identification of commodities that India currently exports or can export to Bangladesh and Myanmar in future, but also the products that the NER can import from India's neighbours
- Identification of constraints, procedural and otherwise, that imposing limitations on the expansion of India's trade with Bangladesh and Myanmar through the North Eastern states.
  - Issue like availability of trade finance is also discussed.
- Identification of supply-side constraints that are limiting India's exports of commodities to Bangladesh and Myanmar that are produced in the NER and suggest measures that need to be adopted to deal with this problem.
- Exploration of India's investment opportunities in Bangladesh and Myanmar with buy-back provisions that can eventually promote border trade through the LCSs existing in the NER.

The above mentioned issues have been dealt with using data and information obtained from both primary and secondary sources. Data from primary sources have been collected through extensive field visits in identified LCSs. Field visits and primary survey helped us to make assessments of the ground reality of both hard and soft infrastructure.

## **Structure of the Study**

The following chapter presents a brief overview of the NER economies and includes a discussion on the recent macroeconomic performance of the region. Chapter 3 provides a detailed account of the NER's trade with Bangladesh. The chapter presents an analysis of the trade flows and their patterns with the individual states in the NER. Chapter 4 presents the NER's trade with Myanmar. This discussion also includes the NER's trade with Myanmar

through land border. Based on the evidences presented in Chapters 3 and 4, policy initiatives that need to be undertaken for the development of trade and investment in NER along with Bangladesh and Myanmar are enumerated in Chapter 5. This component of the report has been benefited from the past discussions with the Ministry of DONER. It would be further strengthened based on the inputs to be received from the stakeholder consultations that would be held in Shillong under the aegis of the NEC.

## Chapter 2

# State of the NER Economies

The North Eastern Region (NER) comprises of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura and extends to north and east of the narrow Siliguri corridor. These eight states cover an area of 2,62,189 sq. km. constituting 8 per cent of the country's total geographical area and account for only around 3.79 per cent of the total population and 3.87 per cent of country's output of the country.<sup>11</sup> The region shares a long international boundary of around 96 per cent with its neighbouring countries with China and Bhutan in the north, Myanmar in the east, Nepal in the west and Bangladesh in the south and west. Most of the hill states in the region like Arunachal Pradesh, Meghalaya, Mizoram and Nagaland are mostly inhabited by the tribal people with a fairly high degree of diversity even within the tribal groups.

**Table 2.1 Population by NER States (2001 Census)**

NER States	Total	Rural	Urban	Rural*	Urban*	Pop Density
	(million)	(million)	(million)	(%)	(%)	(per sq. km area)
Arunachal Pradesh	1.10	0.87	0.23	79.25	26.19	13
Assam	235.56	232.12	3.44	98.54	1.48	340
Manipur	2.17	1.59	0.58	73.42	36.21	107
Meghalaya	2.32	1.86	0.45	80.42	24.35	103
Mizoram	0.89	0.45	0.44	50.37	98.53	42
Nagaland	1.99	1.65	0.34	82.77	20.81	120
Sikkim	0.54	0.48	0.06	88.93	12.45	76
Tripura	3.20	2.65	0.55	82.94	20.57	304
<b>NER Total</b>	<b>247.76</b>	<b>241.67</b>	<b>6.09</b>	<b>97.54</b>	<b>2.52</b>	<b>149</b>

Notes: \*Share in total population.

Source: Government of India.

The NER is basically a rural economy; almost 98 per cent of population live in rural sector, having an average population density of 149 people per sq. km. of area (Table 2.1). The distribution of population is also uneven across the states. Assam and Tripura are top two densely populated states, sharing almost 96 of the total NER population. These are also the two most resourceful states contributing towards the development of the NER.

Around 150 years ago driven by expanding global trade and investment, the region was in the forefront of development. Majority of the population in the valleys and plains used to bank on the vast river systems and small rivulets for livelihood. Global trade was conducted through the sea-route, a network of inland waterways, and land transportation through road and railways. In fact, the railway network between Dibrugarh and Chittagong was one of oldest railways in Asia. The rapid spread of tea gardens followed the establishment of the first tea

<sup>11</sup> While population refers the year 2001, area refers the latest year and output refers NSDP of the year 2008-09, taken at constant prices with base 1990-2000=100, sourced from RBI.

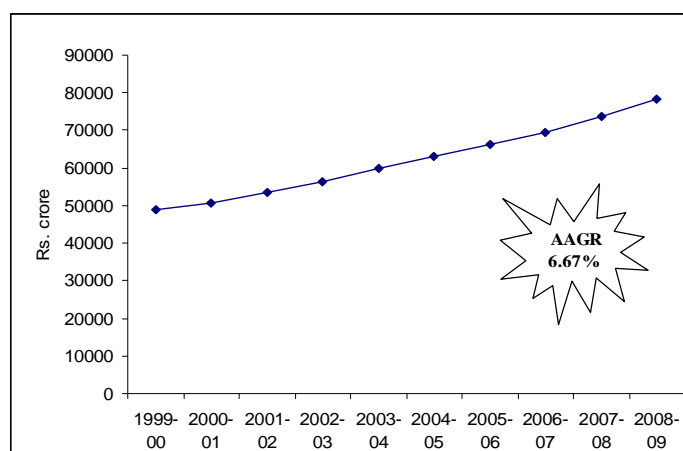
garden in 1835 and the export of the first consignment of tea to London in 1838. The discovery of oil in Makum and establishment of a refinery in Digboi in 1890 laid the foundation for the development of an undivided Assam. The missionaries were involved in spreading literacy.

But all this changed with the partition of the country. Carving out of East Pakistan changed the entire landscape of the region. It virtually disconnected the region from the entire country just leaving a 27 km Siliguri corridor as the only link. The natural sea route through the port city of Chittagong was blocked. The access to the domestic market was also lost. The region shares 96 per cent of its boundary with the neighbouring countries of Bangladesh, Nepal, China and Myanmar. The geo-political distancing of the region from its main port of Kolkata combined with economic insulation has caused immense structural damage to the NER economy.

## 2.1 Economic Size and Trend

The standard of living of the people in the region, as measured by per capita Net State Domestic Product (GSDP), has lagged significantly behind the rest of the country. At Rs. 21,000 in 2008-09, it was almost half of all-state average of Rs. 41,968. Interestingly, available information shows that at the time of independence per capita income in the undivided state of Assam was higher than the national average by 4 per cent (Das *et al.*, 2004). Thus, even under the British colonial rule the economic performance of the region was better than the rest of the country and this shows its vast developmental potential. However, as the growth rate of per capita GSDP lagged behind the rest of the country, the gap narrowed, and by the late 1960s per capita income in the region had fallen behind. However, over time, differences in the growth rates in per capita income between the region and the country increased further (Ghosh *et al.*, 1996; Marjit *et al.*, 2008). During the period 1999-00 to 2008-09, on an average, while the Indian economy in constant prices increased at the rate of 7.2 per cent per year, the corresponding growth in the NER region was 6.67 per cent (Figure 2.1). Similarly, the region's growth rate of per capita income also lagged behind the national growth rate of the country. Not surprisingly, the difference in per capita incomes between the country and the region has steadily diverged. The slow progress of the NER's economy is reflected in the low growth in income.

**Figure 2.1: NSDP Growth of NER**



Note: Based on Net State Domestic Product (NSDP) at Constant Prices, Base Year: 1999-2000, taken from CSO. AAGR presents average annual growth rate

**Table 2.1 Net State Domestic Product (NSDP) at Constant Prices  
(Base Year: 1999-2000)**

(Rs. Crore)

<b>State</b>	<b>1999-00</b>	<b>2000-01</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>
Arunachal Pradesh	1497	1665	1961	1920	2193
Assam	32011	33760	35094	39394	42927
Manipur	2954	2814	3014	3142	3564
Meghalaya	3211	3593	4057	4310	4723
Mizoram	1410	1567	1752	1933	2083
Nagaland	2556	3286	3874	4382	4699
Sikkim	765	855	956	1078	1209
Tripura	4496	5114	5889	6223	6990
NER Share in India (%)	3	3	3	3	3
<b>State</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>
Arunachal Pradesh	2549	2598	3020	3266	.
Assam	47513	52390	57378	62852	69132
Manipur	4058	4477	4726	5044	.
Meghalaya	5138	5617	6162	6707	.
Mizoram	2181	2398	2629	2887	3184
Nagaland	4980	5255	.	.	.
Sikkim	1356	1539	1746	1990	.
Tripura	7648	8712	9533	.	.
NER Share in India (%)	3	3	3	3	3

Source: RBI.



**Table 2.2: Per Capita Net State Domestic Product (NSDP) at Constant Prices  
(Base Year: 1999-2000)**

(Rs.)

States	2002- 2003	2003- 2004	2004- 2005	2005- 2006	2006- 2007	2007- 2008	2008- 2009
Arunachal Pradesh	15832	17340	19339	18179	20458	21582	22475
Assam	13072	13675	13946	14419	14894	15526	16272
Manipur	12319	13389	14334	14663	14941	15667	16508
Meghalaya	15882	16658	17595	18870	20185	21597	23069
Mizoram	18429	18555	18904	18616	19220	19750	20483
Nagaland	17409	17319	17269	17008	17129	17453	17538
Sikkim	17065	18159	19332	20777	22277	23684	25257
Tripura	17752	18554	19825	21524	21706	22493	26402
NER average	15970	16706	17568	18007	18851	19719	21001

Source: RBI.

The aggregate picture presented in Tables 2.1 and 2.2, however, hides vast differences between the urban and rural areas, the hills and the plains and among the other states. In the region, except for Mizoram, Nagaland and Sikkim which recorded marginally higher growth rates than the country average, per capita income levels in all other states were lower by varying magnitudes. The region lags behind the rest of the country not only in terms of per capita income but in several other development indicators as well. People do not have access to basic services in adequate measure. The standard development indicators such as road length, access to healthcare, and power consumption in the region are below the national average. The region generates less than 8 per cent of its 63,257 MW of hydroelectric power generation potential and its per capita power consumption at 110 kwh is almost a fourth of the national average (411 kwh). In Assam, Manipur and Nagaland, the per capita power consumption is as low as 85 kwh, 70 kwh and 87 kwh, respectively. The literacy rate in the region is high, but the slow pace of industrialisation and limited capacity of the population to engage in productive economic activities means a high rate of unemployment and underemployment. The incidence of poverty in the region is high and the official income-poverty measure does not accurately reflect the deprivation.

## 2.2 Rural Economy

It is impossible to envision the development of the NER without the progress of rural economy. This is mainly for two reasons. Firstly, over 80 per cent of the population of the region lives in rural areas and its livelihood depends on spreading economic activities in rural areas. Secondly, there is abundance of natural resources in the economy and harnessing these for the benefit of the population would require strengthening forward and backward linkages. Development of rural economies in the region may rest on activities like agriculture, forestry, livestock, minerals and rural non-farm activity.

**Tab 2.3: Sectoral Composition**

(%)

Sector	Arunachal Pradesh		Assam		Manipur	
	2000-01	2006-07	2000-01	2006-07	2000-01	2006-07
Agriculture	36.97	26.42	35.58	28.18	30.87	27.45
Industry	5.30	9.42	11.93	17.41	9.50	7.69
Services	57.73	64.16	52.48	54.41	59.63	64.86
	Meghalaya		Mizoram		Nagaland	
	2000-01	2006-07	2000-01	2006-07	2000-01	2006-07
Agriculture	23.90	21.88	21.40	16.68	33.34	33.58
Industry	11.45	14.81	4.02	2.82	2.36	2.90
Services	64.65	63.31	74.58	80.50	64.31	63.51
	Sikkim		Tripura		NER	
	2000-01	2006-07	2000-01	2006-07	2000-01	2006-07
Agriculture	22.74	19.67	24.92	23.47	32.77	26.98
Industry	9.21	6.98	6.23	5.00	10.15	13.69
Services	68.05	73.34	68.86	71.53	57.08	59.33

Source: CSO.

## 2.3 Services-driven Economy

The NER is services driven economy having 59 per cent of annual average income coming from services sector (Table 2.3). However, agriculture is the mainstay of the economies of the NER as it accounts to 27 per cent (2008-09), and is a major source of employment and livelihood for around 80 per cent of the population. However agricultural growth has been uneven across regions and crops. The NER continues to be a net importer of foodgrains. In spite of covering 8.8 per cent of the country's total geographical area, the NER produces only 1.5 per cent of the country's total foodgrain production.

Agriculture accounts for a major share of the economies of all the North Eastern states, from 26 per cent in Arunachal Pradesh to 20 per cent in Sikkim in 2008-09. However, the share of agriculture has been declining in all the states (except Nagaland), indicating that these states have undergone significant structural changes. With the exception of Meghalaya, the share of manufacturing in general has been falling, accompanied by an increasing share of services. While agriculture in the NER grew at a much higher rate (4.5 per cent) than the average for the country (about 1.2 per cent) in last one and a half decades, growth rates differ among different states of the region.

A rapid structural change is always associated with the economic growth of any region. Growth processes have always been characterized by lessening in emphasis on agricultural and primary activities and increasing importance on manufacturing sector (Kubo et al, 1998). Various countries including India have undergone this structural change (Barua and Bandyopadhyay, 2005).

A structural change in short means a perpetual rise of the share of manufacturing and non-farm outputs in the gross domestic product over time. Unfortunately, the share of manufacturing in GDP of the NER has been only 6 per cent in 2008-09. The share, however,

varies across the States. Thus, the pattern of industrial development of the NER has not been in conformity with the standard historical trend even with respect to India. That is, industrialization has failed to take off in the region. This failure to achieve a significant increase in the share of manufacturing in GDP has reflected in the poor growth rates both in GDP and per capita GDP in the NER.

The manufacturing sector of the states of Manipur, Tripura and Meghalaya has fared better than the national average. However, the growth performance of the manufacturing sector in the remaining states of the region has been poor. In Arunachal Pradesh manufacturing sector has been virtually stagnant. The poor performance of the manufacturing sector seems to be one of the prime causes of the relatively poor performance of GDP growth of the region.

The manufacturing sector can be divided into registered and unregistered sectors. The unregistered sector generally comprises of small-scale industries including handicrafts. Assam is by far the largest industrialized state in the region comprising nearly 88 per cent of the total industrial units in the region. Nearly 90 per cent of the industrial output of the registered manufacturing sector originates in Assam while Arunachal Pradesh has no registered manufacturing industry.

The industries are mainly mining and quarrying, food processing, spinning and weaving, pulp and paper, wine and malt, bidi, cigars and cigarettes, printing, bleaching and dyeing, wool spinning, wooden products, foot wears, fertilisers and chemicals, insulated wires and cables and drugs and medicines. The manufacturing activities are based on locally available resources for which the optimal plant sizes are not very large. Industries requiring large scale production such as petrochemicals, cement, steel and sugar are completely absent despite the fact that the region has the sources of basic raw materials required for the production of such goods. For example, there is abundance of limestone (in Meghalaya and Assam) but there is not a single cement factory in the region. Assam has the largest oil reserves (non-offshore) but the state has no large manufacturing unit of petrochemical products. On the other hand, we also observe some industries like insulated wires and cables coming up in the region although the region has no known reserves of copper.

Another important observation that could be made is that the unregistered sector is relatively evenly distributed across all the states in the NER. This means that the states of the NER have certain distinctive strengths and advantages in handicrafts and other small scale industries. Assam has the largest share in the unorganized sector followed by Manipur. It is evident, therefore, that the small-scale industries could not play any significant role in the development of the NER.

The NER is a market of about 400 million people having international borders with Bangladesh, Bhutan, China, Myanmar, and Nepal. The region has the potential to develop into India's powerhouse, being a vibrant source of energy, oil, natural gas, coal, and limestone; and endowed with India's largest perennial water system in the river Brahmaputra and its tributaries. The NER is also rich in horticultural products, plantation crops, vegetables, spices, rare herbs, and medicinal plants. The region offers unlimited tourism opportunities, rare flora and fauna, natural scenic beauty, unique performing arts, and varied cuisine and handicrafts. The region being a great source of bamboo and a number of agro resources, capacity building in the bamboo sector as well as in other agro-processing areas should be taken up.

## 2.4 International Engagement and Opportunities

The NER is unique in terms of opportunities. While it is an industrial desert where almost all immediate consumables are imported from outside the region, it is the focal point of trade within a vast area. The NER's locational advantage and rich natural resources provide a backdrop to its development as a base for cooperation not only with ASEAN but also with neighbouring countries such as Bangladesh, Bhutan, and Nepal. And through Myanmar, regional cooperation centering the NER can be extended to Mekong region, comprising Cambodia, Lao PDR, Thailand, and Vietnam. The NER can emerge as a strategic base for foreign/domestic investors to tap the world's largest market in SAARC, BIMSTEC, and ASEAN. At the same time, it has certain peculiarities and problems, which, if tackled and leveraged in the right perspective, could yield rich dividends. It is therefore essential to evolve a regional approach as opposed to individual state approach while drawing trade policy for the NER.

Supply-side constraints are inhibiting the NER's two-way trade with its two neighbours. India's merchandise trade due to Free Trade Agreements – regional and bilateral FTAs - is and expected to increase by manifolds in coming years, and the NER is the central to India's trade integration with ASEAN. Without improved connectivity, the NER is not likely to witness higher trade creation and expansion of its export. Its "landlockedness" negates most of the benefits of trade liberalization due mainly to higher transportation cost. Therefore, the region has to be "landlinked" through alternate access to sea and rest part of India cutting across Bangladesh. The Kaladan multimodal transport project would cease its "landlockedness", but transshipment facility at Chittagong port in Bangladesh and transit through Bangladesh will help facilitate the region's national and international trade in a big way. In parallel, the region's physical infrastructure should be complete overhaul, particularly, road and railway infrastructure. Railway facility is yet to penetrate some of the NER states such as Sikkim, Mizoram, and Manipur. Higher investment in railway would help the region to better integrate with not only rest part of India but also neighbouring countries such as Bangladesh and Myanmar. The need is to link Manipur and then the border town Moreh with India's railway system. Greater aviation network with Southeast Asia, Nepal, Bangladesh and China would pave the way in enhancing trade as well as investment in the region. We should favourably consider Indian and foreign airlines to connect the NER with Bangkok, Dhaka and Singapore. Therefore, connectivity should be the primary area of concern for any development in the region.

The NER enjoys very special advantages over other parts of India in trade in view of India's Look East Policy (LEP) in general and India's economic engagement with her eastern neighbours through India-ASEAN FTA and other bilateral FTAs in particular. Facilitation of border trade should be another important priority for the government. The present pattern of border trade is restricted trade, particularly between India and Myanmar. The official trade, mostly under barter arrangements, is modest and dwindling. By far the largest volume of trade is taking place through illegal channels. There is need to re-look the contents of current border trade between the two countries of around 40 items, many of these, offered by Myanmar are banned for import in that country. A revision of the list of tradable items for border trade, to include some of the essential items and also high value products, which are currently being traded through illegal channels, may be considered. The NER has to identify such products, based on supply-demand balances in the region, and taking note of those in earlier studies (for example, dairy products, medicines, machinery and engineering goods, construction materials, two-wheelers, car parts, raw materials for textiles, plastic materials, wood and wood products, etc.). Finally, the NER needs to plug into the growing trade with

ASEAN countries particularly in items like bamboo and wood products, ores and rubber products, horticulture, etc. At the same time, it is imperative to integrate IT facilities in promoting infrastructure for trade with the ASEAN countries.

There is urgent need to promote interaction with neighbouring countries for enhancement of cross-border trade and investment. We therefore look at these two specific issues in next few chapters in order to “set-in-place” an international vision for the NER.

## Chapter 3

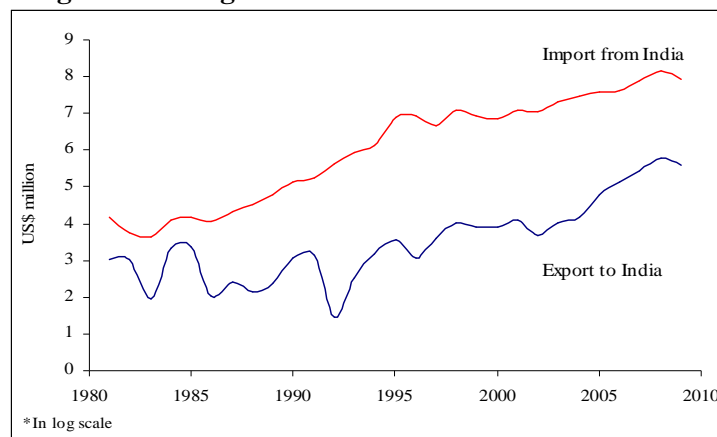
# NER-Bangladesh Border Trade: Emerging Pattern

The primary objective of this chapter is to understand the pattern of border trade that is taking place between the NER and Bangladesh. This analysis is going to help us understating the nature of constraints that are acting as the barriers to trade between the NER and Bangladesh in later chapters.

### 3.1 Trade between India and Bangladesh

Trade offers immense opportunities for raising the economic welfare of Bangladesh and India. Within South Asia, the bilateral trade between India and Bangladesh covers more than one-fourth of total regional trade. India has been the largest trading partner of Bangladesh for over last two decades and a remarkable growth in India's two-way trade with Bangladesh has resulted in robust growth of all the economies in South Asia. But, the trade between Bangladesh and India is largely one-sided, as the volume of imports from India to Bangladesh is considerably very large, whereas the volume of exports from Bangladesh to India is very low (Figure 3.1). It appears that Bangladesh has a high bilateral trade deficit with India, which has increased from US\$ 44 million in 1981 to US\$ 2.5 billion in 2009, and there is debate whether this is a matter of any concern.<sup>12</sup> The last decade (2000-2009) has witnessed fastest rise in Bangladesh's export to India (42.65 per cent per annum), whereas Bangladesh's import from India during the same period has also reduced to 16.24 per cent per annum (Figure 3.2). Nevertheless, Bangladesh exports a miniscule (one per cent) share of India's imports, a negligible share (one per cent) of its own exports, and a small range of products (fertilizer and jute goods made up two-thirds of exports). Although ready-made-garments (RMG) is the major exportable for Bangladesh, its exports to India are indeed quite insignificant.

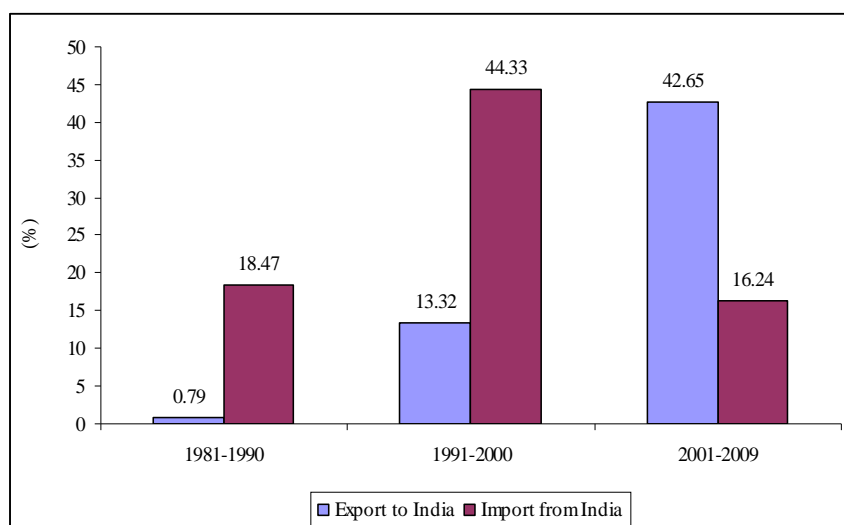
**Figure 3.1 Bangladesh's Trade with India: 1981-2009**



Source: IMF DOTS.

### Figure 3.2. Trade Growth

<sup>12</sup> Bangladesh's perennial large bilateral trade deficit with India might be a cause for concern but it has not led to any balance of payments problem for Bangladesh as consistent trade surpluses with such trading partners as US and EU compensate for these deficits.



Source: IMF DOTS.

Despite India's unilateral concessions to Bangladesh and the existence of a large land border between the two countries, India's trade with Bangladesh is not growing at a considerable pace. Bilateral trade is highly tilted toward India; India's exports to Bangladesh are about US\$ 2433.77 million and imports from Bangladesh are about US\$ 254.66 million. The total bilateral trade between India and Bangladesh witnessed CAGR of 7 per cent in 2005-06 to 2009-10, of which India's exports to Bangladesh increased by CAGR of 8 per cent during 2005-06 to 2009-10, and India's imports from Bangladesh grew at a much higher pace, 15 per cent, in the entire period. India's imports from Bangladesh witnessed a higher growth in the last few years, which, indirectly suggests existence of a large trade potential between India and Bangladesh.

**Table 3.1: India's Merchandise Trade with Bangladesh**

Year	India's Export to Bangladesh	India's Import from Bangladesh	Total Bilateral Trade	Balance of Trade (BOT)
	(US\$ million)			
2005-06	1664.36	127.03	1791.39	1537.33
2006-07	1629.57	228	1857.57	1401.57
2007-08	2923.72	257.02	3180.74	2666.7
2008-09	2497.87	313.11	2810.98	2184.76
2009-10	2433.77	254.66	2688.43	2179.11

Source: DGCIS, Govt. of India.

**Table 3.2: India's Top Ten Export Commodity Groups to Bangladesh in 2009-10**

HS Code	Commodity groups	Export (US\$ million)
52	Cotton	455.29
7	Edible vegetables and certain roots and tubers	251.52
87	Vehicles other than railway or tramway rolling stock, and parts and accessories	244.02
23	Residues and waste from the food industries; prepared animal fodder	198.22
72	Iron and steel	133.69
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	131.11
10	Cereals	121.00
29	Organic chemicals	84.40
54	Man-made filaments	75.61
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof.	65.21

Source: DGCIS, Govt. of India.

India's export to Bangladesh has increased considerably in the last few years. Table 3.2 depicts India's major exported commodities to Bangladesh in 2009-10. Top 10 export commodity groups from India to Bangladesh accounts for about 72 per cent of India's total exports to Bangladesh. India's export basket to Bangladesh is dominated by cereals, cotton and vegetable products. These products contribute more than 30 per cent of total Indian export to Bangladesh. Other important products in the Indian export basket are residues and waste from the food industries, iron and steel, mineral fuels, mineral oils and products of their distillation etc. India imports much less than its exports to Bangladesh. Table 3.3 presents the major imported commodity groups by India from Bangladesh. Major products imported from Bangladesh are vegetable products, textile articles and fishes. The top ten imported products accounts for about 79 per cent of total imports from Bangladesh.

**Table 3.3: India's Top Ten Import Commodity Groups from Bangladesh in 2009-10**

HS Code	Commodity Groups	Import (US\$ million)
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn.	55.26
63	Other made up textile articles; sets; worn clothing and worn textile articles; rags	51.18
3	Fish and crustaceans, molluscs and other aquatic invertebrates.	25.43
25	Salt; sulphur; earths and stone; plastering materials, lime and cement.	19.99
74	Copper and articles thereof.	11.58
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, or radi. elem. or of isotopes.	9.79
41	raw hides and skins (other than fur skins) and leather	7.91



HS Code	Commodity Groups	Import (US\$ million)
31	Fertilizers.	7.30
72	Iron and steel	7.01
52	Cotton.	6.16

Source: DGCIS, Govt. of India.

**Table 3.4: India's Trade Intensity Indices with Bangladesh**

Year	India's Export Intensity Indices with Bangladesh ( $x_{ij}$ )	India's Import Intensity Indices with Bangladesh ( $m_{ij}$ )
2005	13.87	0.81
2006	10.41	1.28
2007	10.93	1.11
2008	14.78	0.98
2009	8.12	0.64

Source: calculated based on Export-Import databank, Government of India.

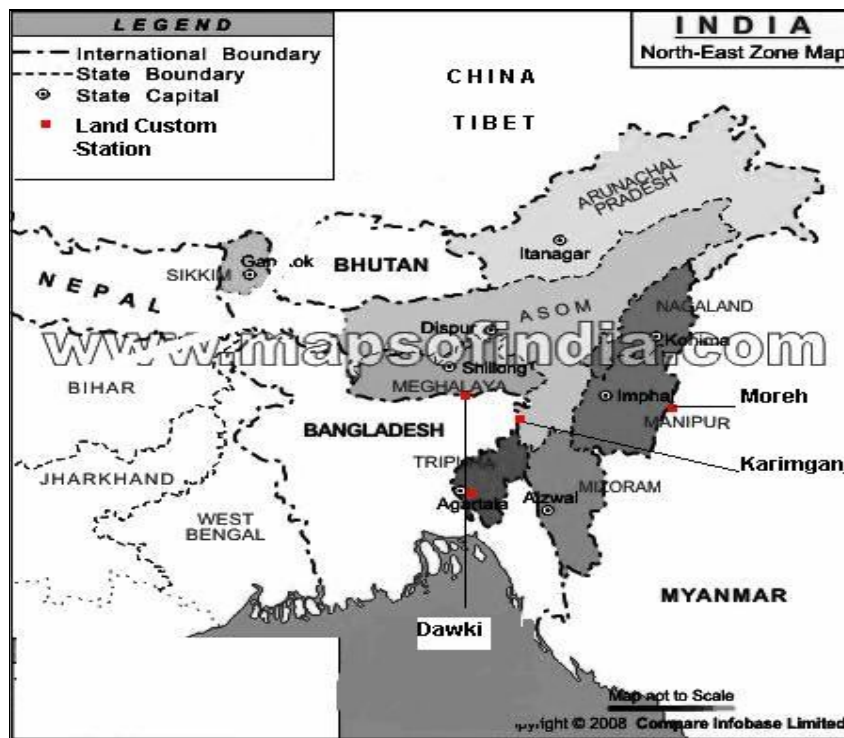
The trade intensity indices on both imports and exports demonstrate the bilateral trade orientation of a country with its trading partner.<sup>13</sup> Export and import intensity indices have been calculated for India's trade with Bangladesh for the period 2005-2009. The results are noted in Table 3.4. It is observed that India's export intensities with Bangladesh were much higher than its import indices. This implies that India exported more to Bangladesh than it imported from Bangladesh leading to the balance of trade being in India's favour. This is a disappointing picture from Bangladesh point of view. Though the export-import relationship should be looked at the world trade level rather than bilateral level, yet this trade imbalance still has some economic and political implications for Bangladesh. Secondly, low indices for exports and imports, which were far below from the desired level of 100, imply that India-Bangladesh bilateral trade is not as high as it should be. So there is a scope for mutual trade expansion between the two countries.

<sup>13</sup> Export Intensity Index ( $x_{ij}$ ) =  $(X_{ij}/X_i) / (M_j/M_w - M_i)$ , where,  $x_{ij}$  = Export intensity index of trade of country i with country j,  $X_{ij}$  = Exports of country i to trading partner j,  $X_i$  = Total exports of country i,  $M_j$  = Total imports of country j,  $M_w$  = Total world imports,  $M_i$  = Total imports of country i. Import Intensity Index ( $m_{ij}$ ) =  $(M_{ij}/M_i) / (X_j/X_w - X_i)$ , where  $m_{ij}$  = import intensity index of trade of country i with country j,  $M_{ij}$  = Imports of a country i from trading partner j,  $M_i$  = Total imports of country i,  $X_j$  = Total exports of country j,  $X_w$  = Total world exports,  $X_i$  = Total exports of country i. The value of index ranges from 0 to 100. If the value is zero, it implies no trade relationship between partner countries. On the other hand, if the value of import intensity index is more (or less) than 100, it indicates that country i is importing more (or less) from country j than might be expected from that country's share in total world trade. In the case of exports, the same argument also holds true.

### 3.3 Trade between NER and Bangladesh

India and Bangladesh share almost 4096.70 km long international borders. Out of which the North Eastern Region (NER), comprising of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland and Tripura, shares almost 1880 km border with Bangladesh (wherein 1434 km is land border and 446 km is riverine tract). Four states of the NER, namely, Assam, Meghalaya, Tripura, and Mizoram shares international borders with Bangladesh (Table 3.5). Except Meghalaya, rest of the NER states share both land and riverine border with Bangladesh, among which Tripura and Mizoram have the longest land and riverine border with Bangladesh respectively. However, a large part of this international border with Bangladesh is porous. Map 3.1 presents international border that the NER shares with Bangladesh.

Map 3.1: NER-Bangladesh International Border and Selected LCSs



#### 3.3.1 Trade Flows between NER and Bangladesh

The first Trade Agreement between India and Bangladesh was signed in 1972. The India-Bangladesh Trade Agreement (IBTA) has been renewed for a period of three years up to 31 March 2012. It governs the present trading arrangements between the two countries. To facilitate NER-Bangladesh border trade in goods and services, the Government of India through the Office of the Commissioner of Custom in Shillong has set-up 26 Land Customs Stations (LCS) along the NER-Bangladesh borders. Out of the 26 LCS, 20 are functional and remaining 6 are non-functional LCSs (Table 3.6(a)). Table 3.6(b) shows the state-wise distribution of LCSs in the NER of India and their counterparts in Bangladesh.

**Table 3.5: NER-Bangladesh Border Length**

State	Land border	Riverine	Total
		(km)	
Assam	160	103	263
Meghalaya	443	-	443
Tripura	773	83	856
Mizoram	58	260	318
Total	1434	446	1880

Source: NEC.

**Table 3.6(a): State-wise Distribution of LCSs in NER Dealing NER-Bangladesh Trade**

State	Functional	Non-functional	Total
Assam	5	3	8
Meghalaya	8	2	10
Mizoram	0	1	1
Tripura	7	0	7
Total	20	6	26

Source: Office of the Commissioner of Custom, Shillong.th

**Table 3.6(b): State-wise List of LCSs Dealing NER-Bangladesh Trade**

State	No.	LCS in NER	No.	LCS in Bangladesh
		Functional		
Assam	1	Karimganj Steamer ghat and Ferry Station (Karimganj district)	1	Jakiganj (Sylhet division)
	2	Sutarkandi (Karimganj district)	2	Sheola (Sylhet division)
	3	Guwahati Steamerghat (Kamrup district)	3	--
	4	Dhubri Steamer ghat (Dhubri district)	4	Rowmati (Mymansing division)
	5	Mankachar (Dhubri district)	5	Natun Bandar (Rongpur division)
	<b>Non-functional</b>			
	6	Mahisashan Rly. Station (Karimganj district)	6	Shahbazpur (Sylhet division).
	7	Golakganj (Dhubri district)	7	Sonahaat(Rongpur Division)
	8	Silchar RMS	8	Independent of any border
Meghalaya	<b>Functional</b>			
	1	Borsora (West Khasi Hills district)	1	Borsora (Sunamganj division)
	2	Bholaganj (East Khasi Hills district)	2	Chatak (Sunamganj division)
	3	Dawki (Jaintia Hills district)	3	Tamabil (Sylhet division)
	4	Shellabazar (West Khasi Hills district)	4	Sunamganj(Sylhet division)
	5	Baghmara (West Khasi Hills district)	5	Bijoypur (Mymansing division)
	6	Dalu (West Garo Hills district)	6	Naku Gaon (Mymansing division)
	7	Ghasuapara (South Garo Hills district)	7	Karoitol (Mymansing division)
	8	Mahendraganj (West Garo Hills district)	8	Dhannua Kamalpur (Mymansing division)
	<b>Non-functional</b>			
9	Ryngku (East Khasi Hills district)	9	Kalibari (Sonamganj division)	
10	Balat (East Khasi Hills district)	10	Dolura (Sylhet division)	
Mizoram	<b>Non-functional</b>			
	1	Demagiri (Lunglei district)	1	Rangamati (Sylhet division)
Tripura	<b>Functional</b>			
	1	Agartala (Tripura West district)	1	Akhaura ( Comilla division)
	2	Srimantapur (Tripura district)	2	Bibir Bazar (Comilla division)
	3	Dhalai ghat (Dhalai district)	3	Kumarghat (Sunamganj division)
	4	Khowaighat (Tripura West district)	4	Balla (Habiganj division )
	5	Manu( Dhalai district)	5	Chatlapur (Sylhet division )
	6	Mhurighat (Tripura South district)	6	Belonia (Feni division )
7	Old Ragnabazar(Tripura North district)	7	Betul (Fultali) (Sylhet division)	

Source: Office of the Commissioner of Custom, Shillong.

Out of the four NER states having international borders with Bangladesh, except Mizoram, the NER-Bangladesh trade mainly flows through Assam, Meghalaya and Tripura. A 2-year average (2006-08) of the NER-Bangladesh trade shows that the share of Meghalaya in the NER-Bangladesh trade is the highest (Table 3.7). The contribution of Meghalaya to the total volume of the NER-Bangladesh trade stands at 63.83 per cent; the same for Tripura and Assam are 18.26 and 17.91 per cent respectively. While both Assam-Bangladesh and Meghalaya-Bangladesh trade are characterized by higher export and negligible import, Tripura-Bangladesh trade exhibits just opposite trends, that is, higher import and lower export.

**Table 3.7: NER-Bangladesh Trade Volume**

States	Volume (2-years Average, 2006-08)	Share in Total Trade
	(Rs. lakh)	(%)
Assam	7049.00	17.91
Meghalaya	25120.84	63.83
Tripura	7185.14	18.26
NER total	39,354.98	100.00

Source: Office of the Commissioners of Customs, Shillong.

**Table 3.8: Trends in Assam-Bangladesh Trade, 2-years Average, 2006-08**

LCS	Export		Import		Total	
	Volume	Share	Volume	Share	Volume	Share
	(Rs. lakh)	(%)	(Rs. lakh)	(%)	(Rs. lakh)	(%)
Karimganj Steamer & Ferry Station	396.50	8.35	36.00	1.57	432.50	6.14
Sutarkandi	3785.00	79.67	2232.00	97.09	6017.00	85.35
Guwahati Steamer Ghat	549.50	11.57	21.50	0.93	571.00	8.10
Mankachar	19.50	0.41	9.50	0.41	29.00	0.41
Assam total	4750.50	100.00	2299.00	100.00	7049.50	100.00

Source: Office of the Commissioners of Customs, Shillong.

**Figure 3.3: Trends in Export and Import with Bangladesh: Assam**

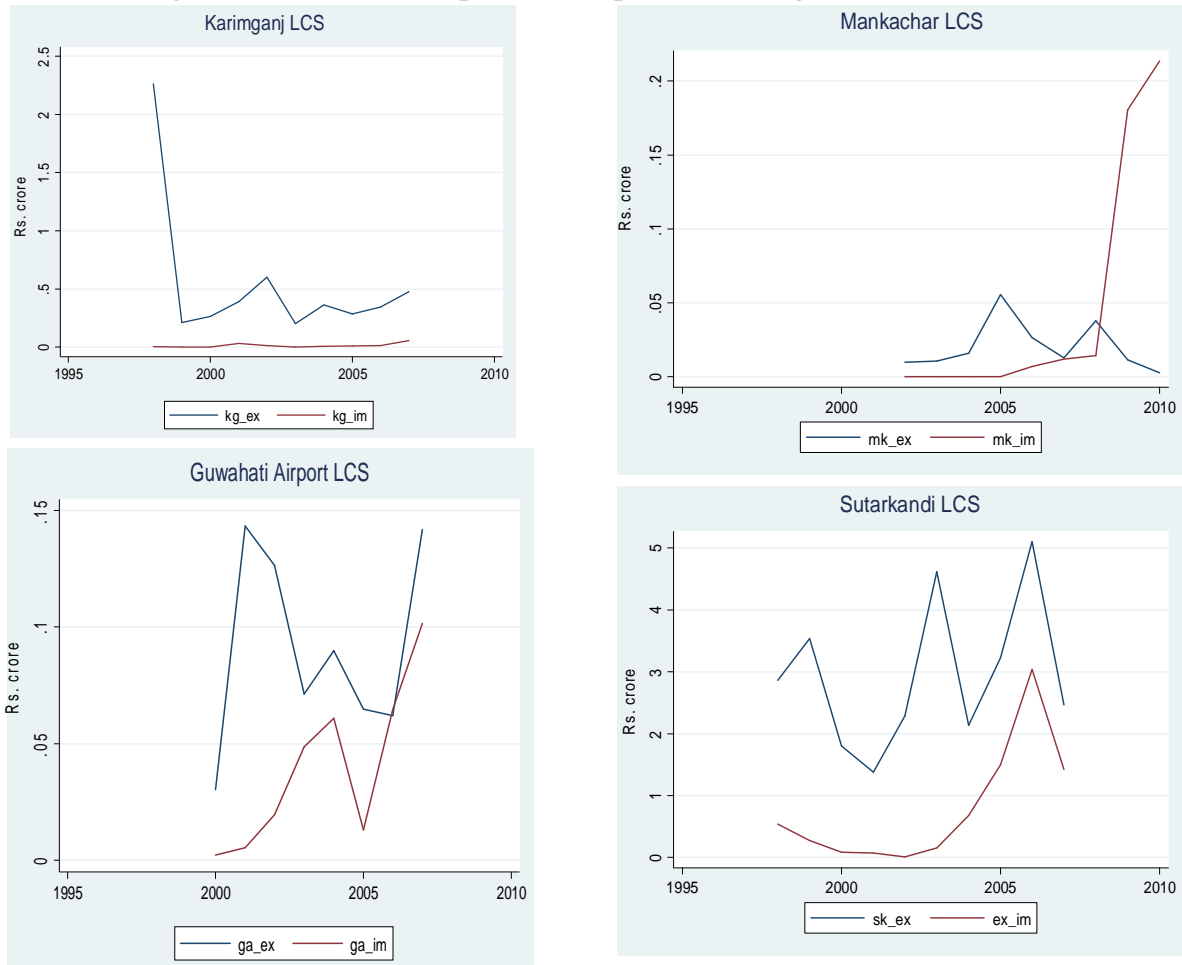
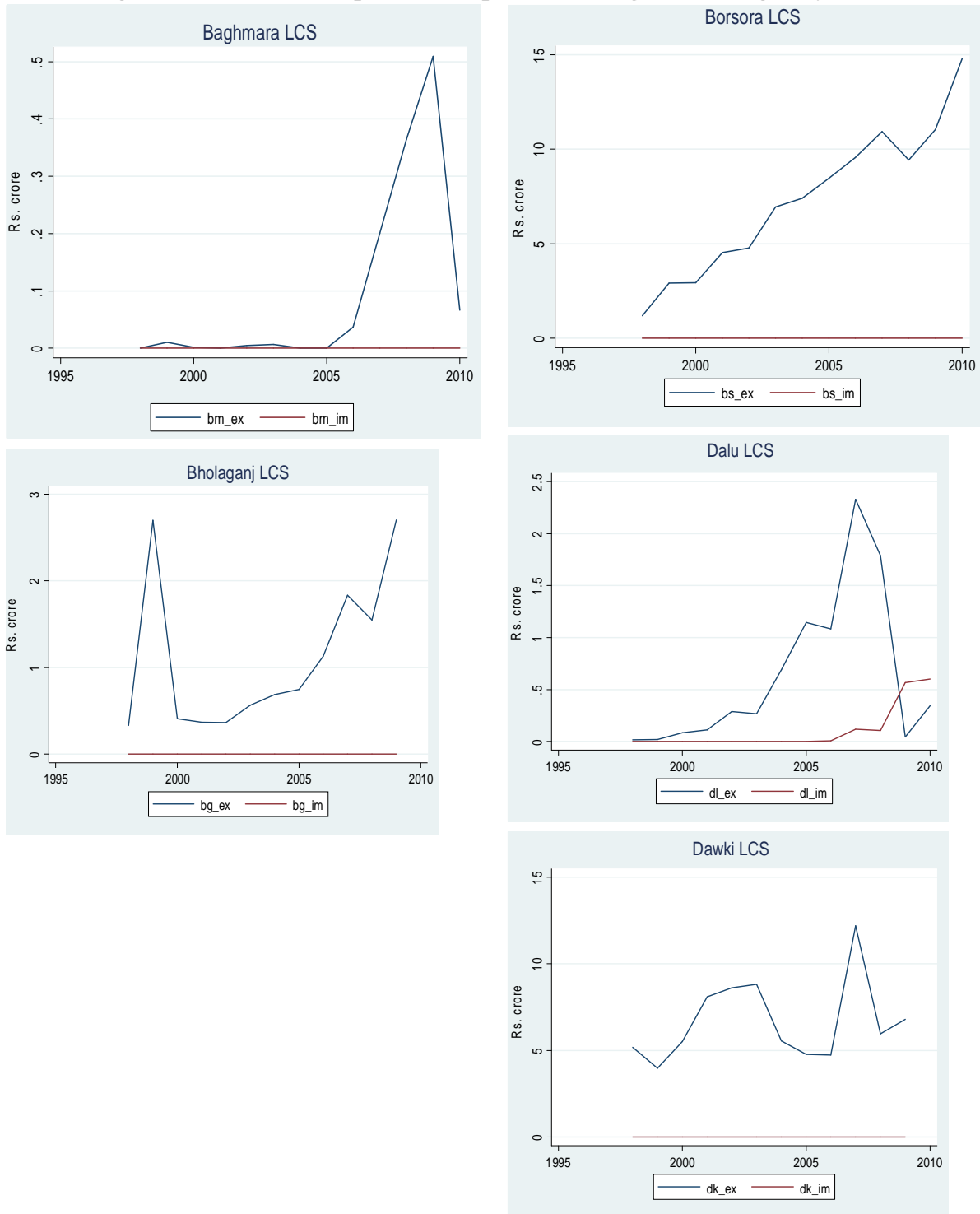
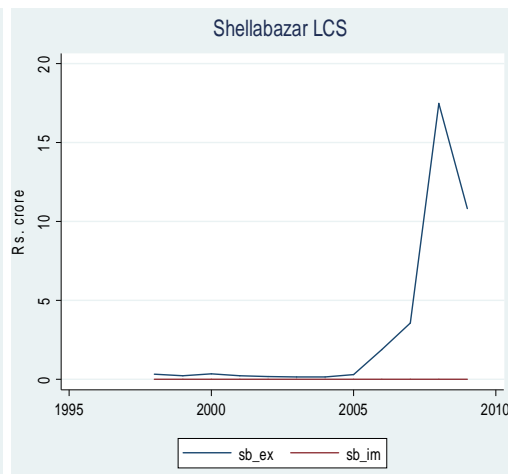
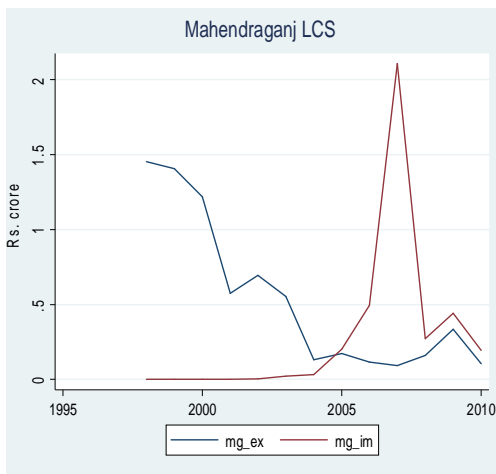
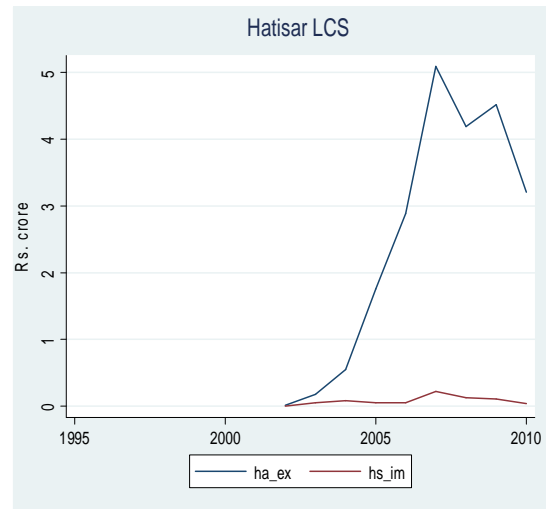
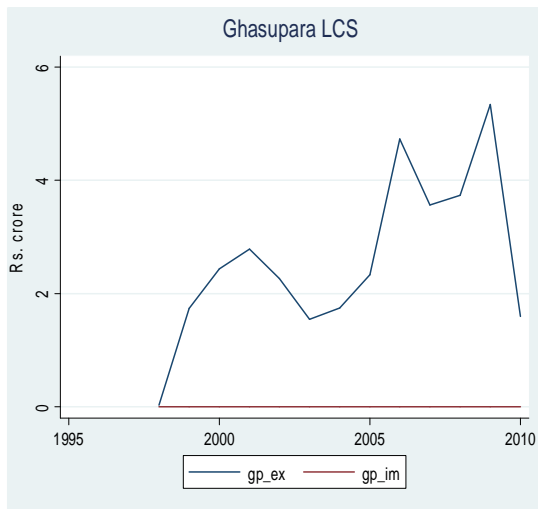


Figure 3.3 presents trends in export and import through LCSs in Assam. Assam-Bangladesh trade mainly flows through Sutarkandi LCS in South Assam. Sutarkandi is located in the district of Karimganj in Barak Valley, about 85 per cent of the Assam-Bangladesh trade flows through this LCS (Table 3.8). Sutarkandi presently handles Rs. 6 crore of annual average trade, of which Rs. 4 crore is export and Rs. 2 crore is import (Table 3.8). All the LCSs deal both export and import with Bangladesh.

**Figure 3.4: Trends in Export and Import with Bangladesh: Meghalaya**





In Meghalaya, out of 8 functional LCSs, Borsora and Ghasuapara in Garo Hills and Dawki in Jaintia Hills play the dominant role in Meghalaya-Bangladesh trade. About Rs. 24 crore of India-Bangladesh trade is presently contributed by the Meghalaya. Figure 3.4 presents LCS-wise trend in export and import. Borsora contributes about 42 per cent of the total Meghalaya-Bangladesh trade and the same for Dawki and Ghasuapara are 22 and 17 per cent respectively (Table 3.9). A significant amount of trade also flows through LCSs located at Shellabazar, Mahendraganj, Dalu and Bholaganj (Table 3.9). Borsora LCS presently handles a total export of about Rs. 10 crore to Bangladesh – the highest in the NER. Import from Bangladesh through Mahendraganj LCS is the highest in the state, sharing about 94 per cent of total import of Meghalaya from Bangladesh (Table 3.9). Barring Mahendraganj, Dalu and Dawki, other LCSs in Meghalaya do not deal with import from Bangladesh. Borsora in export and Mahendraganj in import are the busiest LCSs in Meghalaya.

**Table 3.9: Meghalaya-Bangladesh Trade, 2-years Average, 2006-08**

LCS	Export		Import		Total	
	Volume	Share	Volume	Share	Volume	Share
	(Rs. lakh)	(%)	(Rs. lakh)	(%)	(Rs. lakh)	(%)
Borsora	10253.00	42.93	0.00	0.00	10253.00	41.96
Bholaganj	1049.50	4.39	0.00	0.00	1049.50	4.30
Dawki	5425.50	22.71	0.75	0.14	5426.25	22.21
Shellabazar	1845.00	7.72	0.00	0.00	1845.00	7.55
Baghmara	68.00	0.28	0.00	0.00	68.00	0.28
Dalu	1123.50	4.70	30.09	5.54	1153.59	4.72
Ghasuapara	4048.00	16.95	0.00	0.00	4048.00	16.57
Mahendraganj	76.50	0.32	512.50	94.32	589.00	2.41
Meghalaya total	23889.00	100.00	543.34	100.00	24432.34	100.00

Source: Office of the Commissioners of Customs, Shillong.

**Table 3.10: Tripura-Bangladesh Trade, 2-years Average, 2006-08**

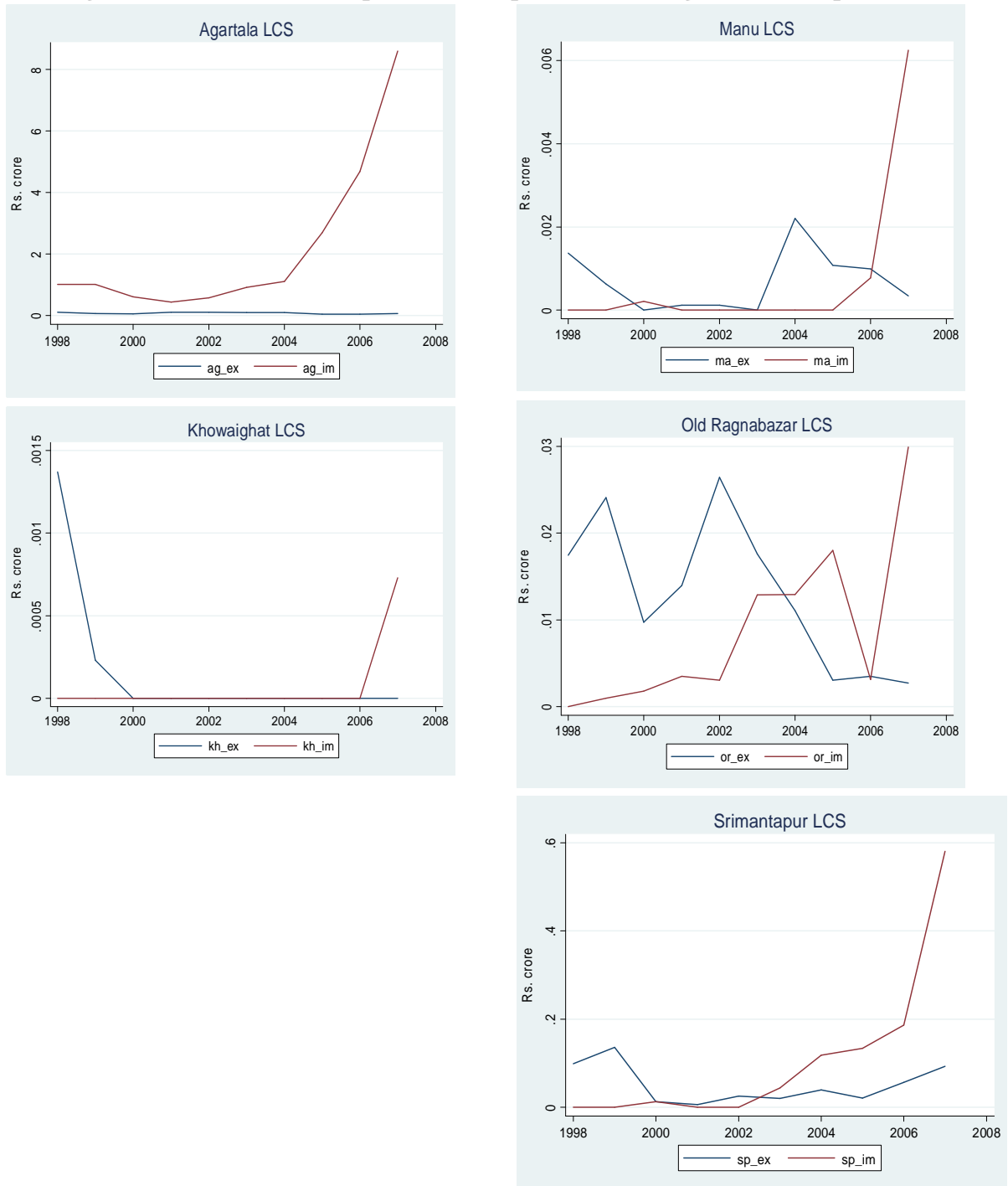
LCS	Export		Import		Total	
	Volume	Share	Volume	Share	Volume	Share
	(Rs. lakh)	(%)	(Rs. lakh)	(%)	(Rs. lakh)	(%)
Agartala	57.00	42.04	6644.50	94.25	6701.50	93.27
Srimantapur	75.00	55.31	384.00	5.45	459.00	6.39
Dhalaighat	0.00	0.00	0.00	0.00	0.00	0.00
Khowaighat	0.03	0.02	1.50	0.02	1.53	0.02
Manu	0.07	0.05	3.05	0.05	3.12	0.04
Mhurighat	0.00	0.00	0.00	0.00	0.00	0.00
Old Ragnabazar	3.50	2.58	16.50	0.23	20.00	0.28
Tripura total	135.60	100.00	7049.54	100.00	7185.15	100.00

Source: Office of the Commissioners of Customs, Shillong.

Tripura handles about Rs. 7 crore of annual trade with Bangladesh, which is mostly import. Most of the trade in the state (93.27 per cent) flows through Agartala LCS. Figure 3.5 shows trends in export and import at selected LCSs in Tripura. Some trade also passes through Srimantapur LCS (6.39 per cent). Flow of trade through LCSs like Dhalaighat, Khowaighat, Manu, Muhurighat and Old Ragnabazar is insignificant (Table 3.10).



**Figure 3.5: Trends in Export and Import with Bangladesh: Tripura**



### 3.3.2 Commodity-wise Trade between NER and Bangladesh

Trade between the NER and Bangladesh is uneven and not diversified. Official trade between the NER and Bangladesh is concentrated in agricultural commodities, processed foods, minerals and garments. We present top three export and import items traded between the NER states and Bangladesh in Tables 3.11 (Tripura), 3.12 (Meghalaya) and 3.13 (Assam). Appendix 3.1 presents a detailed list of items exchanged between the NER and Bangladesh through official channels. A minute scrutiny of these tables tells us that while the NER export is dominated by raw materials like coal, limestone, boulders and agro-horticultural products like ginger and citrus fruits, imports from Bangladesh is mostly finished goods like cement, synthetic fabric, readymade garments, and processed food.

**Table 3.11: Tripura-Bangladesh Trade: Top Three Trade Items**

**(a) Export\***

LCS	YEAR	EXPORT ITEM 1	EXPORT ITEM 2	EXPORT ITEM 3
Agartala	1998	Fruits	Rohu fish	Onion
Agartala	2001	Coal	Ginger	Dry fish
Agartala	2007	Dry fish (varieties )	Dry chilli	Bamboo muli
Khowai	1998	Ginger	Fruits	Fruits
Manu	1998	Ginger		
Manu	2001	Ginger		
Manu	2007	Fruits		
Old Ragna Bazar	1998	Ginger	Fruits	Basmati rice
Old Ragna Bazar	2001	Ginger	Onion	Tomato
Old Ragna Bazar	2007	Fruits (citrus )	Fruits	Ginger
Srimantipur	1998	Project goods	Ginger	Rui fish
Srimantipur	2001	Potato	Ginger	Fruits
Srimantipur	2007	Raw hides and skins	Bamboo muli	Ginger

\*Arranged according to the volume of export to Bangladesh.

**(b) Import\***

LCS	YEAR	IMPORT ITEM 1	IMPORT ITEM 2	IMPORT ITEM 3
Agartala	1998	Hilsa fish	Dry fish	Potato waffers
Agartala	2001	Hilsa fish	Dry fish	Mineral water / Juice
Agartala	2007	Small fish (varieties )	Broken or crushed stone	Cement
Khowai	2001	Hilsa fish		
Khowai	2007	Broken or crushed stone		
Manu	1998	Urad pulse	Dry ginger	Moong pulse
Manu	2007	Crushed stone	Small fish varieties	
Old Ragna Bazar	2007	Loundry soap	Zinc flakes	Other knitted or crocheted fabrics
Srimantipur	1998	Cotton yarn waste		
Srimantipur	2007	Cement	Lay flat tube	Broken or crushed stone

\*Arranged according to the volume of export to Bangladesh.

**Table 3.12: Meghalaya-Bangladesh Trade: Top Three Traded Items****(a) Export\***

LCS	YEAR	EXPORT ITEM1	EXPORT ITEM 2	EXPORT ITEM 3
Bagmara	1998	Lime Stone	Cement	Boulder stone
Bagmara	2007	Coal		
Bholaganj	1998	Lime Stone	Cement	Boulder stone
Bholaganj	2001	Lime Stone	Boulder stone	
Bholaganj	2007	Lime Stone		
Borsora	1998	Coal	Limestone	
Borsora	2001	Coal	Lime stone	
Borsora	2007	Coal	Lime stone	
Dalu	1998	Coal		
Dalu	2001	Coal	Stone chips	Sand stone
Dalu	2007	Coal		
Dawki	1998	Coal	Rice (non basmati)	Orange
Dawki	2001	Coal	Orange	Boulder stone
Dawki	2007	Coal	Raw hides and skins	Orange
Ghasupara	1998	Coal	Crushed stone	Boulder stone
Ghasupara	2001	Coal	Ginger	Stone chips
Ghasupara	2007	Coal		
Mahendraganj	1998	Coal	Crushed stone	Boulder stone
Mahendraganj	2001	Coal	Stone chips	Ballast stone
Mahendraganj	2007	Coal	Ginger	Tamarind
Shellabazar	1998	Limestone		
Shellabazar	2001	Lime Stone		
Shellabazar	2007	Lime Stone	Shale	

\*Arranged according to the volume of export to Bangladesh.

**(b) Import\***

LCS	YEAR	IMPORT ITEM 1	IMPORT ITEM 2	IMPORT ITEM 3
Dawki	2001	Betel nut		
Dawki	2007	Food/ edible items		
Mahendraganj	2007	Synthetic net fabrics	Float glass	Cotton waste
Shellabazar	2001	Hilsa fish	Processed food products	

\*Arranged according to the volume of import from Bangladesh.

**Table 3.13: Assam-Bangladesh Trade: Top Three Traded Items****(a) Export\***

LCS	YEAR	EXPORT ITEM 1	EXPORT ITEM 2	EXPORT ITEM 3
Amingaon	1998	Tea		
Amingaon	2001	Tea	Incense stick powder	Steel distalation plate
Amingaon	2007	Tea	Stainless steel	
Hatisar	2007		H.s.d.o.	Motor spirit
Karimganj	1998	Non (b) rice	Ginger	Chillies
Karimganj	2001	Coal	Ginger	Orange
Karimganj	2007	Ginger	Fresh orange	Fresh fruits (citrus )
L.G.B.I Airport	2001	Dahena loudh	Perfumery compound	Aquilaria agallocha
L.G.B.I Airport	2007	Indian perfumery compound	Perfume bukhur	
Mankachar	2007	Coal	Dry fish	
Sutarkandi	1998	Coal	N. Basmati rice	Ginger
Sutarkandi	2001	Coal	Marble slabs / tiles	Orange
Sutarkandi	2007	Coal	Quick lime	

\*Arranged according to the volume of export to Bangladesh.

**(b) Import\***

LCS	YEAR	IMPORT ITEM 1	IMPORT ITEM 2	IMPORT ITEM 3
Amingaon	1998	News Print/ Multi Paper		
Amingaon	2001	Paper / Tea Sacks	Laminated polythene bags	Lamp black beads
Amingaon	2007	Bamboo Processing And Weaving Machinery	Mineral fibre board	Project goods
Hatisar	2007	Bhutan Liquor	Plywood	Boulder stone
Karimganj	1998	Hilsa Fish		
Karimganj	2001	Ginger	Bamboo Muli	Motor parts
Karimganj	2007	Other Knitted Or Crocheted Fbrics Of Synthetic Fibre	Cement	Soap
L.G.B.I Airport	2001	Perfumery Compound	Aquilaria agallocha	
L.G.B.I Airport	2007	Miscellaneous Goods	Electronic goods	Baggage
Mankachar	2007	Readymade Garments	Printed book calendar and cops	

Sutarkandi	1998	Hilsa Fish		
Sutarkandi	2007	Soyabean Oil	Cement	

\*Arranged according to the volume of import from Bangladesh.

The NER's export products to Bangladesh are distinctly different from major export lines from other parts of India to Bangladesh. A quick look at the product-wise trade between the NER and Bangladesh indicates a complementarity between the resource structure of the NER and demand structure of Bangladesh.<sup>14</sup> Bangladesh lacks in mineral resources like coal and limestone which the country imports from the NER. Due to weak resource industry-linkages, manufacturing base of the NER remained underdeveloped and hence in return the NER imports manufacturing goods from Bangladesh. This provides a firm basis for trade expansion between the two regions.<sup>15</sup>

### 3.4 Case Studies on India-Bangladesh Border Trade

#### 3.4.1 Assam-Bangladesh Sector

India-Bangladesh border trade through Assam–Bangladesh sector is dominated by export from India to Bangladesh. Table 3.14 exhibits that except for 2004-05 and 2007-08, annual growth rate has all along been positive. Assam's export to Bangladesh has also not shown any wide fluctuations. As has already been mentioned, Meghalaya origin minerals like coal and limestone are mainly exported through LCSs in Assam. This indicates that there is a steady demand for those minerals in Bangladesh. As far as import is concerned, although the volume of import has started increasing since 2003-04, but the wide fluctuations in year on year percentage change in import perhaps exhibits unsteady demand for the products of Bangladesh in Assam.

**Table 3.14: Pattern of India-Bangladesh Border Trade through Assam-Bangladesh Sector**

Year	Export		Import		Total Trade	
	(Rs. lakh)	% change	(Rs. lakh)	% change	(Rs. lakh)	% Change
2000-01	1064.50		88.90		1153.40	
2001-02	1767.10	66.00	106.86	20.20	1873.96	62.47
2002-03	2869.00	62.36	21.67	-79.72	2891.00	54.27
2003-04	4829.00	68.32	155.75	618.74	4984.75	72.42
2004-05	2461.25	-49.03	662.00	325.04	3123.25	-37.34
2005-06	3567.60	44.95	920.31	39.02	4487.91	43.69
2006-07	5238.55	46.84	3063.65	232.89	8302.20	84.99
2007-08	4215.43	-19.53	2154.67	-29.67	6370.10	-23.27
2008-09	4834.56	14.69	2543.12	18.03	7377.68	15.82

Source: Office of the Commissioner of Customs, Shillong.

<sup>14</sup> This was also widely discussed in Das and Thomas (2008)

<sup>15</sup> According to Brunner (2010), export potential lies in food or fruit processing, bamboo and cane products, jute, floriculture, aromatic plants, aromatic and medicinal herbs, spices, rubber, forest products, natural resource products, tea and other plantation crops, inland freshwater fishing, among others.

Out of five functional LCSs in Assam, we have selected three for case studies. Two in South Assam, viz., Sutarkandi and Karimganj Steamer and Ferry Station (KSFS) through which the bulk of the interregional trade flows and one from lower Assam, viz., Mankachar, having border with Bangladesh.

### **(a) Sutarkandi LCS**

Sutarkandi LCS was notified in 1948, immediately after the independence, in order to keep the natural flow of trade between Sylhet and Cachar which was disrupted due to partition. In fact, Karimganj was a part of the undivided Sylhet district which was added to Cachar following the Sylhet referendum. Karimganj is well connected with Sylhet of Bangladesh through roadways, railways and waterways. Sutarkandi LCS is the land border port in Indian side and Seola is the border port in Bangladesh side. Mainly Meghalaya origin coal and quicklime are exported to Bangladesh through Sutarkandi LCS. Commodities like Vanaspati, Synthetic Fruit Drinks, Cotton Waste, Cement, Melamine, Tableware, Synthetic Fibres, and Aerated water are usually imported. However, as revealed by the trade figures as well as from the interview of the traders, both export and import are declining in Sutarkandi overtime. Traders have cited a number of reasons for this decline. Due to bad road condition and excessive collection at the various gates along Ladrymbai-Karimganj road, cost of trade has been increased manifold which has, in turn, reduced the profitability and hence many of the traders have already quit business.

### **(b) Karimganj Steamer and Ferry Station (KSFS)**

Karimganj Steamer and Ferry Station (KSFS) was notified in 1948. River Barak passes through Karimganj in India and Zakiganj (Sylhet) in Bangladesh. In fact, river Barak acts as border demarcation. Indo-Bangladesh trade here flows across the river. The volume of trade that flows through KSFS is not as bulk as through Sutarkandi. Indian exporters mainly export agro-horticultural products like fresh fruits, ginger, orange and bamboo which are mainly grown in the hills like Mizoram, North Cachar Hills and Meghalaya. The importers mainly import cement for which there is a good market in the Valley. Besides cement, knitted synthetic fabric, woven fabrics and soap are also imported through this LCS. It may be noted, as the river plays the role of ‘no man’s land’ at KSFS, people can easily move across this border with luggage as they travel by boat. This facility is not available in case of Sutarkandi as no vehicles are allowed to travel through “no man’s land” across Sutarkandi and Seola. As a result, it is convenient for the passengers to cross through KSFS than through Sutarkandi. The volume of trade that flows through KSFS is not very significant. However, whatever trade flows across the Barak river is characterized by the dominance of export from the Indian side. As high volume low value products like citrus fruits, agro-horticultural products and forest products are exported to Bangladesh from KSFS, volume of trade does not reflect the flurry of trade LCS

### **(c) Mankachar**

Mankachar is located in the eastern part of Dhubri which has border with the Rajsahi district of Bangladesh. Mankachar LCS was notified in 1950. It is connected with Natun Bandar (Rajsahi) in Bangladesh. There are two authorized routes through which cross border trade flows: (i) Tura-Rahumari road, and (ii) Kalo river from the approach of Tura road to the Jinjiram river. The volume of trade flows through Mankachar is not very significant. Traders basically export coals of Garo hills origin through Mankachar to Bangladesh. Besides coal,

dry fish is also occasionally exported. Traders also import some amount of ready made garments from Bangladesh. Volume of trade that flows through Mankachar is not very significant. However, whatever trade flows across the border is found to be unidirectional, i.e., exports from Indian side to Bangladesh. As has already been mentioned, coal from Garohills is mainly exported this LCS.

### 3.4.2 Meghalaya-Bangladesh Sector

Meghalaya contributes the majority share of the NER-Bangladesh trade (more than 63 per cent of the interregional trade). However, the trade through Meghalaya-Bangladesh sector is characterized by unidirectional flow of export from Indian side to Bangladesh (Table 3.15). Except for 2004-05, the annual growth of export for all the years during 2000-2007 has been positive which indicates stability in export. However, the trade decelerated in 2007-08, presumably due to global economic crisis.

**Table 3.15: Pattern of India-Bangladesh Border Trade through Meghalaya-Bangladesh Sector**

Year	Export		Import		Total Trade	
	(Rs. lakh)	% change	(Rs. lakh)	% change	(Rs. lakh)	% Change
2000-01	12050.75	-	0.40		12051.14	
2001-02	16344.35	35.63	2.55	537.50	16346.90	35.65
2002-03	17199.00	5.23	6.40	150.98	17205.00	5.25
2003-04	18851.31	9.61	25.70	301.56	18877.01	9.72
2004-05	16378.54	-13.12	32.82	27.70	16411.36	-13.06
2005-06	17950.70	9.60	207.53	532.33	18158.23	10.64
2006-07	23538.18	31.13	499.61	140.74	24037.79	32.38
2007-08	23654.12	0.49	554.92	11.07	24209.04	0.71
2008-09	24043.56	1.65	578.23	4.20	24621.79	1.70

Source: Office of the Commissioner of Customs, Shillong

Out of eight functional LCSs in Meghalaya, four were surveyed in this study - one each from Jaintia Hills (Dawki), West Khasi Hills (Borsora), West Garo Hills (Dalu) and South Garo Hills (Baghmara).

#### (a) Dawki

Dawki in the Jaintia Hills District borders with Tamabil (Sylhet) in Bangladesh. As the district has rich deposits of coal for which there is a huge demand in Bangladesh, Dawki has become one of the important border point for coal trade. As the traditional Shillong-Sylhet road passes through Dawki, the place is known for centre of traditional hills-plain trade. The LCS at Dawki was notified in 1948. Although there are three authorized routes for trade, viz., (i) Piyan river, (ii) Shillong-Sylhet road, and (iii) Rangpani river which flows down to Bangladesh plain, trade basically flows through the Shillong-Sylhet road. Some trade,

particularly, during the rainy season also takes place through river routes. Traders from Meghalaya export coal, limestone, raw hides, citrus fruits and horticultural products. They import synthetic drinks, potato crackers, fruit juice and miscellaneous food products from Bangladesh. Trade through Dawki is basically centered on the export of coal from Jaintia Hills, limestone and horticultural products of East Khasi Hills origin. As a result, trade is almost unidirectional as import is insignificant compared to export. In spite of fluctuations in export during 2004-07, Dawki is considered to be one of the widely used border trading port as the road connectivity across the border is better.

#### **(b) Borsora**

Borsora in West Khasi Hills (Meghalaya) borders with Borsora in Sylhet (Bangladesh). The LCS at the Indian side was notified in 1951. There are five authorized routes for trade under this LCS. These are: (i) Cherragaon (India) to Cherragaon (Bangladesh), (ii) Borsora (India)—Tahirpur via Borsora (Bangladesh), (iii) Trolley track from Chalitacherra quarry to Samsar in Bangladesh, (iv) Trolley track from Gauripur (India) to Samsar in Bangladesh, and (v) Jadukata river. All the land routes and trolley tracks are used for trade whenever these are fit for vehicular movement. The river route is also used for trade during the rainy season. Traders from Borsora export coal and limestones of West Khasi Hills origin to Bangladesh. Traders are reported to have not imported anything from Bangladesh through this LCS.

#### **(c) Dalu**

Dalu in West Garo Hills of Meghalaya (India) borders with Nakugaon in Bangladesh. The LCS at Dalu was notified in 1950. As the Garo hills districts are rich in mineral resources like coal, limestone, clay, phosphorus, etc, the locally mined minerals are exported to Bangladesh across the border. The LCS has two authorized routes, viz., (i) Bhugai river and (ii) Dalu-Naltabari road. Currently regular trade flows through the land route and the river route is used for trade only during the rainy season. Traders from Dalu exports only coal to Bangladesh. They import, although not significant, readymade garments, bleaching powder and synthetic net fabrics from Bangladesh. Trade at Dalu is also mainly centered on the export of coal from Garo Hills to Bangladesh. Till 2005-06, no import was reported through this LCS.

#### **(d) Baghmara**

Baghmara is the headquarter of the South Garo Hills District. It is situated on the banks of Simsang River on the Bangladesh border. The LCS at Baghmara was notified in 1950. It is connected to Bijoypur in Bangladesh across the border. There are two authorized routes for trade under this LCS, viz., (i) Baghmara-Durgapur road and (ii) Someshwari river. Traders from Baghmara export coal of Garohills origin to Bangladesh. No import is recorded at this LCS for last couple of years. Baghmara is not a widely used LCS through which traders export to Bangladesh. It is mainly used while the export routes in other LCSs in Garohills are choked particularly due to rain or other natural hazards. Although traders occasionally use Baghmara for export, they have not reported any import through Baghmara.



**Table 3.16: Pattern of India-Bangladesh Border Trade  
through Tripura-Bangladesh Sector**

Year	Export		Import		Total Trade	
	(Rs. lakh)	% change	(Rs. lakh)	% change	(Rs. lakh)	% Change
2000-01	75.33		630.68		706.01	
2001-02	130.00	72.57	442.62	-29.82	572.00	-18.98
2002-03	152.80	17.54	582.48	31.60	735.28	28.55
2003-04	138.49	-9.37	970.63	66.64	1109.12	50.84
2004-05	202.43	46.17	978.30	0.79	1180.73	6.46
2005-06	73.63	-63.63	3559.34	263.83	3632.97	207.69
2006-07	86.56	17.56	4339.22	21.91	4425.78	21.82
2007-08	112.54	30.01	6342.87	46.18	6455.41	45.86
2008-09	142.43	26.56	7983.45	25.86	8125.88	25.88

Source: Office of the Commissioner of Customs, Shillong.

### 3.4.3 Tripura-Bangladesh Sector

Unlike Assam and Meghalaya, cross-border trade in Tripura is characterized by the dominance of import from Bangladesh. As Tripura is located at the furthest corner of the country, import from Bangladesh proves to be more cost-effective than import from the mainland India. It is due to the geographical distance. As has already been mentioned, while Kolkata is 1680 km from Agartala via the Siliguri Corridor, the distance reduces to only 400 km when travelled via Dhaka.

Thus, fourfold reduction in distance reduces transport cost by four times. This transport cost differential between Agartala-Dhaka and Agartala-Kolkata makes Dhaka as the lucrative source for import than Kolkata. Table 3.16 shows that import is more stable than export. Except 2001-02, all year on year growth rates are positive. One may not miss to note that there has been a sudden decline in export and rise in import since 2005-06. Traders feel that it is because of the border fencing which has helped in channelizing the informal imports into the formal route and simultaneously negatively impacted the official export due to increased surveillance. Out of the seven functional LCSs in Tripura, we have chosen only Agartala for case study.

#### (a) Agartala LCS

Agartala LCS was notified in 1949 and is located about 2 km away from the Agartala town opposite to Akhaura in Bangladesh. The trade flows through authorized Agartala-Akhaura road. As Agartala is far away from the mainland India, due to the landlocked location of the state, import from Bangladesh in some cases is more beneficial than importing them from mainland India. However, due to supply constraints export trade is not very vibrant. Traders of Agartala import food items, synthetic drinks, cement, crushed stones, bricks, float glass, plastic items and readymade garments from Bangladesh. They also occasionally export citrus fruits, bamboo, dry fish, dry chilly, etc to Bangladesh.

### 3.5 Summing Up

In sum, the pattern of India-Bangladesh border trade that flows through the NER-Bangladesh sector is characterized by resource-industry linkages. The rationale of the trade lies in free trade principle. Some critical minerals which are available in the NER but not available in Bangladesh provide the basis of the NER-Bangladesh trade. What follows is that the NER's export products to Bangladesh are distinctly different from major export lines from rest part of India to Bangladesh. The product-wise trade between the NER and Bangladesh indicates a complementarity between the resource structure of the NER and demand structure of Bangladesh. Bangladesh lacks in mineral resources like coal and limestone which the country imports from the NER. Due to weak resource industry-linkages, manufacturing base of the NER remained underdeveloped and hence in return the NER imports manufacturing goods from Bangladesh. This provides a firm basis for trade expansion between the two regions. We found following features of the pattern of India-Bangladesh trade.

- (a) Export from the NER to Bangladesh dominates NER-Bangladesh trade.
- (b) The NER exports raw materials like coal, limestone, stone chips, bamboo, etc to Bangladesh and imports manufactured goods like cement, plastic goods, readymade garments, process food and drinks.
- (c) Minerals of Meghalaya origin are basically exported to Bangladesh through the LCSs of Assam and Meghalaya.
- (d) Trade flows through Tripura-Bangladesh sector is dominated by imports from Bangladesh.
- (e) As the resource structure of the NER and demand structure of Bangladesh are complementary to each other, there exists a huge potential for trade between these two regions. As the NER exports industrial raw material to Bangladesh, trend of NER's export is found to be stable.
- (f) Export trade in exhaustible resources like coal and limestone suffers from severe limitations in that the trade dries up with the depletion of stock of resources. As a result, for sustainable growth it is important to diversify the export basket and also to add value to export by switching over from export of raw materials to export of processed/semi-processed goods.

### Appendix 3.1: LCS-wise Major Export and Import since 2006-2008

State	LCS	Export	Import
Assam	Karimganj Steamerghat and Ferry Station	Ginger, citrus fruits, orange, dry fish, chaw-chai squash, bamboo,	Cement, other knitted items of synthetic fibre and woven fabrics, molasses and soap.
	Sutarkandi	Coal and quick lime	Cement , hilsha fish, ,synthetic drinks, roasted or fried vegetable products, chips, sugar confectionary, woollen and metal furniture, cap, empty cartoon, melamine table and kitchen ware, soap, semai, sanitary napkin, "Pran" candy, gum candy, potato crackers, roasted peanuts, edible oil, fruit juice, picky chips, molasses, chutney, cotton waste ,other knitted crocheted of synthetic fibre, biscuits, dry cell battery, aerated water, rose water and float glass .
	Guwahati Steamerghat	High Speed Diesel	Cement
	Dhubri Steamerghat	-	-
	Mankachar	Coal, crushed stone & dry fish.	Readymade garments, printed book and calendar.
Meghalaya	Borsora	Coal & lime stone.	nil
	Bholaganj	Lime stone & boulder stone.	nil
	Dawki	Coal, limestone, boulder stone, quartz stone, tomato, raw hides & skin, orange, citrus fruits.	Food items.
	Shellabazar	Lime stone & shale.	nil
	Baghmara	Coal.	-
	Dalu	Coal, lime stone & boulder stone.	Readymade garments, synthetic net fabric and bleaching powder.
	Ghasuapara	Coal & ginger	-
Mahendraganj	Coal, boulder stone, crushed stone, ginger, tamarind & bamboo.	Synthetic net fabrics, cotton waste, readymade garments, float glasses.	
Tripura	Agartala	Raw hides & skin, tomato, potato, ginger, dry chili, dry fish, bamboo & refined soya bean oil.	Cement, crushed stone, quick lime, hilsha and other small fish, dry fish, salted fish, jute rope, raw jute, animal feed, soya bean oil , other knitted or crotched synthetic fibre, ,molasses, food items, palm oil, lay flat tube, cotton waste , ceramic tiles, aerated water, synthetic drinks, float glasses, hand pump, matters of cellular rubber ,other trashing machine, zinc flakes, brick crusher machine, resins, other household articles, agricultural machineries, dry cell battery, biscuits, potato chips and crackers, , vanaspati, cashew net (in shell), plastic frame of door/window, cosmetics and toilet items, waste of synthetic fibre, mango juice, wooden, plastic and metal furniture, weeder machine, knitted cotton fabrics, foot wear, machine for framing foundry mould of sand, melamine table and kitchen ware , PVC pipes and tubes, other house hold articles, soap, other threshing machine, jamdani saree, slurry pump, ceramic tiles, coriander, iron drum, sweater, vacuum pump,

	Srimantapur	Ginger, potato, parts & accessories of agricultural products, sanitary ware, tamarind , motor cycles parts, raw hides & skin, bay leaves (Tez pata), palm oil, coloured woven fabrics, agarbatti, braziers, printed pictures, marble stone & bamboo.	Broken or crushed stone, cement, synthetic drinks, lay flat tube, PVC pipes & filters, foods items, molasses, soya bean oil, head gear of textile fabrics, woven and polyester fibre, other non-knitted crocheted fibre, aerated water, palm oil, float glass, cotton saree soap, ceramic tiles, mosquito net.
	Dhalaighat	nil	nil
	Khowaighat	-	Crushed stone.
	Manu	Jack fruits, orange & tomato	Hilsha and other small fishes and crushed stone.
	Muhurighat	-	-
	Old Ragnabazar	Ginger, citrus fruits & orange	Printed mosquito net, woven synthetic staple fibre, other crocheted fabrics of cotton, vest, zinc flakes, ceramic tiles, plastic frames of doors and windows, foot wear, laundry soap.

Source: Office of the Commissioner of Custom, Shillong.

## Appendix 3.2

### Important Agreements / MoUs for Facilitating Economic Cooperation between India and Bangladesh

- The first Trade Agreement between India and Bangladesh was signed in 1972. The India-Bangladesh Trade Agreement has been renewed for a period of three years up to 31 March 2012. It governs the present trading arrangements between the two countries. Other Agreements/MoUs for facilitating trade and economic linkages include:
- Protocol on Inland Water Transit and Trade (IWTT);
- Bilateral Air Services Agreement between India and Bangladesh;
- Bilateral Agreement on the Establishment of Joint Economic Commission (JEC);
- India-Bangladesh Convention for the Avoidance of Double Taxation;
- India-Bangladesh Agreement for the Regulation of motor vehicle passenger traffic;
- Agreement on Revised Travel Arrangements between India and Bangladesh;
- Rules for Interchange of Traffic between India and Bangladesh;
- MOU between BIS and BSTI for cooperation in the area of standards;
- MOU for cooperation in the field of agriculture;
- MOU for cooperation in the field of science and technology;
- Protocols for operation of passenger bus service between Dhaka and Kolkata, and Dhaka and Agartala;
- Bilateral Investment Protection and Promotion Agreement (BIPPA); Discussions are also underway for concluding agreement on regulation of passenger and cargo vehicular traffic;
- Agreement on Bulk Power Transmission between Power Grid Corporation of India Limited and Bangladesh Power Development Board.

## Chapter 4

# NER-Myanmar Border Trade: Emerging Pattern

The objective of this chapter is to discuss the India–Myanmar trade pattern in general and the border trade in particular. The discussion in this chapter will help us understanding the nature of “behind the border” issues that are prohibiting the trade to grow between the NER and Myanmar in later chapters.

### 4.1 Trade between India and Myanmar

Since early 1990s, with the adoption of Look East Policy (LEP), India-Myanmar engagement has been growing on substantive ground and increasing being structured. Several empirical studies show the extent of economic integration between South and Southeast Asia, where Myanmar has been playing the lead catalytic role.<sup>16</sup> Myanmar is the land-bridge that connects world’s two largest markets – South and Southeast Asia. It is therefore an important country for both India and ASEAN that helps integrate economies across the border.

India’s change in policy towards Myanmar has paid a rich dividend. For example, the bilateral trade between India and Myanmar has grown from US\$ 12 million in 1980 to about US\$ 1.5 billion in 2009, increased by an extraordinary 46 per cent per annum in the last two decades (Table 4.1). The bilateral trade between the two countries increased exponentially (Figure 4.1 (a, b)) over time. In particular, the last decade witnessed the fastest growth in bilateral trade (Table 4.2), helped the bilateral trade to reach US\$ 1.4 billion in 2009. This phenomenal rise in bilateral trade has been driven by Myanmar’s increasing exports to India. Today, Myanmar exports goods worth about US\$ 1.09 billion goods to India, which contributes to 85 per cent of total bilateral trade and one-fifth of Myanmar’s exports to the world (Figure 4.2). In contrast, Myanmar’s export to China is half of what is exported to India. What follows is that India is Myanmar’s the second largest export destination, next to Thailand.<sup>17</sup>

**Table 4.1: India-Myanmar Bilateral Trade**

Year	Export	Import	Total Trade	BOT
	(US\$ million)			
1980	4.770	7.620	12.390	-2.850
1990	1.435	90.144	91.579	-88.709
2000	48.050	179.175	227.225	-131.125
2001	53.047	197.809	250.856	-144.762
2002	71.528	345.639	417.167	-274.111
2003	86.001	390.768	476.769	-304.767
2004	104.705	400.052	504.757	-295.347
2005	111.322	495.952	607.274	-384.630
2006	132.717	718.395	851.112	-585.678

<sup>16</sup> Refer, for example, Francois et al. (2009), Das et al (2005), etc.

<sup>17</sup> Refer Appendix 4.1, which provides top 10 trading partners of Myanmar.

2007	174.020	802.793	976.813	-628.773
2008	212.230	893.916	1106.146	-681.686
2009	209.778	1195.260	1405.038	-985.482

Source: IMF DOTS.

**Table 4.2: Growth in India's Trade with Myanmar\***

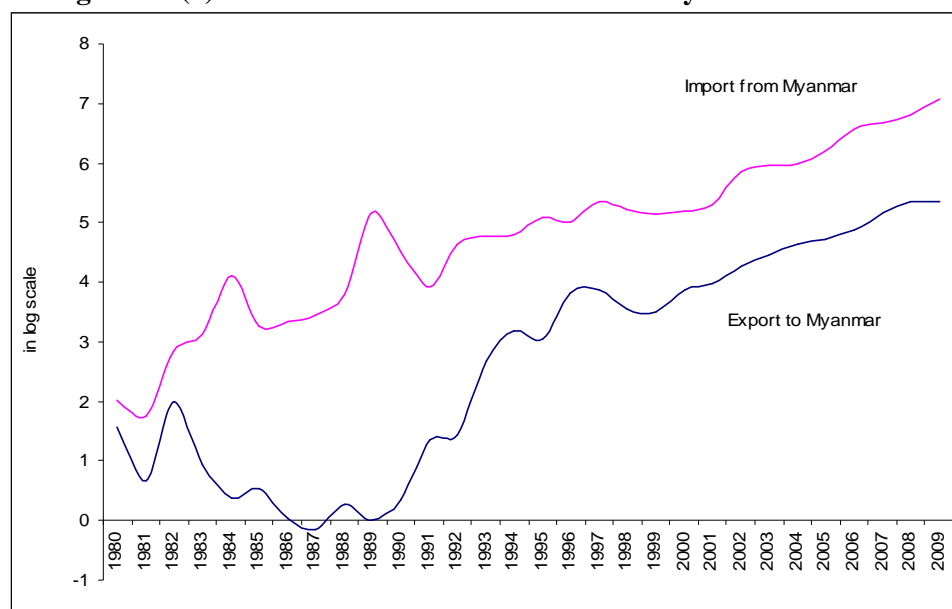
Periods	Export	Import	Total
	(% )		
1980-1989	-215.89	76.58	76.14
1990-1999	46.80	63.17	69.20
2000-2009	75.96	115.83	119.40
1990-2009	32.45	44.60	45.92

Note: \*Compound Annual Growth Rate (CAGR).

Source: IMF DOTS.

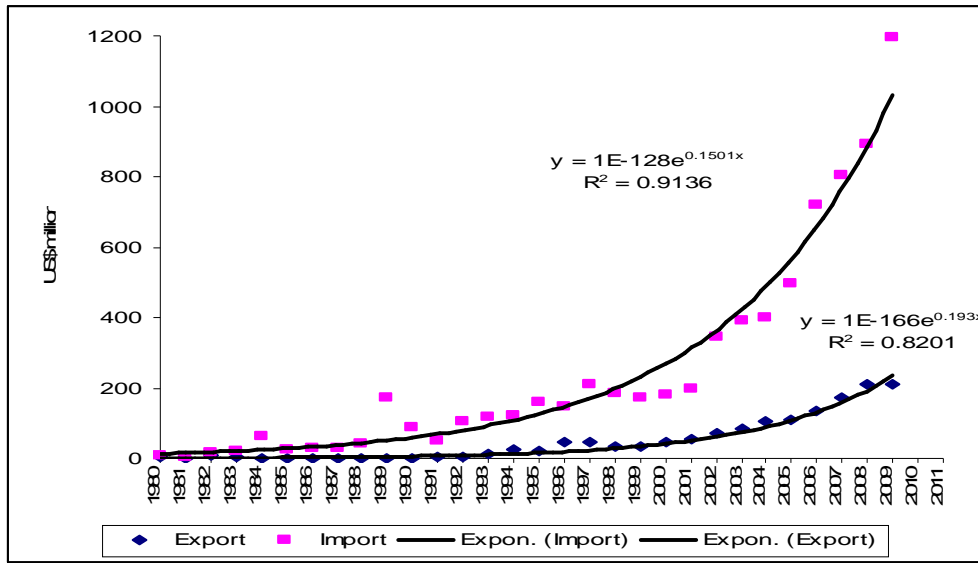
While India's increasing trade deficit with Myanmar is a matter of concern, that increased from miniscule US\$ 2.5 million in 1980 or about US\$ 131 million in turning of the last decade to about US\$ 1 billion in 2009, India has been providing a consistently higher market access to Myanmar, which is perhaps the highest in volume that India provides to the LDCs in the world. If trade liberalization is one of the determinants that helped Myanmar to increase her export to India, trade facilitation by opening of border trade between the two countries in 1995 is equally responsible for higher bilateral trade between the two countries in later years, particularly since 1997 onward. Since then India has become Myanmar's one of the largest trading partners. Nevertheless, India exports a miniscule (less than one per cent) share of India's global export, a negligible share (even less than one per cent) of its own imports, and a small range of imports (edible vegetables and wood and articles) and relatively diversified exports (pharmaceuticals, iron and steel and electrical machinery).

**Figure 4.1(a): India's Merchandise Trade with Myanmar: 1980-2009**



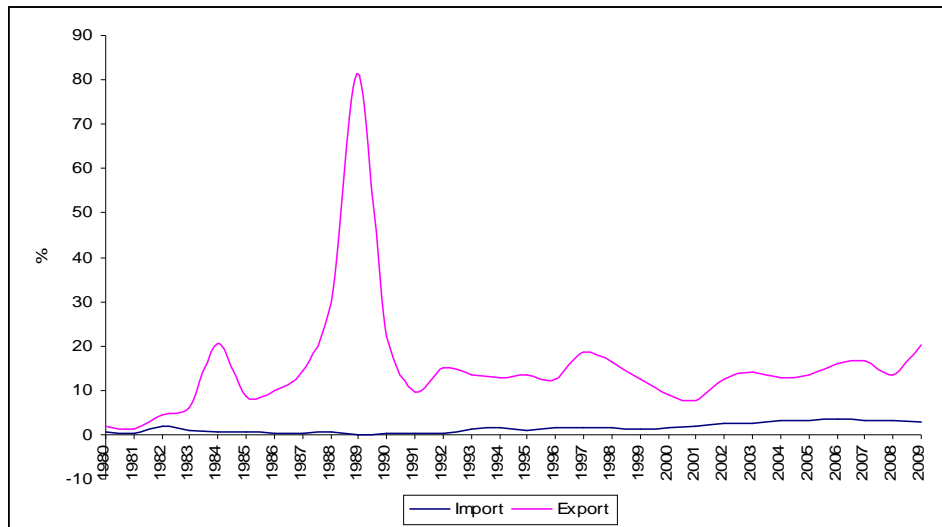
Source: IMF DOTS.

**Figure 4.1(b): India's Trade with Myanmar: Exponential Trend**



Source: IMF DOTS.

**Figure 4.2: Trends in Trade Share: Myanmar's Trade with India**



Source: IMF DOTS.



**Table 4.3: Indian Exports to Myanmar: Top 10 Commodity Groups in 2009-10**

HS CODE	Commodity	Export	Share*
		(US\$ Million)	(%)
30	Pharmaceutical products	55.98	27.00
72	Iron and steel	37.99	18.32
85	Electrical machinery and equipment	16.69	8.05
27	Mineral fuels, mineral oils and products	12.87	6.21
40	Rubber and articles thereof.	8.79	4.24
39	Plastic and articles	8.37	4.04
84	Machinery and mechanical appliances	8.14	3.93
52	Cotton	5.96	2.87
73	Articles of iron or steel	5.67	2.74
23	Residues and waste from food industries	4.52	2.18
	Total	164.98	79.57

Note: \*Share in India's total export to Myanmar.

Source: Government of India.

India's export to Myanmar has increased considerably in the last few years. Table 4.3 presents India's top 10 exported commodities to Myanmar in 2009-10, whereas Table 4.5 shows top 10 exported products at a disaggregated level (6-digit HS) for the years 2009-10 and 2000-01. Indian exports to Myanmar are relatively diversified where the top 10 commodity groups account for about 80 per cent of India's total exports to Myanmar in 2009-10. India's export basket to Myanmar is dominated by finished goods such as pharmaceutical products, iron and steel, electrical machinery and equipment, which contribute about 2/3<sup>rd</sup> of total Indian export to Myanmar. Other important products in the Indian export basket are residues and waste from the food industries, mineral fuels, mineral oils and products of their distillation, rubber and products, plastic and products, machinery and mechanical appliances, cotton etc. During 2000-01 and 2009-10, Indian exports to Myanmar increased substantially and also witnessed a compositional change. In contrast, while India's imports from Myanmar are three times higher than its exports to Myanmar, imports are mainly primary products and relatively less diversified.

**Table 4.4: Indian Imports from Myanmar: Top 10 Commodity Groups in 2009-10**

HS CODE	Commodity	Import	Share
		(US\$ Million)	(%)
7	Edible vegetables and certain roots	851.53	65.89
44	Wood and articles of wood	404.95	31.33
17	Sugars and sugar confectionery.	16.84	1.30
5	Products of animal origin	6.22	0.48
9	Coffee, tea, mate and spices.	3.07	0.24
41	Raw hides and skins and leather	2.05	0.16
8	Edible fruit and nuts; peel or citrus fruit	1.77	0.14
99	Miscellaneous goods.	1.24	0.10
96	Miscellaneous manufactured articles.	0.54	0.04
12	Oil seeds and olea. Fruits; misc. Grains,	0.51	0.04
	Total	1288.72	99.72

Note: \*Share in India's total export to Myanmar.

Source: Government of India.

Table 4.4 presents the major imported commodity groups by India from Myanmar, where Table 4.6 shows the same at 6-digit level. Major products imported from Myanmar are edible vegetables, and wood and wood products, which together account for about 97 per cent of total imports from Myanmar. However, composition of Indian imports from Myanmar has not changed much over time. Finally, India's trade with Myanmar witnessed a higher growth in the last decade, which indirectly suggests existence of a large trade potential between the two countries.

**Table 4.5: Trends in Top 10 Indian Exports to Myanmar at 6-digit HS**

HS CODE	Commodity	2009-10	HS CODE	Commodity	2000-01
		(US\$ Million)			(US\$ Million)
271019	Other Petroleum Oils And Oils Obtained From Bituminous Minerals Etc	12.79	300490	Other Medicine Put Up For Retail Sale	3.61
230400	Oil-Cake & Othr Solid Residue W/N Grnd/In Pllts Form Obtnd Frm Soya-Bean Oil Extrctn	4.5	831110	Coat Elctrd Of Bs Mtl Fr Elctrc Arc Wldng	3.07
251110	Natural Barium Sulphate (Barytes)	1.32	360300	Safety Fuses Detonating Fuses Percussion Or Detonating Caps; Igniters;Elec Detonatr	1.91
20230	Boneless Meat Of Bovine Animals , Frozen	1.29	732690	Other Articles Of Heading 7326	1.86
210111	Extrcts Essncs & Cncntrts Of Coffe	0.88	300390	Othr Medicants (Excl Headng 3002,3005,3006) For Therapeutic Prophylactic Uses	1.62
190110	Food Prpns Fr Infnt Use Put Up Fr Rtl Sale	0.71	300410	Medicaments Containing Pencillin/Drvtvs Throf Wth A Pencllnc Acid Strctr/ Strptmycns Or Thr Dervtvs Put Up For Rtl Sale	1.38
90930	Seeds Of Cumin	0.61	980100	Project Goods	1.2
283711	Cyanides & Cyanide Oxide Of Sodium	0.6	300450	Other Mdcmnts Cntng Vitamins/ Other Products Of Heading No 2936 Put Up For Retail Sale	1.05
40210	Milk & Cream In Pwdr,Grnls Or Othr Solid Forms Contng Fat Not Exceeding 1.5% By Wt	0.51	820310	Files,Rasps & Smrl Tools	0.98
21019	Othr Meat Of Swine,Sltd,In Brine,Drd/Smkd	0.49	300420	Medicaments Containing Other Antibiotics And Put Up For Retail Sale	0.96
	<b>TOTAL</b>	<b>207.97</b>		<b>TOTAL</b>	<b>52.71</b>

Source: Government of India.

**Table 4.6: Trends in Top 10 Indian Imports from Myanmar at 6-digit HS**

HS CODE	Commodity	2009-10	HS CODE	Commodity	2000-01
		(US\$ Million)			(US\$ Million)
71331	Beans Of The Spp Vigna Mungo,Hepper Or Vigna Radiata,Wilczek Dried & Shld	500.4	440399	Other Wood In Rough	73.35
440349	Othr Tropical Wood	228.47	440349	Othr Tropical Wood	58.87
71390	Othr Dried & Shld Luguminous Vegetabls	215.63	71390	Othr Dried & Shld Luguminous Vegetabls	22.72
440399	Other Wood In Rough	162.03	71331	Beans Of The Spp Vigna Mungo,Hepper Or Vigna Radiata,Wilczek Dried & Shld	9.19
71339	Oter Beans Dried & Shld	121.53	71310	Peas (Pisum Sativum) Dried & Shld	3.37
170199	Sugr Refind Nt Contng Frvrng/Colrng Matter	14.43	80290	Other Nuts Fresh Or Dried	2.59
71320	Chickpeas (Garbanzos) Dried & Shld	7.37	71320	Chickpeas (Garbanzos) Dried & Shld	1.96
50100	Human Hair,Unworked; Waste Of Human Hair	6.22	71333	Kidny Bens Incl White Pea Bens Dried & Shld	1.89
71333	Kidny Bens Incl White Pea Bens Dried & Shld	5.92	120799	Othr Oil Seeds & Olegnus Fruits W/N Brokn	1.01
441299	Othr Plywood,Vinered Panels&Lmntd Wood Panel And Laminated Wood	3.26			
	Total	1289.8		Total	181.69

Source: Government of India.

## 4.2 Trade between NER and Myanmar

India and Myanmar share a common border of 1,643 km. Four states of the NER, namely, Arunachal Pradesh, Manipur, Mizoram, and Nagaland, shares international borders with Myanmar (Table 4.7). However, a large part of this international border with Myanmar is porous, mountainous and inhabited. Till date, four LCSs are in operation, serving the trade between the two countries (Table 4.7), of which Moreh in Manipur is the busiest LCS, handling almost 99 per cent of the NER's trade with Myanmar.

**Table 4.7: LCSs in NER Dealing Trade with Myanmar**

NER State	LCS in India	LCS in Neighbouring country	Neighbouring country
Arunachal Pradesh	Nampong		Myanmar
Manipur	Moreh	Tamu/Namphalong	Myanmar
Mizoram	Zokhawthar (Champai)	Rangamati	Myanmar
Nagaland	Avankhung		Myanmar

Source: North Eastern Council (NEC)

In general, the NER-Myanmar trade mainly flows through Moreh in Manipur. In the last decade, the NER's average annual export to Myanmar was about US\$ 2.36 million, whereas the average annual import from Myanmar was US\$ 1.88 million. It contributed a miniscule 2.08 per cent and 0.49 per cent in country's total export to and import from Myanmar respectively in the last decade (Table 4.8). In US\$ term, while Indian export and import with Myanmar witnessed a massive 76 per cent and 116 per cent, respectively in last decade, the same from the NER faced consistently negative growth in the last decade.<sup>18</sup> Unlike the NER-Bangladesh trade, the NER's trade with Myanmar has always remained less than a% of India's total trade with Myanmar since opening of LCS at Moreh in 1995. Therefore, border trade potential between India and Myanmar is yet to be unrealized.

**Table 4.8: NER's Trade with Myanmar+**

Year#	Indian Export to Myanmar	Indian Import from Myanmar	NER Export to Myanmar	NER Import from Myanmar	NER Share* (%)	
					Export	Import
	(US\$ million)					
2000	48.05	179.18	1.23	2.75	2.56	1.53
2001	53.05	197.81	0.26	1.61	0.49	0.81
2002	71.53	345.64	1.03	2.43	1.44	0.70
2003	86.00	390.77	2.02	1.90	2.35	0.49

<sup>18</sup> However, in Indian rupee term, NER's export to Myanmar witnessed positive growth, but the NER's import from Myanmar couldn't escape negative growth rate in the last decade.

2004	104.71	400.05	1.43	1.19	1.37	0.30
2005	111.32	495.95	0.88	1.18	0.79	0.24
2006	132.72	718.40	13.52	0.59	10.18	0.08
2007	174.02	802.79	0.75	3.26	0.43	0.41
2008	212.23	893.92	1.06	1.79	0.50	0.20
2009	209.78	1195.26	1.47	2.12	0.70	0.18
Average**	120.34	561.98	2.36	1.88	2.08	0.49
CAGR (%)	75.96	115.83	-14.51	-194.96		

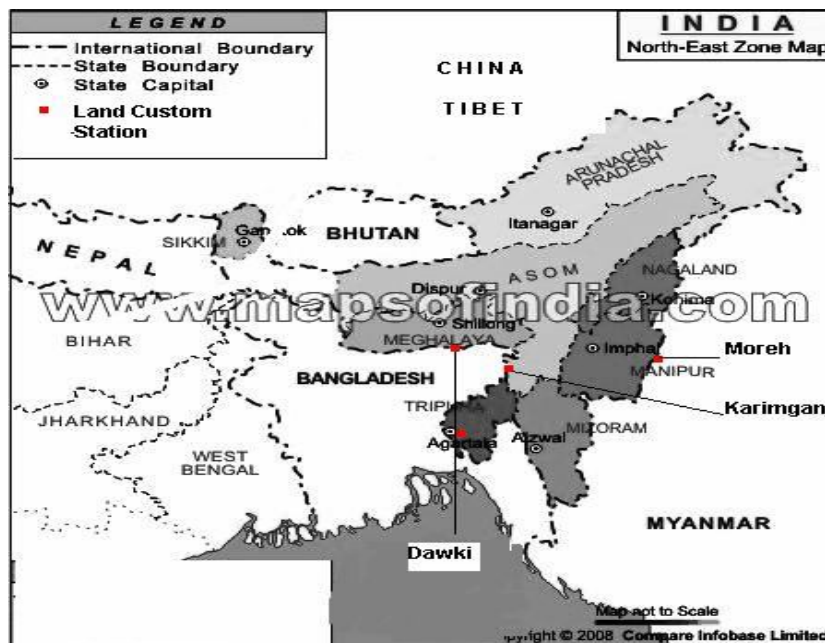
\*Share in India. \*\*Average for the period 2000-2009. +NER export and import consider trade through Moreh only. #Trade data for India counts calendar year while the same for NER consider financial year.

Sources: IMF for India's trade with Myanmar, and Indian Customs for NER's trade with Myanmar.

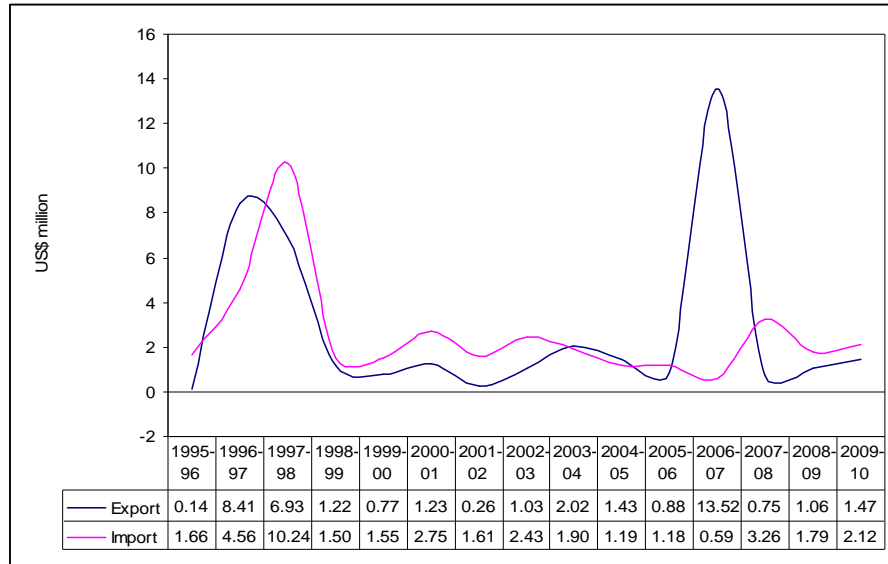
#### 4.2.1 India-Myanmar Border Trade at Moreh LCS

The LCS at Moreh is situated near the India-Myanmar border on a 9.28 acres plot. It is near the Lokchao bridge which connects Indian territory with Myanmar. Moreh in Manipur is the largest LCS handling about US\$ 3.59 million India-Myanmar merchandise trade, of which export and import contribute 41 per cent and 59 per cent respectively. Map 4.1 plots the location of Moreh LCS. As noted in Figures 4.3(a) and 4.3(b), export through Moreh LCS increased from US\$ 0.14 million (Rs. 0.46 crore) in 1995-96 to a peak of US\$ 13.52 million (Rs. 61.27 crore) in 2006-07 and then reduced to US\$ 1.47 million (Rs. 6.55 crore) in 2009-10. Import, on the other, witnessed relatively less fluctuations, increased from US\$ 1.66 million (Rs. 5.39 crore) in 1995-96 to US\$ 2.12 million (Rs. 9.42 crore) in 2009-10. The interesting development is that the second half of last decade witnessed a rise in Indian export through Moreh, compared to previous two periods (Figure 4.4), whereas import declined consistently from US\$ 72 billion in 1995-96/1999-2000 to US\$ 38 billion in 2005-06/2009-10.

Map 4.1: Location of LCS in India – Myanmar Border

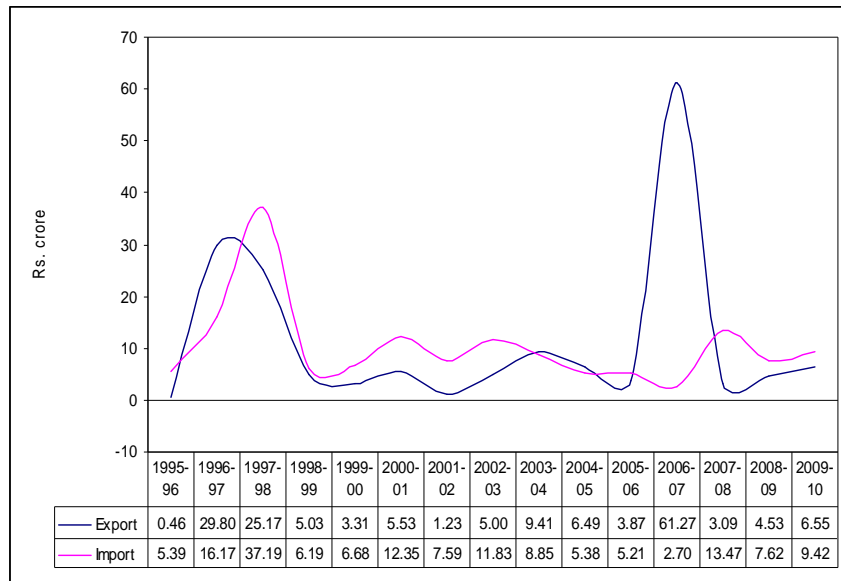


**Figure 4.3 (a): Border Trade at Moreh LCS in US\$**



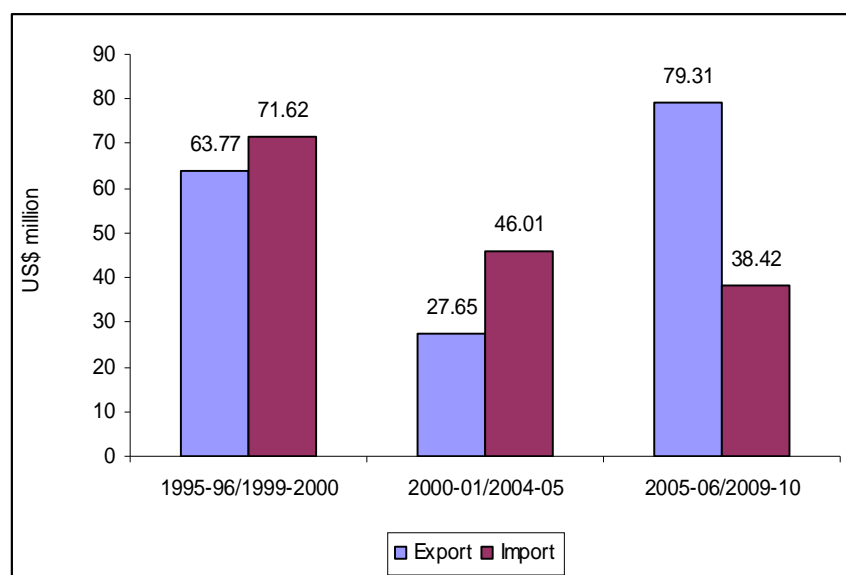
Source: Indian Customs.

**Figure 4.3 (b): Border Trade at Moreh LCS in INR**



Source: Indian Customs.

**Figure 4.4: Trade at Moreh: 5-years Aggregate**



Source: Calculated based on sources mentioned in Table 4.8.

**Table 4.9: Top Three Traded Items at Moreh LCS\***

Year	Export Item 1	Export Item 2	Export Item 3
1998	Wheat flour	Soya bari	Flavouring essence
2001	Soyabari	Sumon rose powder	Cumin seeds
2007	Soyabari	Soya grid	Cumin seed
2009	Soyabari		
Year	Import Item 1	Import Item 2	Import Item 3
1998			
2001	Betel nut	Garlic	Pulses
2007	Betel nut	Ginger	Pulses
2009	Ginger	Betel nut	Pulses

\*Arranged according to the volume of export/import to/from Myanmar.

Source: Indian Customs.

There is a lot of difference in the commodity composition of trade in the Moreh LCS. Appendix 4.2 provides a detailed list of items being traded at Moreh LCS. Important commodities being imported from Myanmar consist of betel nuts, dry ginger, pulses, whereas



soyabari, cumin seed, soya grid and skimmed milk powder are some major exported items.<sup>19</sup> The formal trade volume at Moreh is appeared to be less than the informal trade volume.<sup>20</sup> With the change in demand pattern in both sides of the border, trade at Moreh LCS is carried out more in negative list items than the positive list items. While a formal trade at Moreh shows trade in traditional primary goods, informal trade, if factored in, indicates a compositional change in border trade that has undergone between the two countries. Barter trade of 22 agreed items has lost its relevance while the normal or regular trade has gained the popularity over time. One of the primary reasons for a low level of border trade at Moreh LCS is perhaps the unfavourable trading environment. Trade at Moreh LCS suffers not only due to lack in modern trade infrastructure, both hardware and software, but also absence of adequate security, thus making the entire trade very unsecured. On top, the unfriendly exchange rate between India and Myanmar prohibits the formal trade to grow, resulting which government is loosing revenue. We discuss the barriers to trade at Moreh LCS in detailed in next chapter.

#### **4.2.1.2. Infrastructure at the Moreh LCS**

The Moreh LCS is manned by one superintendent, two inspectors, one *sepoy* and two contract workers. Gate no.1 which is managed by the LCS is made of wooden materials. It is often damaged by smugglers in the night. Unlike India-Bangladesh border fencing system the border is quite open over long stretches. Besides, Gate no.1 is used only for bringing in goods like betel nuts etc from Myanmar in bulk as part of official trade. Most of the trade is conducted at Gate no. 2 informally where people of both sides cross over freely and buy goods. The LCS is located at a desolate spot without proper fencing. Traders sometimes keep their goods in its own warehouse till it is cleared by the food testing laboratory at Guwahati. This generally takes one month. Table 4.10 presents the status of the facilities available at Moreh LCS.

Electronic Data Interchange (EDI) was introduced in 2009 but is yet to be functional. Trade happens only in day time and there is no agreement between India and Myanmar to have trade day and night probably due to the uncertain law and order condition. Even the streets in the township become deserted by 6 pm everyday. The working time at the LCS is from 10 am to 4 pm. The LCS is yet to be e-enabled. Loading and unloading of goods are done by casual labourers. The main problem is to get the fitness for human consumption certificate from Guwahati for items like betel nuts and dry ginger. It may even take a month. There is no food testing laboratory in the border and no animal quarantines are also there. The place used as the warehouse for such goods in waiting is actually a rest room for drivers. The facilities are not properly maintained due to the fact that an Integrated Check Post (ICP) is being established near the LCS. The land for the ICP has been cleared and the landowners have been given compensation. It is being guarded by the Assam Rifles. However construction is yet to begin.

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<sup>19</sup> In terms of value also the trade at the LCS is a miniscule of the estimated value of informal trade occurring at Gate No. 2 connecting Moreh to Namphalong in Myanmar, which we found during the field survey at Moreh.

<sup>20</sup> The total volume of trade at Moreh is certainly more than official trade of Rs. 15 crore. A quick estimate shows total trade including informal volume is about Rs. 280 crore (Singh, 2011). This does not include the clandestine trade in drugs and small arms whose value also would be substantive.

**Table 4.10: Facilities at the LCS**

Facility	Available (Y)	Not Available (N)
Food testing laboratory		N
Availability of electricity	Y	
Telephone	Y	
Internet		N
EDI (Icegate)		N
Weighbridge	Y*	N
Warehouse		N
Cold storage		N
Parking place	Y	
Transshipment platform / Transit sheds		N
Secretarial assistance (fax, photocopy, etc.)		N
Drinking water		N
Drivers' rest room		N
Health centre		N
Hotels and restaurants		N
Separate entry and exit gates		N
Banks	Y	
Courier / Post Office		N
Servicing centre / Vehicle repair shops		N

\*Not in working condition at the time of survey.

Source: Field Survey.

There is practically no problem of congestion as the volume of consignments has been decreasing. Transaction cost in this LCS also includes the unofficial payments traders have to make all along the route to various organizations including our own security personnel. "Tax" on goods is highly variable depending upon your skills in negotiation. However, vehicles plying in this route have to pay a fixed amount every year. For instance, a van owner spends annually around Rs 40,000 for such expenses. Because of the low volume of trade waiting time at the LCS for export is not much. Due to disagreement between vehicle operators and the insurgent groups on the annual payment the road is closed several times in a year. Besides, this any agitation in the districts through which National Highway 39 passes, will invariably block this highway to put pressure on the authority.

The volume of trade would have been substantially higher, were it not for the long time taken to get a human consumption fitness certificate from Guwahati, the highly overvalued exchange rate of kyat, the absence of warehouse in the LCS. On the other hand, the market at Namphalong (Myanmar) across Gate no. 2 sells all sorts of goods supplying the chain of markets in Manipur specializing in foreign goods. Shoes, blankets, jeans, jackets, electronic items, steel products, fish, decorative pieces, crockery, cosmetics, mosquito nets etc are available in this market. All the products which make Moreh such a popular destination for shoppers in the NER originate in this market. Another distinctive characteristic of this market is its ability to redefine market demand and respond to changes. The trade centre set up in

Moreh is also not properly used.<sup>21</sup> Another trade centre has been taken over by Kuki refugees. The Kukis are the dominant tribal group in Moreh.

### 4.3 Concluding Remarks

With the adoption of Look East Policy (LEP) in the early 1990s, economic engagement between India and Myanmar has been steadily growing. This is particularly significant for India as Myanmar is the land-bridge that connects India to the dynamic economies of East and South-East Asia. With India entering into economic partnership agreements with almost all countries in this region, Myanmar has assumed added importance.

The change in India's policy towards Myanmar has paid rich dividends. Official trade between the two countries increased steadily over the past decade, despite the fact that the Border Trade Agreement of 1994 had put a cap on the number of items that could be traded through the local trade points. Myanmar has benefited from the two-way trade, as is evidenced by the large trade surplus that it has enjoyed. The NER has not benefited much from India-Myanmar trade - unlike NER-Bangladesh trade, the NER's trade with Myanmar has remained less than a% of India's total trade with Myanmar.

Border trade between the two countries has not progressed further since opening of Moreh LCS in 1995. India and Myanmar agreed to allow border trade in 22 commodities in the 1994 Agreement, which was expanded to 40 items in 2008, but this seems to have lost its relevance particularly since informal/illegal trade has proliferated. The low level of border trade at Moreh LCS can perhaps be attributed to the unfavourable trading environment and the lack of essential infrastructure and other facilities. These barriers to border trade at Moreh LCS will be discussed in detail in the next chapter and a strategy to overcome the low-level trap that India-Myanmar trade has fallen into will also be suggested.

#### Appendix 4.1: Myanmar's Top 10 Trade Partners

Export To	Volume	Share*
	(US\$ BILLION)	(%)
Thailand	2.549	43.084
India	1.087	18.366
China,P.R.: Mainland	0.587	9.919
Japan	0.309	5.231
Malaysia	0.131	2.219
Singapore	0.107	1.802
Germany	0.073	1.234
South Korea	0.071	1.204
Bangladesh	0.062	1.052
Vietnam	0.059	0.998
<b>Import From</b>	<b>Volume</b>	<b>Share**</b>

<sup>21</sup> The shop owners who were there during our visit told us that they had come specially for the visiting Planning Commission members and during the last 10 odd years not much business transactions had happened there.

	<b>(US\$ billion)</b>	<b>(%)</b>
China, P.R.: Mainland	2.507	35.396
Thailand	1.694	23.911
Singapore	0.979	13.819
South Korea	0.447	6.308
Malaysia	0.233	3.283
India	0.231	3.258
Japan	0.222	3.135
Indonesia	0.192	2.714
Germany	0.058	0.823
North Korea	0.052	0.740
Australia	0.051	0.726

Notes: \* Share in total exports. \*\*Share in total imports.

Source: IMF.

## Chapter 5

# Field Survey Results

This chapter presents the results of the primary surveys conducted at the Land Customs Stations (LCSs) situated on India's border with Bangladesh and Myanmar. The surveys were conducted among the traders engaged in border trade on the Indian side of the border. The findings of the primary survey will help us understating the nature of constraints that are acting as the barriers to trade between the NER and Bangladesh, and the NER and Myanmar. It will also help us in undertaking appropriate action to help facilitate the trade in the region.

### 5.1 The Survey

This field survey was conducted through a structured questionnaire developed by RIS in consultation with local partners. The survey was done by the research scholars of the National Institute of Technology (NIT) Silchar and Manipur University. Before the field survey, the proper training was also given to the surveyors.

**Table 5.1 Land Customs Stations Covered by the Survey**

State	LCS
Assam	1. Sutarkhandi 2. Karimganj Steamer Ghat / Karimganj Ferry Station (KSFS) 3. Mankachar
Meghalaya	1. Borsora 2. Dawki 3. Dalu 4. Baghmara
Manipur	1. Moreh
Tripura	1. Agartala

We have covered nine Land Customs Stations (LCS) in this study with a break-up of three in Assam, four in Meghalaya, and one each from Manipur and Tripura. Table 5.1 presents the list of LCSs surveyed in this study. Appendix 5.1 provides the questionnaire that was used in the field survey. Selection of LCSs was done based on the trends in trade volume and trade composition. Apparently, these 9 LCSs jointly cover more than 90 per cent of the NER's annual trade with Bangladesh and Myanmar in recent years.<sup>22</sup> Survey was done among 64 respondents, thereby making 7 respondents on average per LCS. Due to lack of trade and/or inaccessibility, we could not cover remaining LCSs in the NER.

While information on both trade and investment was collected through the survey, we report only the responses on trade here. Since responses on investment were not sufficient, we are, therefore, constrained not to report the survey findings on investment. As may be seen from

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<sup>22</sup> See the discussion in previous chapters.

the Annexure 5.1, we have emphasized more to find infrastructure barriers that prohibiting trade and investment to grow between the NE and Bangladesh and the NE and Myanmar. For the sake of simplicity, we present here only those findings supplementing the previous discussion. In this chapter, we provide aggregate information. However, surveyed information on specific LCS will be provided to the interested reader(s) with much greater details on request.<sup>23</sup>

## 5.2 Basic Profile of LCSs

Table 5.1 presents the basic profile of nine LCSs which were surveyed in this study.

- Among the nine LCSs surveyed, Agartala is closest LCS to the state capital, whereas Bagmara and Dalu in Meghalaya are located over 400 km. away from state capital. The LCS is located only 3 km away from the state capital.
- There are also wide variations in topography. Agartala is the most advantageous in terms of communication. It is easily accessible from the state capital. Agartala's internal and external communication links are relatively superior, compared to other LCSs in the NE.
- Due to locational advantages, administering Agartala LCS is relatively favourable and also easier than other LCSs in the NE. Working hours in most of the LCSs are 10.00 – 16.00 hrs everyday.
- Trade routes between the NE and bordering countries are overland except KSFS in Assam which shares river border with Zakiganj located in neighbouring Bangladesh.

**Table 5.2 Basic Profile of LCSs**

LCS	State	Bordering Country	LCS in Bordering Country	Trade Route	Working Hours	Distance from State Capital (km)*
Dawki	Meghalaya	Bangladesh	Tamabil	Dawki-Tamabil	10 am to 5 pm	82
Bagmara	Meghalaya	Bangladesh	Bijoypur	Bagmara-Bijoypur	10 am to 4 pm	480
Borsara	Meghalaya	Bangladesh	Borsara	Borsara-Borsara	10 am to 4 pm	182
Dalu	Meghalaya	Bangladesh	Nakugaon	Mankachar-Nakugaon	10 am to 4 pm	430
Mankachar	Assam	Bangladesh	Rowmari	Mankachar-Rowmari	10 am to 4 pm	274
Sutarkhandi	Assam	Bangladesh	Sheola	Sutarkandi-Sheola	6 am to 6 pm	338
KSFS	Assam	Bangladesh	Zakiganj	River Kushiara	6 am to 6 pm	324
Agartala	Tripura	Bangladesh	Akhaura	Agartala - Akhaura	9 am to 6 pm	3
Moreh	Manipur	Myanmar	Tamu	Moreh – Tamu	9 am to 5 pm	110

\*By road.

<sup>23</sup> For this matter, please contact the coordinator of this study at the Northeastern Economic Council (NEC), Shillong.

### 5.3 Traded Goods at LCSs

Table 5.3 presents goods traded at LCSs in the NER. The list presents goods traded both formally and informally.<sup>24</sup> India's border trade with Bangladesh and Myanmar have unique characteristics which are enumerated below.

#### India-Bangladesh Border Trade

- The LCSs in Meghalaya handle export of minerals to Bangladesh, of which coal and limestone are major export items. Dalu and Dawki LCSs also handle import cargoes such as food items, cement etc. coming from Bangladesh.
- Unlike Meghalaya, LCSs in Assam handle both export and import to and from Bangladesh, showing wide trade varieties. Among 3 LCSs we surveyed in Assam, Sutarkandi is the largest LCS. It handles minerals, processed foods and agriculture goods, showing relatively higher trade complementarities.

**Table 5.3 LCS-wise Traded Goods in 2010**

LCS	State	Border with	Goods Exported	Goods Imported
Dawki	Meghalaya	Bangladesh	Coal Limestone/ Quicklime Quartz stone Boulders Oranges Raw hide	Food items Fireclay bricks
Bagmara	Meghalaya	Bangladesh	Coal	
Borsara	Meghalaya	Bangladesh	Coal	
Dalu	Meghalaya	Bangladesh	Coal	Cement Pan product
Mankachar	Assam	Bangladesh	Coal Limestone	Books Religious books Melamine
Sutarkhandi	Assam	Bangladesh	Coal Lime Frutis, incl orange Cotton Vegetable Furniture RHGS Ginger Onion Citrus fruits Vegetables Lime Fresh fruits Machineries Orange Lime Dry chilli Turmeric Hilsa fish Green chilli	Food products Soft drinks Orange Mosquito net Citrus fruits Furniture Glass Plastic furniture Sarees Synthetic fruit drinks

Cont...

<sup>24</sup> The usual disclaimer is this may not necessarily match with the officially published record.

LCS	State	Border with	Goods Exported	Goods Imported
KSFS	Assam	Bangladesh	Bamboo Soya food RHGS Cotton Radish Umbrella Coal Fruits / Citrus fruits Dry chilli Orange Rice Poultry feed	Aromatic water Bakery products Beverage Cement Cotton Cracker Dry fish Furniture Food items Fried vegetables Fruit (mango & orange) Drinks Furniture Glass sheets, Hilsa fish Juice product Maggi cup Manufactured goods Mosquito net Nuts Orange juice Potato "Pran" products RHGS Shampoo Soap Synthetic food tem Synthetic fruit drinks Tissue paper Vanaspati Vegetable, Wafer Washing powder
Agartala	Tripura	Bangladesh	Raw hides Beverage Broken Stone Dry fish Ginger Plastic articles Playing cards Potato Skin Textile Wall clock	Animal feed Beverage Broken or crushed stone Cement Ceramic tiles Cosmetics & toilet products Cotton waste Dry fish Edible oil Fish Food items Furniture Jute rope Molasses Plastic articles Resins Textile goods

Cont...



LCS	State	Border with	Goods Exported	Goods Imported
Moreh	Manipur	Myanmar	Fertiliser Sugar Life saving drugs Agarbati Bicycle spares Leather products X-ray and photo paper Paints & varnish Cotton fabrics Handloom textiles  Stainless steel Blades Salt Cosmetics Spices Menthol Bicycle Motor cycle Redwood Mosquito coil Soyabari Electric coil Bitumen Wheat flour Machinery Steel Bleaching powder	Precious stones Dry ginger Reed broom Pulses Resin Betel nut Bean Rice Turmeric Timber Sunflower Red Kidney Bean Teakwood Rapeseed Fresh vegetables Fruits Tobacco Sesame Soyabean Katha Pearls Kuth root Onion Spice Garlic Chilly Coconut Mosquito coils Gram Electric equipment Garments Furniture Candle Electronic equipments Blanket Imitation jewellery Petrol Fish

- Trade at Agartala is one-sided; import is more than export. Import from Bangladesh through Agartala varies from agriculture and food items to cement and plastic to textile and clothing. The trade at Agartala LCS is growing heavily due mainly to growing local demand in both side of the border.

## India-Myanmar Border Trade at Moreh

- Unlike Assam, Tripura and Meghalaya, border trade at Moreh is in the nature of transit trade. Moreh LCS handles both export and import cargoes. However, the volume of trade handled by the LCS is miniscule as compared to the informal/illegal trade that takes place through the local trade point, better known as “Gate No. 2”. The latter has no customs officials; only a few security personnel were found to be manning the gates. The survey team found that the “no man’s land” was only a narrow strip between the two gates, which was also being used by the traders (chairs were laid out and were obviously being used).
- Trade taking place through “Gate No. 2” includes the items indicated in the above table. Imports consist of precious stones, agricultural commodities including beans, vegetables and fruits, besides electronic equipment. Quite clearly, the goods that are traded through the informal/illegal channels are well beyond the 40 items that have been included in the Border Trade agreement between India and Myanmar. Most of the products coming through Moreh are not of Burmese origin - they are produced in China and elsewhere.
- Trade through “Gate No. 2” is heavily skewed against India. Traders on the Indian side of the border report that the infrastructure facilities are well developed on the other side of the border at Namphalong (Tamu). About 700-800 well stocked shops form the basis for imports from Myanmar. The situation across the border in Moreh is in sharp contrast – there are less than 100 shops. There is clearly no momentum in India’s exports to Myanmar. Traders informed the survey team that there is a market for Indian products in Myanmar, some of which are currently being supplied at sub-optimal levels. The survey team saw evidence of the demand for Indian products during a brief trip to Namphalong, the shopping district closest to the border near Tamu. Products include tea, confectionery products, cosmetics, tyres utensils, fruit juices and processed food products. The team also found that the Indian products are in serious competition with the Chinese products on the display shelf. However, trade expansion from India has often suffered because of supply-side bottlenecks, not the least because of the frequent blockades and bandhs in Manipur. What seems to be a particular problem is that often the target of these blockages/bandhs is NH 39, the life-line for Moreh’s connectivity with India.
- Trade through the latter channel takes place through head-loads. Consequently, there are no official accounts kept on the volume/value of trade coming through “Gate No. 2”. Trade seems to be flourishing since there are no explicit checks at the border by the governments on either side. The magnitude of trade taking place is phenomenal. Traders informed the survey team that the daily imports are anything between Rs. 3-4 crore. As is usually the case, any estimate of this kind are likely to be underestimates of the actual level of trade taking place. This is borne out from the evidence presented by earlier studies which have estimated that the value of informal border trade transacted through Moreh is estimated at about Rs. 2000 crore a year<sup>25</sup>. Thus, even if the number provided by the traders is considered, annual trade taking place through “Gate No. 2” is between Rs. 1100 and Rs 1450 crore. And, this trade balance is hugely against India given the

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<sup>25</sup> Government of Manipur (2009), “Draft Manipur State Development Report”, Planning Department, Chapter XI, p. 164.

large quantities of Chinese (and some Thai) products being imported. These estimates should be compared with the official figures to understand the significance of informal/illegal trade taking place through Moreh. Officially, the two-way trade between India and Myanmar was 2009-10 were about Rs. 7000 crore, of which India's imports from Myanmar were about Rs. 6100 crores. More importantly, imports to India through the LCS in Moreh were a mere Rs. 16 crore during the same period. The numbers for informal/illegal trade clearly suggest that these trade and related activities are sustaining the economy of the region.

- Barter trade is a common practice among traders engaged in informal/illegal trade. Where currency is used, the mode of payment is Indian rupees. This is to be expected since there is no official exchange rate between the rupee and the kyat, and India has the stronger currency. It would appear that the exchange rate parity is another factor that is proving to be an impediment to legal trade through the LCS. Based on the prevailing dollar exchange rate, the cross-rate between the rupee and the kyat gives the following figure: 1 Re = 0.14 kyat. In the informal currency market, traders mutually decide on the exchange rate on a daily basis. The survey team found that the informal Re/kyat exchange rate can vary: 1 Re = 25-30 kyat. In other words, the cross-rate can be as high as 210 times the informal exchange rate.
- United Bank of India (UBI) and the Myanmar Economic Bank have entered into MoUs for opening LCs. At present, settlement can be made in two currencies, viz. Singapore dollars and Euros. UBI has set up a branch not far from the LCS at Moreh. The survey team found that not even one LC has been opened so far. The traders seemed to be unaware of how the LCs could be used. However, given the vexatious problem relating to the official exchange rate between the rupee and the kyat, the lack of interest in the LCs stands is not entirely unexpected. There is, therefore, less and less incentives for formal trade at Moreh.
- One of the anomalies that have come to notice is that the UBI branch at Moreh is acting as a deposit branch. There have been reports of huge deposits being made every day (sometimes up to Rs. 1 crore) and these deposits are transmitted electronically to Delhi and Mumbai. This phenomenon strikes as abnormal given the fact that it is the Myanmarese traders who should be holding on to the Indian rupees given the substantial trade surplus that they enjoy. The cash deposits taking place in the UBI are therefore a puzzle that needs to be understood. Further, investigation needs to be conducted as to whether it is the Indian traders that have established extensive links with their Chinese and Thai counter parts and it is these traders who are mainly responsible for the imports that are taking place through "Gate No. 2".
- The traders pointed out that the security personnel and the insurgent groups played an overriding role in undermining their activities. The two forces were often working in sync and the extortion money that they had to pay was very large as a result. Traders pointed out that the Assam Rifles and the 57 Mountain Division had set up seven check points between Moreh and Imphal on NH 39 and their consignments are checked at each of these checkpoints and extortion money is recovered. Besides cash losses, the traders complained of inordinate delays in getting past these checkpoints – in some instances the delays caused may even exceed a day.

## 5.4 Infrastructure at LCSs

Infrastructure status at LCSs is presented in Table 5.4. We consider only those infrastructure facilities which are “on border”. Following observations are worth noting:

- Except Borsara in Meghalaya, electricity is available in the rest of LCSs. However, the quality of electricity varies across LCSs. Most of the LCSs face frequent power-cut all through the day.
- Telephone facility (landline) is also not available in many LCSs. Except Dawki, none of the LCSs in Meghalaya is having telephone facility. Internet is also not available, except perhaps Agartala.
- Absence of good quality electricity de-motivated Customs to use EDI facility. Virtually, EDI facility is completely missing in LCSs in the NER. Therefore, trade is being handled manually.
- Facilities like weighbridge, warehouse, cold storage, etc. which are essential for trade are not available except Sutarkandi in Assam and Agartala in Tripura (only weighbridge).
- There are wide gaps in availability of supporting facilities health centre, rest room, hotels and restaurants, etc. across LCSs. For KSFS, LCS is having drivers rest room, others do not have. Agartala LCS has health centre, whereas other LCSs do not have. Hotels and restaurants are not available.
- Except KSFS, none is having separate entry and exit gates for export and import of goods.
- Availability of banks and testing laboratories are necessary for trade at border. While banks are available at some LCSs such as Moreh, KSFS, Sutarkandi, and Dawki, but none is having food testing laboratory at border.



**Table 5.5 Major Deficits at LCSs: Views of Respondents**

LCS	Improvement/ provision of facilities
Dawki	Better road connectivity Provision of vehicle scanner
Bagmara	Financial facilities Road improvement Provision of basic infrastructure
Borsara	Road condition should be improved
Dalu	Road connectivity with Nangol and other coal mine places should be improved Warehouse facilities should be provided
Mankachar	Bridge between Mankachar and Rowmari Improvement of road
KSFS	Establishing building departmental office complex Need warehouse Weighbridge is required Dumping ground facility is needed Acquiring wasted land on the banks of river Kushiara for establishing warehouse dumping sheds which has been under unauthorised possession.
Agartala	Vehicle scanner is required Health office/ quarantine is needed Electric generator is required Door frame detector is needed
Moreh	Infrastructure inadequate Animal / plant quarantine facilities not available Weighbridge non-functional

- The respondents have suggested improvement of facilities at LCSs which are mostly related to improvement of infrastructure (Table 5.5). Requirement of Agaratala LCS is basically related to security at border, whereas some LCSs need improvement of “behind the border” infrastructure such as improvement of connecting road (Dawki, Bagmara, Borsara, Dalu).

**Table 5.6 Problems with Security, Banking and Standard / Testing Organisations:  
Respondents Opinion**

LCS	Problem with border security agencies	Problems with Standard or testing	Problems with bank
Dawki	None reported	None reported	None reported
Bagmara	BSF asks for money	None reported	None reported
Borsara	Sometimes , not specified	None reported	Problems present but not specified
Dalu	None reported	None reported	Problems present but not specified
Mankachar	BSF asks for money and also lack of knowledge on the part of BSF	None reported	Takes a lot of time
Sutarkhandi	BSF asks for money	Testing lab is situated far away from the LCS. So it takes time a lot of time	Not reported
KSFS	BSF asks for money	Lab is far away from the LCS	Not reported
Agartala	Security agencies on both sides of the border demand bribe for smooth movement of goods.	Testing is a big problem as the results take lot of time	Inefficient leading to delays in payment
Moreh	Assam Rifles and 57 Mountain Division seek extortion money	No testing laboratory	Bank exists but the trade-related operations are non-functional

- Respondents have suggested improvement security and banking relations at LCSs (Table 5.6). Testing laboratory is very important as it helps remove NTBs. Unfortunately, none of the LCSs is having testing laboratory at border resulting in delay and corrupt practices.

## 5.5 Transaction Costs

Due to absence of good quality infrastructure, transaction costs at LCSs are very high, and also showing variations.<sup>26</sup> It considers loading / unloading fees at border, parking fees at border, speed money, and clearing agent's fees.

<sup>26</sup> These are provisional estimations.

**Figure 5.1: Transaction Costs at LCSs: 2010**

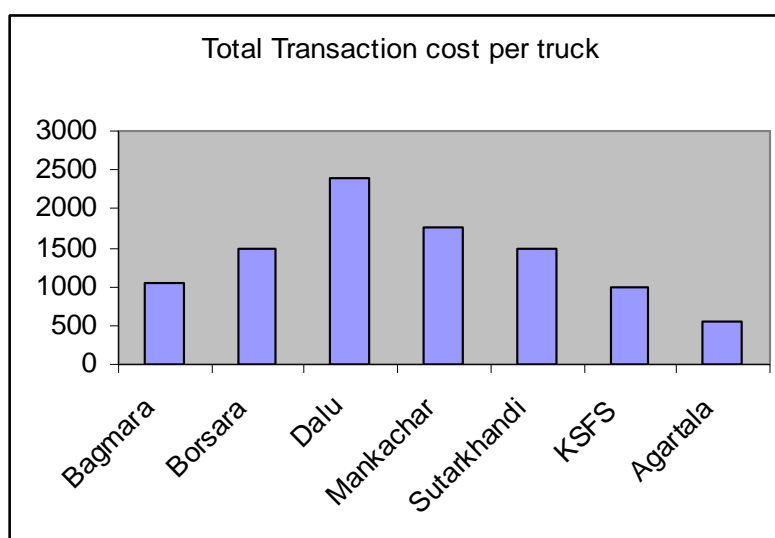


Figure 5.1 presents the estimated transaction costs for selected LCSs. Transaction cost at Agartala LCS is about Rs. 500 per truck whereas it is about Rs. 2500 in Dalu LCS. Mankachar, Sutarkandi and Borsara come next. Unlike Petrapole LCS in West Bengal, transaction time at LCSs in the NER is not very high due mainly to low traffic. Congestion at border is not a problem in the NER. At present, the field survey data indicates that it takes about 8-10 hours to clear goods at the border, which also varies across the LCSs.

## **5.6 Concluding Remarks**

The field survey conducted across nine LCSs in the NER clearly shows the LCSs suffer from tremendous 'infrastructure deficit'. Unavailability of electricity, bad road, manual handling of goods, unfriendly exchange rate and many such barriers are making the trade at border a costly affair. Undoubtedly, these are the barriers which are prohibiting the official trade to grow at the NER. As a result, unofficial (informal) trade is very much rampant. Although congestion at border is not a problem in the NER, unfriendly trading environment is making the trade expensive. The field survey shows transaction costs at LCSs are very high, which vary between Rs. 2500 to Rs. 500. The high transaction cost at border can be mitigated through implementation of trade facilitation measures and policies, perhaps with a special focus on the NER.

Our assessment is that trade creation can take place only if measures are taken, in particular to improve the quality of infrastructure at border, connectivity to the rest of state and the region and improvements in the supply capacities from the Indian side. Informal/illegal trade is a feature of border trade taking place with both neighbours. This trade is taking place through well-established trade points that have historically been used by the people of the region. The informal/illegal trade taking place through Moreh-Tamu is thriving on the back of the supplies being provided by both China and Thailand. As a result, trade comprises of products that are well beyond the 40 items that have been identified by India and Myanmar as a part of their Border Trade Agreement of 1994, as amended in 2008. The magnitude of informal/illegal trade taking place on Moreh-Tamu border may prompt the authorities to put regulations to check the growth of this trade. In this context, our assessment is that since the



trade point existing in Moreh symbolises the historical links that existed between the people living in the border areas, it would make little economic sense to impose barriers. Rather, the efforts must be made to ensure that not only is this trade recognised, so as to get it included in the formal statistics, the available infrastructure and connectivity must be improved to enable greater trade flows to take place.

Trade flows can be improved by adopting two sets of strategies for Bangladesh and Myanmar. India-Bangladesh trade can be increased manifold through production networks, provided appropriate investments are made on two sides of the border on activities that give rise to trade complementarities. For instance, the NER, which is a hub of fresh fruits and vegetables, can act as a source of raw materials for the upcoming food processing sector in Bangladesh. Furthermore, Indian entrepreneurs and technologists can help strengthen the food processing sector by extending the development of this sector. And, finally, this investment should take up primarily in the SME sector.

Yet another sector that can be considered in this regard is the textiles and clothing sector. The NER has traditionally been a treasure trove of handloom and niche fabrics like the “Assam muga”. Although the uniqueness of “Assam muga” has been recognised through the grant of “geographical indication”, the artisans have remained in the poverty trap because of inadequate demand for their product. Linking the “Assam muga” producers to the clothing industry would provide a definite boost to these producers.

While the above examples were intended to highlight the potential for vertical integration that exists between the NER and Bangladesh, the strategic imperative of promoting these activities cannot be overlooked. As mentioned above, promotion of such activities would lead to strong trade complementarities, thus promoting trade between the two countries. Thus, India’s exports of raw materials can be matched by its imports of processed products from Bangladesh. This pattern of trade will enable Bangladesh to export higher value added products and can thus help reduce its large trade imbalance with India.

In case of border trade with Myanmar, efforts would have to be made by both Government of Manipur and the Government of India to address the supply-bottlenecks that have caused a huge trade imbalance against India in the trade taking place through “Gate No. 2”. As indicated in the discussion above, there is evidence of demand for Indian products in Myanmar and therefore it is important to widen the market for these products. While the market for traditional products is well recognised, it is important that non-traditional products are identified for possible export to Myanmar.

The Government of Manipur has been arguing that industrialization must precede the opening up of trade.<sup>27</sup> The Government has argued that local industry like agro-processing, horticulture, textiles, etc. must be encouraged through the employment-led expansion of the regional market, which can result in substitution of imported product with local produce while at the same time servicing external demand. It has further been pointed out that there is ample scope for the development of manufacturing/processing units for medicines, rubber goods, cycles and cycle parts, pharmaceuticals, edible oils, petroleum products, cement, cotton yarns, etc.

We would argue that a well-honed strategy, which has a medium-term perspective, needs to be put in place. This strategy should be developed in the context of the closer economic integration that India is seeking with its immediate neighbourhood, the ASEAN region.

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<sup>27</sup> Government of Manipur (2009), “Draft Manipur State Development Report”, Planning Department, Chapter XI, p. 165.

While the infrastructure needs have been given serious attention, including the discussions on the Asia Highway Project that would go through Moreh, the stakeholders seem to be some distance away from putting in place plans that would help in exploiting the markets in the South East Asia. From India's point of view, the lack of initiative on this score seems particularly stark given that the country had signed the India-ASEAN Free Trade Agreement almost a year and a half ago, and that the first phase of implementation of this FTA has already been gone through since the FTA became operational in January 2010.

**Appendix 5.1**

**EXPANSION OF NORTH EAST INDIA'S TRADE AND INVESTMENT WITH BANGLADESH AND MYANMAR: AN ASSESSMENT OF THE OPPORTUNITIES AND CONSTRAINTS**

**QUESTIONNAIRE**

**Sr. No.**

**Border:** India-Bangladesh / India-Myanmar

**1. Identification of the LCS**

- 1.1. Name of the LCS: \_\_\_\_\_ (India)
- 1.2. Name of the other side of the LCS: \_\_\_\_\_ (Bangladesh)  
 \_\_\_\_\_ (Myanmar)
- 1.3. Name of the organization: \_\_\_\_\_
- 1.4. Address of the organization:  
 \_\_\_\_\_  
 \_\_\_\_\_  
 Telephone: \_\_\_\_\_ Fax: \_\_\_\_\_  
 Mobile: \_\_\_\_\_ Email: \_\_\_\_\_  
 Website (if any): \_\_\_\_\_
- 1.5. Name of the respondent: Mr/Ms/Mrs \_\_\_\_\_
- 1.6. Designation of the respondent: \_\_\_\_\_
- 1.7. Name of the enumerator: Mr/Ms/Mrs \_\_\_\_\_
- 1.8. Date of survey: \_\_\_\_\_

***For office use only:***

- Cooperation of respondent: Good/Moderate/Poor
- Reliability of information: High/Moderate/Poor/Very Poor
- Report collected: Yes/No. If yes, describe it \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date: \_\_\_\_\_

If sent back for verification/correction:

Verification done: Yes/No. If yes, date of verification: \_\_\_\_\_

Verified by: \_\_\_\_\_ Date: \_\_\_\_\_

**2: General Information**

Type of business	<ul style="list-style-type: none"> <li>• Exporter</li> <li>• Importer</li> <li>• Both Exporter and Importer</li> <li>• Others (please specify _____)</li> </ul>
Managing international trade	<ul style="list-style-type: none"> <li>• Goods</li> <li>• Passengers</li> <li>• Both goods and passengers</li> </ul>
State:	LCS: _____ Trade Route: _____

No of years in the business	Export:	Import:
Registration Number	Export:	Import:
No of consignments (2007-2010)	Export 2007: 2008: 2009: 2010*:	Import 2007: 2008: 2009: 2010*:
Top five traded products (2007 – 2010)	Export 1 2 3 4 5	Import 1 2 3 4 5
Total trade handled at this LCS (2007 – 2010) (specify the unit:_____)	Export 2007: 2008: 2009: 2010*:	Import 2007: 2008: 2009: 2010*:

\*January – July 2010

Name and address of the Chamber of Commerce / Industry Association in which you / your organization are a member	
Name of Bank and branch through which transactions are processed	
Working hours of the LCS	<ul style="list-style-type: none"> <li>• India side:</li> <li>• Other side (Bangladesh / Myanmar):</li> </ul>
No of government officials managing the LCS (as on July 2010)	
Road distance of the LCS from state capital (in km)	
No of all-weather road access (routes) between state capital and LCS	

### 3: Pattern of Trade

#### 3.1 Export through the LCS [add additional sheet if needed]

Year 2010 (January – July)	Name of goods	Quantity (unit: _____)	Value (unit: _____)

Year: 2009	Name of goods	Quantity (unit: _____)	Value (unit: _____)
Year: 2008	Name of goods	Quantity (unit: _____)	Value (unit: _____)
Year: 2007	Name of goods	Quantity (unit: _____)	Value (unit: _____)

**3.2 Import through the LCS [add additional sheet if needed]**

Year 2010 (January – July)	Name of goods	Quantity (unit: _____)	Value (unit: _____)
Year: 2009	Name of goods	Quantity (unit: _____)	Value (unit: _____)

Year: 2008	Name of goods	Quantity (unit: _____)	Value (unit: _____)
Year: 2007	Name of goods	Quantity (unit: _____)	Value (unit: _____)

**3.3 What are the other goods you think exporters from your state can export to Bangladesh / Myanmar? Please specify.**

**3.4 What are the other goods that importers of your state can import from Bangladesh / Myanmar? Please specify:**

**3.5 Please specify the origin of the goods that you are exporting to the partner country (Bangladesh / Myanmar / Other)**

**3.6 Please specify the origin of the goods that you are importing from the partner country (Bangladesh / Myanmar / Other)**

**3.7 Please specify the informal trade (including smuggling of goods) at this LCS.**

Export			
Year	Product	Trade value (specify unit: _____)	Destination country(s)
2007			
2008			

2009			
2010*			

\*January – July 2010

<b>Import</b>			
Year	Product	Trade value (specify unit:_____)	Origina country(s)
2007			
2008			
2009			
2010*			

\*January – July 2010

**3.8 Please specify the trade at this LCS if conducted through barter system**

<b>Export</b>			
Year	Product	Trade value (specify unit:_____)	Destination country(s)
2007			
2008			
2009			
2010*			

\*January – July 2010

<b>Import</b>			
Year	Product	Trade value (specify unit:_____)	Origina country(s)
2007			
2008			
2009			

2010*			
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\*January – July 2010

**4. Barriers to Trade**

**4.1 What kind of constraints do you face in connection with your export/import through LCS? (please add separate page if needed)**

Infrastructure		Non-infrastructure		Others (please specify)	
Export	Import	Export	Import	Export	Import

**4.2 Is there any problem with Customs classification? If yes, please specify.**

**4.3 Is there any problem in obtaining Rules of Origin (RoO) Certificate? If yes, please specify.**

**4.4 Do you face any problem in clearing consignments at Customs? If yes, please specify.**

**4.5 Do you face any problem with border security agencies? If yes, please specify.**

**4.6 Do you face any problem with standards and testing? If yes, please specify.**

**4.7 Do you face any problem with business mobility? If yes, please specify.**

**4.8 Do you face any problem with banks in transacting business? If yes, please specify.**



**4.9 Does currency exchange rate pose any problem in conducting cross-border trade with Bangladesh / Myanmar? If yes, please specify.**

**4.10 What is the mode you follow for dispute settlement, if any, with the exporters/importers from Bangladesh/Myanmar?**

**4.11 Do you face any problem of unauthorized payment to any organization? If yes, please specify.**

**4.12 What are the documents required for export/import through this border? Use additional sheets, if required.**

Export documents	Import documents

**4.13 Is export/import duty structure trade promoting? If not, please specify**

**4.14 Is Electronic Data Interchange (EDI) (for example ICEGATE) working at this border? If yes, please answer the following:**

- (a) Year of introduction of EDI: \_\_\_\_\_
- (b) Category of users: \_\_\_\_\_
- (c) No. of trade declarations used through EDI per shipment: \_\_\_\_\_

**4.15 Is trade handled during night-time? Yes/No**

- (a) If yes, what is the operation time? \_\_\_\_\_
- (b) If no, what are the reasons for not having a night-time operation?

**4.16 Does this border have a cargo warehouse? Yes/No. If yes, complete the following:**

Size (specify unit)	Capacity	Working time	Facilities	Is it e-enabled? Yes/No

**4.17 What are the deficits of this border? Please arrange them serially. Add additional sheets if required.**

Facilities	Yes/No	Facilities	Yes/No	Facilities	Yes/No



**4.18 What is the time (monthly average) taken for cargo clearance at this LCS?**

Year	Parking time (days) for export per truck/container	Customs time (days) for export per truck/container	Loading/unloading time (days) for export/import per truck/container
2005			
2006			
2007			
2008			
2009			
2010*			

\*Take monthly average of January – August 2010

**4.19 What are the transaction costs (monthly average) at this LCS? (specify unit \_\_\_\_\_) (US\$/tonne)**

Year	Loading/unloading	Parking fees	Speed money	Clearing agent's fees
2005				
2006				
2007				
2008				
2009				
2010*				

\*Take monthly average of January – August 2010

**4.20 What are the modes of transport currently used for cross-border trade? What are the limitations of the existing transport system?**

**4.21 Are there any alternative routes for conducting the business? If yes, specify.**

**4.22 Do you face any problem with parking at the LCS? If yes, specify**

**4.23 Do you face any problem with loading and unloading at the LCS? If yes, please specify.**

**4.24 Do you face any problem with dumping ground at the LCS? If yes, please specify.**

**4.25 Do you face any problem with warehousing and storage at the LCS? If yes, please specify.**

**4.26 Do you face any problem of congestion at the LCS? If yes, please specify.**

**4.27 Whether the LCS has the following facilities?**

<b>Facility</b>	<b>Available (Y)</b>	<b>Not available (N)</b>
Electricity		
Availability of electricity per day (good/bad)		
Telephone		
Internet		
EDI (Icegate)		
Weighbridge		
Warehouse		
Cold storage		

Parking place		
Transshipment platform / Transit sheds		
Dumping sheds		
Secretarial assistance (fax, photocopy etc.)		
Drinking water		
Drivers' rest room		
Passengers rest room		
Health centre		
Hotels and restaurants		
Separate entry and exit gates		
Banks		
Courier / Post Office		
Servicing centre / Vehicle repair shops		

**4.28 What improvement in infrastructure would promote border trade? Please specify:**

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.
- 10.

#### 5. Cross-border Investment Opportunities

**5.1 Do you think there is scope for investment in Bangladesh/Myanmar from North Eastern India? If yes, please specify it.**

Sectors	Industries	Type

**5.2 Are you aware of the investment regulatory framework in Bangladesh/Myanmar? If yes, please specify if there is any inadequacy in the framework.**

**5.3 What type of risks that Indian investment may face in Bangladesh/Myanmar? If yes, please specify the risk factors.**

Business	Political

**5.4 Do the financial organizations in India lend fund for investment in Bangladesh/Myanmar?**

**5.5 Do you find any problem in getting institutional credit for your business? If yes, please specify.**

**5.6 If Indian firms invest in Bangladesh/Myanmar on 'buy back' format, will the import be made duty free?**

**5.7 Have you made any investment in Bangladesh/Myanmar? If yes, please specify the area.**

**5.8 Are there any other investors from your state who have invested in Bangladesh/ Myanmar? If yes, how many? Specify their areas.**

**5.9 Is there any investment in your state from Bangladesh/Myanmar? If yes, specify the details.**

**5.10 Are you aware of the investment regulatory framework of your state? Does it allow investors from Bangladesh/Myanmar?**

**5.11 Does exchange rate pose any problem in conducting cross-border trade with Bangladesh / Myanmar? If yes, please specify.**

**5.12 What is the currency used for transaction? Is there any difference between official and unofficial exchange rates? If yes, how do businesses sort out this difference?**

**5.13 What are the barriers you think prohibiting investment flows between Indian Northeastern States and Bangladesh / Myanmar? Please mark them serially.**

- 1.
- 2.
- 3.
- 4.

5.

**5.14 What would promote cross-border investment flows between Indian Northeastern States and Bangladesh / Myanmar? Please specify.**

1.

2.

3.

4.

5.

## *Chapter 6*

# **Policy Recommendations and the Way Forward**

The North East Region (NER) is critically located for it holds the key to India's economic integration efforts with its neighbours in South and South East Asia. The importance of the region is greatly enhanced since it provides a critical link for the Asian Highway Project that will connect Asia with Europe.

History suggests that the connectivity between countries had taken place on the back of strong and sustainable economic links. Thus, the road and rail networks that have developed in most regions of the world are in the nature of economic corridors that have joined the major centres of trade and commerce. India's connectivity with its eastern neighbours has been no exception. While with Bangladesh, the connectivity with the other parts of India had developed when the region was a part of undivided India, Myanmar had long been an extended part of the Indian Union prior to the 1940s. With the re-defining of regional politics more than 60 years ago, the political lines were drawn more sharply, but this did not result in the severing of the economic links between the peoples living on the borders. Imperatives of the local economy together with the strong ethnic links between the peoples on the two sides of the political boundaries have helped maintain the trade links through the local trade points, although it must be argued that these boundaries have thwarted the natural growth of trade and commerce. But, with the new found emphasis on regional integration, alongside improvement of bilateral relations in recent years, possibilities of developing the economic ties are now being explored. A logical starting point for such an exercise involving the neighbouring countries, with whom India shares common land frontiers, is to study the dynamics of trade taking place through the local trade points. Over the years, both the Government of India and the Governments of the State where these trade points exist, have realised the importance of these trade points and have set up Land Customs Stations (LCSs) with the objective of bringing the informal/illegal trade taking place onto the formal channels. An elaborate plan has now been drawn up to convert a number of these LCSs into Integrated Check Posts (ICPs), which would provide better facilities to the traders.

The present study is an attempt to provide inputs to the Government of India as it undertakes the task of strengthening the border trade taking place on India's borders with Bangladesh and Myanmar. The study seeks to provide a better understanding of the dynamics of India's border trade with its neighbours and to suggest ways in which this trade can be strengthened. This was done by looking at the functioning of several LCSs situated at the India-Bangladesh and India-Myanmar borders.

The recommendations of this study are presented in four parts. The first relates to the policy measures that are needed to provide impetus to border trade. The second would cover the infrastructure and trade facilitation measures that must be taken to provide added incentives to the traders. The third relates to the payments arrangements, without which trade will always face impediments. And, finally, suggestions would be made as to how the supply-side issues can be addressed, keeping in view a medium term perspective.



## **I. Policy Measures**

3. Development of “border haats”, alongside upgrading the LCSs into ICPs, would provide tremendous boost to border trade. While steps have already been taken to open border on the India-Bangladesh border, similar initiatives can also be taken on the India-Myanmar border.
4. The Border Trade Agreement between India and Myanmar needs to be revisited with a view to substantially increase the list of products in which barter trade is allowed at present. The list of 40 items has lost its relevance while the normal or regular trade has gained the popularity over time. With almost all possible tradable items being traded through Moreh, the most important trade point on the India-Myanmar border, artificial barriers like the ones imposed through the Border Trade Agreement would only result in the development of a parallel economy. Government may, therefore, allow normal trade to take place in accordance with the Foreign Trade Policy.

## **II. Infrastructural bottlenecks**

5. Essential infrastructure necessary to promote border trade is lacking in all the LCSs that were covered by the study. Road connectivity needs to be improved. The National Highways and the State Highways linking the LCSs with the rest of the country should be upgraded. Upgradation of the road infrastructure will help in improving the supplies of goods from the rest of the region and would help in reducing the large trade imbalances that India faces exist at some of the trade points, in particular at Moreh. This study has pointed out that there is a demand for Indian products in Myanmar, and possibly beyond, which can be satisfied if critical connectivity with the rest of the country is put in place. Local enterprise will also receive an additional incentive to go beyond the borders if the problems in land connectivity are addressed.
6. Although the LCSs have been set up in most of the border trade points that were included in the study, facilities available at these LCSs are not conducive to conducting high volumes of trade. Communication systems are in a state of disrepair in most of the border trade points. In some cases, like Moreh, where communication systems are in place, the service is highly erratic. Most of the other infrastructural facilities are either non-functional or are unavailable. These include weighbridges, warehouses and dumping sheds.
7. Since food items account for a significant proportion of trade taking place through the border trade points, specific infrastructural needs of these products would have to be addressed. Animal and plant testing and quarantine facilities, conforming to international standards, need to be put in place near the LCSs to prevent spread of undesirable pests and pathogens. Since a significant proportion of the traded products are in the nature of perishables, establishment of cold storages would go a long way not only in fetching better value for the products that are currently being traded, there would be an additional incentive for pushing up trade in these products.
8. Upgrading of the infrastructure should be done with a view to improving the efficiency of the customs authorities so that the lead time for clearances is reduced to the bare minimum. Appropriate trade facilitation measures would have to be taken to reduce the transactions cost. It may be mentioned in this context that the use of information technology (IT) and information technology enabled services (ITES) has

provided fillip to trade facilitation in many countries and these experiences need to be replicated in India to facilitate border trade.

### **III. Payments Arrangements**

13. Payments arrangements remain the most serious hindrance in promoting border trade through the formal channels. This is particularly true of India-Myanmar trade where the absence of a realistic exchange rate that can be used for official purposes has prevented the formal trade at the border from taking roots. It was indicated that the cross rate between rupee and kyat is 210 times higher than the rate that is being used in the grey market through which the informal/illegal trade is taking place. The rupee has come to be accepted as the currency for conducting India-Myanmar trade at the border. It is, therefore, strongly recommended that two Governments agree to the conduct of border trade in Indian rupees. This could be the first step towards introducing rupee trade to conduct the entire India-Myanmar trade.
14. Once the payments arrangements are sorted out, the banking systems in the two countries, led by the UBI and the Myanmar Economic Bank, should be so developed as to respond to the requirements of the traders. The lack of interest on the part of the in using Letters of Credit (LCs) is likely to hamper the development of trade through formal channels. It has to be recognised that even in the best of situations, LCs are difficult for the small traders to handle and, therefore, concerted efforts would have to be taken to ensure that this instrument is put to use. It may be suggested that the traders associations involved in border trade together with export promotion councils, like the SHEFEXIL, and the banks undertake a series of programmes to popularise the use of LCs.

### **IV. Addressing the Supply-side Bottlenecks**

6. While many of the measures suggested in the foregoing would lead to the removal of supply-side bottlenecks on the Indian side of the border, there is a need to take a medium-term perspective to address the supply-side issues so as to make effective use of the border trade points. For so doing, the Government of India, along with the concerned State Government, would have to devise an elaborate plan that links the development of certain sectors in the NER with the trade channels provided by the border trade points.
7. The NER has long been the hub of niche products in the handicrafts and handloom, much of which is in the state of decline for want of effective government intervention. As their budgetary position has deteriorated, the State Governments have lowered the level of support that was once given to the artisans. It is suggested that these activities need to be revived with Central assistance through a well coordinated programme to promote the artisans. This programme could be modelled on the One Village One Product movement that was initiated in Japan in the late 1970s, which promoted one competitive and staple product from a village to improve the living standards of the population. More recently, Thailand developed the One Tambon One Product (OTOP) programme to encourage village communities to improve the quality and marketing of the locally made products, including handicrafts, cotton and silk garments, pottery, fashion accessories, household items, and foods. The OTOP programme, which is

more relevant for the NER, selected one superior product from each tambon (sub-district), granted it a brand (“starred OTOP product”), and provided local and international stage for the promotion of these products. Besides promoting the products, the OTOP Programme (renamed as the “Local and Community Products”, even though the “OTOP” brand name has been retained), led to promotion of tourism in the districts from which the products had originated.

8. In case of Bangladesh, the Government of India and the State Government may also consider developing a tripartite relationship aimed at promoting trade and investment in Bangladesh and India. The focus of these efforts could be the support that India needs to provide to Bangladesh to set up enterprises in the small and medium enterprise (SME) sector, which are based on resources that are provided from India’s NER. The sectors that select themselves naturally are food processing and textiles and clothing. The industries set up in Bangladesh with India’s support can leverage the vast market in the NER that is waiting to be exploited.
9. Development of local industries is an imperative that must be given high priority, especially in the face of the strong in-roads that imported products are making into the local economy. Industries like agro-processing, horticulture, textiles, etc. must be encouraged through the employment-led expansion of the regional market, which can result in substitution of imported product with local produce while at the same time servicing external demand. At the same time, possibilities of developing manufacturing/processing units for medicines, rubber goods, cycles and cycle parts, pharmaceuticals, edible oils, petroleum products, cement, and cotton yarns in the NER must be explored.
10. There is an urgent need to focus on trade-related capacity building/development amongst officials, entrepreneurs, for this is the sine qua non for strengthening the human resource base. Strengthening of human resources would only help improve the quality of services but will also encourage the stakeholders to take new initiatives. Structured programmes covering cross-cutting issues would go a long way in improving the delivery of trade-related services that would in turn help in the development of border trade. Needless to say, proactive involvement of the State Governments and their agencies is essential for getting the desired results.

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## **Annexure 1**

### **Commodities identified for exchange by residents living along the border between India and Myanmar under the Indo-Myanmar Border Trade Agreement**

1. Mustard/Rape Seed
2. Pulses and Beans
3. Fresh Vegetable
4. Fruits
5. Garlic
6. Onions
7. Chillies
8. Spices (excluding nutmeg, mace, cloves, Cassia)
9. Bamboo
10. Minor forest products excluding Teak
11. Betel Nuts and leaves
12. Food items for local consumption
13. Tobacco
14. Tomato
15. Reed Broom
16. Sesame
17. Resin
18. Corriander Seeds
19. Soyabean
20. Roasted Sunflower Seeds
21. Katha
22. Ginger
23. Any other commodities as may be mutually agreed upon between the two sides.



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