

# Facilitating India's Overland Trade in the Eastern Neighbourhood

As a result of persistent efforts towards trade liberalisation at unilateral, multilateral and regional levels, the importance of tariffs as barriers to trade has dramatically come down, although high-tariffs still exist for certain sensitive products. However, poor institutions and inadequate infrastructure are penalising trade, differentially across countries. The attention is now being focused on facilitation of merchandise trade, both inbound and outbound.

India and her five immediate eastern neighbours, namely, Bangladesh, Bhutan, China, Myanmar, and Nepal, boast a total population of about 2.5 billion, and their rapid economic development has demonstrated broader prospects for regional cooperation. Even though these countries are characterized by a high incidence of poverty, the merchandise trade between them has resulted in the robust growth of the economies in the region. India was the largest trading partner of Bangladesh, Bhutan and Nepal; fourth largest trading partner of Myanmar; and fifteenth largest trading partner of China in 2005. China, on the other hand, became the second largest trading partner of Bangladesh and Myanmar, and the third largest trading partner of India in 2005. Trade among these countries went up from US\$ 1.20 billion in 1991 to US\$ 23.92 billion in 2005, mainly due to sharp rise in bilateral trade between India and China in recent period. Trade between India and China went up from less than US\$ 100 million in 1991 to about US\$ 18 billion in 2005. Similar trend has also been noticed in cases of trade between India, Bangladesh and Myanmar. Three noticeable features can be observed from this rising trade: (i) substantial rise in two-way trade between India and China (US\$ 17.83 billion in 2005); (ii) phenomenal rise in China's exports to Bangladesh (US\$ 2.40 billion in 2005), surpassing India's exports to Bangladesh (US\$ 1.77 billion in 2005); and (iii) rise in Myanmar's exports to India (US\$ 415.54 million in 2005), exceeding

her exports to China (US\$ 249.49 million in 2005). Nonetheless, currently economies in this region are having more trade among each other than they used to have a decade earlier.

However, the question remains: while the tariffs in this region tend to decline and despite geographical contiguity, why do these countries trade less among themselves through overland. There are many studies which show that the economies with geographical contiguity could potentially benefit substantially from higher trade, provided the trade and transport barriers are removed (e.g. EU). The fact is that except India's trade with Bangladesh, Bhutan and Nepal, and to a lesser extent that between China and Myanmar, around 85 per cent of the merchandise trade of this region passes through sea and rest through overland. Most of India-Bangladesh trade is conducted overland and the same between India and Myanmar is very negligible. At the same time, due to phenomenal rise in the India-Bangladesh overland trade, land customs stations dealing trade between the two countries (e.g. Petrapole and Benapole) are highly congested which results in high transaction costs.

Trade between India and Myanmar shows completely different picture; about US\$ 535.17 million annual official trade (in 2005) between the two countries is mostly conducted through sea, showing no substantial presence of overland exports and imports. In recent years, there has been a noticeable increase in India's overland trade with Myanmar mainly due to opening up of the border trade point at Moreh (in India's Manipur) in 1995. Another land custom station at Zokhawthar (in India's Mizoram) was also opened for overland trade with Myanmar in 2004 but it is yet to be fully operational.

In the case of trade between India and China, there is a complete absence of overland trade except the seasonal and localised trade conducted through Lipulekh Pass (in Uttaranchal) and Shipkila Pass (in

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This policy brief has been prepared by Dr. Prabir De, Associate Fellow, RIS as a part of the RIS work programme on Regional Economic Integration in Asia.



Himachal Pradesh). Surrounding areas at these two border crossings are topographically rather very rugged, and due to lack of modern infrastructural support, border trade at these two places is yet to take a proper shape. As a matter of fact, entire bilateral trade between India and China passes through sea.

At a glance, overland trade between India and her immediate eastern neighbours is not the preferred way of trade transaction. Except India's trade with Bangladesh, Bhutan and Nepal, India's overland trade with Myanmar and China is highly localised, informal and underutilised. Reasons are many, and some of them can be summarised as follows: (a) absence of integrated and harmonised transportation networks (e.g. virtually in the entire region), (b) absence of adequate and active overland official trade outlets and associated facilities (e.g. India and Myanmar), and (c) absence of trade facilitation policy measures (e.g. inadequate land customs stations). It is, therefore, important that the countries in this region evolve an appropriate policy to facilitate overland trade in one hand and generate adequate traffic for the upcoming regional transport facilities such as India-Myanmar-Thailand trilateral highway on the other. Deeper regional cooperation among these countries can also expand the income generating economic activities for the local people.

### Cooperation for Facilitating Overland Trade

There are several ways in which the regional cooperation may help address some of the specific issues in overland trade faced by India and her immediate eastern neighbours. Some of the key areas for such cooperation are as follows.

#### *Modernising Land Customs Stations*

Customs is an intrinsic element of any cross border movement of goods and services, and yields a significant influence on the national economy. The time taken for clearance of goods has an impact on the competitiveness of the countries in the global context. With an increased emphasis on administrative reform, governance, and security, the need for an efficient and effective customs administration is required urgently.

One of the major reasons for high transaction costs in trade between India and her immediate eastern neighbours seems to be cumbersome and complex cross border trade procedures. For example, at the key border crossing point between India and Bangladesh there are as many as 1,500 trucks queue up on both sides of the border with waiting times varying between one and four days to complete the documentation requirements. Expediting customs clearance procedures

through improved information and communication technology (ICT) reduces the discretionary power of customs officials, thus reducing the scope for corruption. There is also absence of continuous flow of containerised trade between the two countries. Therefore, deeper cooperation for setting in place an efficient and user friendly customs can help boost trade and investment. Countries in this region may look into the success of Greater Mekong Subregion (GMS) Cross-Border Transport Agreement (CBTA), which has been very successful in implementing single-window customs clearance at all border crossings in GMS. Specifically, Mae Sai-Tachilek is one of the seven pilot points selected under the CBTA, which came into force in December 2003, to streamline regulations and reduce non-physical barriers by introducing single-window customs clearance. By end of 2006, 13 border points in the GMS are expected to become operational. A single-stop, single-window customs clearance system has been put in place in the Dansavanh (Lao PDR)-Lao Bao (Vietnam) border crossing point since June 30, 2005. Therefore, what follows is that in order to encourage overland trade, deeper regional cooperation among the countries in this region is required to adopt the single-window customs clearance system at all the border crossings.

Regional cooperation should also be explored to address the issue of 'soft infrastructure' like simplified administrative documentation, computerization of documents by connecting all custom points through EDI, red and green channels in all land customs points, and e-business usage. Learning from other countries in improving the usage of ICT at all custom points would be useful for the countries in this region to strengthen their trade facilitation capacity.

#### *Setting up New Land Customs Stations*

Land Customs Stations (LCSs) are gateways for the transit of goods, services and human beings among neighbouring countries. The present LCSs across India-Myanmar are inadequate. New LCSs, particularly between India and Myanmar, are likely to promote trade and services. There are around 39 officially recognised LCSs which are handling India's overland trade with Bangladesh, Bhutan, China, Myanmar and Nepal. Apart from this, there are many inactive but potential LCSs at India-Myanmar border, which can be gradually made operational to facilitate overland trade. After 45 years, the border trade between India and China is resumed at Nathu La in Sikkim on July 6, 2006, which is now the third direct border trading point between the two countries. The two sides agree

to reopen Nathu La Pass as the seasonal transit point for persons, transport vehicles, and commodities engaged in border trade. Till September 28, 2006, when the trading was closed for the year at Nathu La, the volume of border trade at this crossing point has been minuscule. About Rs. 1.97 million was the total trade between the two countries conducted through Nathu La during July 6, 2006 to September 28, 2006. Despite several shortcomings in the very first year, the current value of overland trade at Nathu La is rather encouraging. However, the trade volume at Nathu La will certainly go up in coming years, if we strengthen trade facilitating infrastructure at this border point.

### *Setting up Industrial Zones/Free Trade Zones at Border*

Needless to say, without trade, a border area becomes a closed economy. Overland trade in this region will always be beneficial to the local population. However, its success will largely depend on the intensity of growth generating trade in terms of employment creation. One way to involve local people in overland trade mechanism is to set up industrial zones or free trade zones in the border area. For example, the industrial zone in Lao-Vietnam border (at Lao Bao in Vietnam) has become very popular which actually not only enhanced overland trade between the two countries but also generated employment to local people. This new industrial zone has generated about 700 jobs for the local people till 2005 and the two-way trade between Vietnam and Laos through Dansavanh (Laos) and Lao Bao (Vietnam) border crossing points increased from US\$ 46 million in 2001 to US\$ 61 million in 2005. There is another good example of Gaeseong industrial complex, located at the North and South Korea border, which has generated employment for local people and also widened the grounds for higher overland trade between the two countries. The industrial complex is located at the North Korea and South Korea border at Gaeseong (inside North Korean territory) where about 15 South Korean companies have set up manufacturing facilities till 2006 which has generated about 1500 new jobs for North Koreans.

Therefore, in order to sustain overland trade, a local (bottom-up) approach would be much beneficial. Because of countries' dependencies on their own trade objectives and their own trading patterns, trade facilitation measures aiming to achieve greatest gains for an individual country might come from very local (micro) development because it is the local conditions that actually mobilise overland trade.

### *Establishing Overland Transportation Linkages*

Some critical components are missing in the region – harmonisation of railway networks, standardisation of all weather paved roads, international airports, and developed border trading points – which are seriously hindering regional trade. Transport flows along road, rail, air, and waterway corridors are constrained by poor infrastructure condition, congestion, high costs, and lengthy delays. Parallel to this, regional trade is hampered by restrictive domestic policies, lack of intra-regional cooperation, and inefficient procedures for trade documentation and clearance. All of these problems are particularly severe at border crossings, many of which pose significant bottlenecks.

Specifically, the major obstacles to trade enhancement between India and Bangladesh and India and Myanmar are the lack of integrated transportation infrastructure and adequate border trade and transport facilitation measures. Even though all the three countries have undertaken trade facilitation measures aiming to reduce current physical and non-physical barriers to transportation and transit – by means of both visible infrastructure (such as multi-modal corridors and terminals) and invisible infrastructure (such as reformed policies and procedures, regulations), costs of intra-regional movement of goods among these three countries are increasingly becoming decisive.

The big opportunities lie in developing trade routes from India to China. The Nathu La border crossing with China is unlikely to constitute a major trade route between the two countries. The regular winter closures and frequent temporary closures in other times might rule out the Nathu La border as a major cross-border trade route between the China and India. This border crossing would be very suitable for local trade and tourism. Strengthening cooperation among these countries would facilitate direct (and non-stop) railway/road/air linkage in the region.

Average road condition and railway system inside Myanmar needs to be rebuilt. Roads leading from Myanmar to India require widening and better maintenance to allow efficient movement of larger trucks. Development of regional economic corridors taking countries in the region will facilitate investments as well as spur economic growth in the region. In this connection, greater economic and/or commercial cooperation may be sought from the developed countries of Asia which have better technological expertise on transport and communications: for example, Japan, and Malaysia are the obvious choices. Towards this direction, India-Myanmar-Thailand

Trilateral Highway from Moreh (in India) to Mae Sot (in Thailand) through Bagan (in Myanmar) is commendable.

Railways can play a positive role in integrating the region which will promote bulk transnational movement of goods and services. India has also been playing an active role in linking Bhutan with India's railway network, and also helping Nepal in extending the railway line from Birganj to inside the country. Apparently, the major needs are two folds – (a) to link India's Manipur with India's main railway corridor, and (b) to re-establish and renovate railway networks in Myanmar and Bangladesh. Harmonisation of railway track in this region is very much essential. Indian Railways is actively engaged in harmonization and construction of railway tracks in North Eastern Region of India. Considering the projects already sanctioned and under construction, Diphu- Karong-Imphal-Moreh rail link (in Indian side) is identified for development which will link India with ASEAN. Although at present construction work is being carried out in Diphu -Karong section, linking Karong with Morea via Imphal would link India with Thailand provided railway system on the other side (Myanmar) is also developed simultaneously. Without having a compatible and strong railway system inside Myanmar and Bangladesh, closer communication between India and her immediate eastern neighbours will not be possible. Indian government has come forward and extended US\$ 56 million credit line to the Myanmar government for upgradation of 640 km railway system between Mandalay and Yangon. Similar initiative should be taken up for up-gradation of railway network system in southern (Yangon to Dawei) and northern (Mandalay to Kalay) Myanmar. Apart from training the railway personnel of some of the countries in this region through BIMSTEC Transport Cooperation project, India should extend credit line to other LDCs

of this region for setting up new railway network and/ or modernisation of rolling stocks in their countries.

### *Allowing Transit Trade*

Uninterrupted road or railway connectivity across border positively influences the trade in goods and services. Since countries in this region are geographically interlinked and regional trade is growing very fast, deeper regional cooperation would be most desired to make the countries agree to transit of goods moving from one to another country within and/or outside the region. The prominent example is GMS's East-West Economic Corridor, which has been promoted to connect the Andaman Sea (the Myanmar coast) through Thailand and Laos with the South China Sea (at Danang in Vietnam). All this has happened only due to acceptance of the 'Treaty of Transit and Trade', or what is called GMS CBTA. Nonetheless, following Article V of General Agreement of Tariffs and Trade (GATT), countries in this region should accord similar arrangement.

### **Concluding Remarks**

The key objective of the regional cooperation in trade should be to achieve more rapid growth in trade through improvements in transport and logistics. Since countries in this region are geographically contiguous, deeper regional cooperation towards facilitating overland trade will be fruitful in terms of mobilising local resources and income generating activities. However, in order to gain anything meaningful from the overland trade, associated soft infrastructure to support trade facilitation should be in place. These include: (i) approval and implementation of required legal and policy reforms; (ii) implementation of effective border crossing and transport services; (iii) effective agreement on trade and transit treaties; (iv) customs modernisation and setting up of new LCs; (v) involvement of local economy in border trade; and (vii) uninterrupted overland transportation linkages.

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Core IV-B, Fourth Floor  
India Habitat Centre  
Lodhi Road, New Delhi-110 003, India.  
Ph. 91-11-24682177-80  
Fax: 91-11-24682173-74-75  
Email: [dgoffice@ris.org.in](mailto:dgoffice@ris.org.in)  
Websites: <http://www.ris.org.in>  
<http://www.newasiaforum.org>