

# Reimagining Border Haats as International Retail Trade Zones



*Discussion Paper*

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## Abstract

**T**raditional cross-border retail trade has broadly depended on two formats. One is cross-border tourism where buyers across the border make purchases. A special form of such cross-border tourism is duty-free shopping zones created in transit spaces such as airports or large cruise terminals.

The other format is to have a dedicated retail zone accessible to foreign buyers with special rules and regulatory flexibilities on or close to an international border.

Both these formats depend upon certain economic, political and geographic pre-requisites and are subject to concerns related to non-compliance with established trade and tax regulations, consumer security, and abuse of these channels for contraband trade.

This Discussion Paper provides a brief synopsis of the literature related to the traditional cross-border retail trade and establishes the difference between cross-border tourism and cross-border retail zones. It goes on to discuss the different models of cross-border retail trade based on existing examples extant internationally.

It then brings this analysis to bear upon the possibility of developing a cross-border retail zone in the India-Bangladesh border and juxtaposes the discussion on regulatory concerns to this specific case.

The paper provides some practical examples of addressing these concerns through administrative innovations and technology and proposes a potentially workable model for such retail zones in this region.

## Introduction

***This Discussion Paper makes a case for the development of cross-border retail zones accessible to consumers from both sides in the context of India-Bangladesh border***

**B**orders are an institutional innovation. This seemingly obvious and innocuous statement accurately sums up the challenges of border management and the economic impact they have on their hinterlands. Like all institutional innovations, borders are governed by a set of rules, procedures and laws administered by agencies that ensure adherence to them.

And like all institutional innovations, there are significant differences in the design of these laws and procedures and their enforcement in different places, that is, major variations in the quality of this institution (that is, border) at different locations.

The literature related to transaction costs of international trade and trade facilitation is primarily focused on the theoretical or applied analysis of such variations in institutional quality and design. However, the discussion in this literature typically focuses on the wider hinterland enclosed by this border.

The borderlands, that is, the regions near the border on

either side of it are much less studied. This bias is reflected in policy priorities as well. Much more policy effort is put into reforms and initiatives that would connect these wider hinterlands across designated gateways, that is, points in the border that allow the movement of goods, capital, people and data.

This often results in the interior hinterlands being much better connected compared to the borderlands on the two sides. In some ways, this is understandable, given that in many cases (with several notable exceptions) economic clusters of countries tend to be in the wider hinterlands and not on the borderland. But there are definite opportunities for economic development through the economic integration of borderlands that should not be overlooked.

More importantly, it can lead to significant improvement in the economic and quality of life of the people living in the borderlands.

The strategy for economic integration of borderlands can focus on the integration of production factors, or allowing



for greater integration of consumption, or both. Production focused integration has led to innovations such as cross-border development zones or Special Economic Zones (SEZs). Good examples include the Maquiladoras in the US-Mexico border.

While consumer integration strategies are less common, but there are examples in the China-Kazakhstan border. In this regard, the Discussion Paper makes a case for the development of cross-border retail zones accessible to consumers from both sides in the context of the India-Bangladesh border.

Section I presents a brief overview of the concept of borderlands and border zones and discusses some of the key elements in the literature

associated with these concepts. Section II discusses some of the existing cross-border retail models and associated learning from their operational structure and management.

Section III makes a case for developing commercial border zones (CBZs) that allow formal retailing and personalised services under controlled environments. It provides a design proposal detailing the potential management of people and goods in a manner that will ensure compliance with immigration, customs, and security-related regulations and processes using technology and managerial innovations to address any regulatory concerns arising from such a development. Section IV concludes with a summary of the key messages and policy recommendations.



## Border Zones and Cross-Border Retail: An Overview

The characterisation of a border has been provided by Hoover (1948). He describes a border as akin to a river and the border points that allow passage across them as bridges. Like bridges, these border crossings impose a cost of operation and maintenance, and more importantly, adjacent points across a border are not accessible across a straight line but by a circuitous route via the nearest border gate. It follows that this concept of border development has economic, geographic, social, political and environmental implications.

More importantly, borderlands represent very diverse ecosystems. For example, the highly urbanised borderland between Mexico and the state of California in the US, or between Singapore and Malaysia are completely different from sparsely populated borderland between Laos and Cambodia with scattered villages on both sides, which in turn are different from the densely populated but largely rural borderlands between India's state of West Bengal and Bangladesh.

However, given that North American and European borders are the ones that are most studied and analysed, the literature on borderland development is biased towards studying the more urbanised borders in these regions. The literature review that follows represents this bias. Despite this shortcoming, this literature provides insights generically applicable to a discussion on borderlands and their development.

It is also important to point out that the economic impact of a border on economic decisions, especially those about purchasing and consumption in the borderlands, is not limited to international borders. Sub-national borders (or international borders within a common market such as EU) can also create varying degrees of influence on such decisions due to differences in taxes, economies of scale, or presence of specific industries or the existence of trade networks.

One illustrative example from Merriman (2010) demonstrates that differences in relatively minor tax rates on items of

***It is also important to point out that the economic impact of a border on economic decisions, is not limited to international borders***





regular consumption such as cigarettes across a border can substantially influence consumer behaviour. Consumers are willing to make the effort of purchasing these items from the jurisdiction with lower taxes and do not mind the effort of a little travel to save money on such purchases.

Generally speaking, a border, especially an international border imposes barriers to the free movement of factors of production and the ability to freely exchange goods and services. This inhibits the local economy of the borderland. Of course, the borderland near an international trading corridor has an obvious advantage, being integral to the transport and trading infrastructure and proximate to international gateways (that is, land border crossings) that bridge the borders.

This would enable the concentration of economic activity on such borderlands. But borderlands that tend to be further away from such corridors

have typically fewer economic opportunities and are often considered to be on the economic periphery of their respective countries. Clark (1994) calls this the 'Circuity Effect'<sup>1</sup> of border location.

The solutions and priorities that emerge from such a focus would look to improve the efficiency of border-crossings or the development of Special Economic Zones (SEZs) that allow a more efficient combination of factors of production across borders.

But this focus on the corridors and gateways concentrates the infrastructure and institutional solutions around these gateways and ignores the needs of areas not near the gateways or the corridors. It is also pertinent to understand that the commercial and economic needs of the population in the borderland might not benefit from the facilitation of infrastructure developed to serve the bilateral trade needs between the two countries.<sup>2</sup>

***An international border imposes barriers to the free movement of factors of production and the ability to freely exchange goods and services***

*The commercial and economic needs of the population in the borderland might not benefit from the facilitation of infrastructure developed to serve the bilateral trade needs between the two countries*

Clark (1994) distinguishes this differential impact of the border for hinterland and borderland regions into primary and secondary level impacts. The primary effects relate to the overall impact of international borders on a national economy (that is, the overall hinterland) and are related to issues of trade policy and cross-border connectivity-related infrastructure.

At the secondary level, national boundaries have localised effects (in the border zone) defined by the course of the actual border and the locations, at which there are border points. Clark underlines that these secondary effects define many of the microeconomic decision-making impacting the day-to-day lives of border zone residents. Whereas everyone in a nation is subject to primary boundary effects, only those in border zones are influenced by secondary effects. The key secondary effects are:

Secondary Effect Factors:<sup>3</sup>

- **Cross-border market size:**  
The density of population in the borderland and the overall purchasing power is a critical factor in the development of borderland retail markets. As Ford (1988) points out, the phenomenon of 'paired cities' representing large concentrations of population and buying power along the US-Mexican border (such as San Diego/Tijuana, and Mexicali/

Calexico) led to the growth of retail markets catering to customers across both sides of the border. Such paired city syndrome exists in the South Asian context as well, with population concentrations underlined by historical, economic and social affinities, for example, Comilla-Agartala.

- **The extent of permeability:**  
Permeability refers to the extent, to which goods, services and people can travel across a border, both formally or informally. Borders that are officially hard (that is, significant restrictions and barriers on formal trading) increase 'informal' trade. This is especially true if such borders are difficult to administer and do not have natural physical barriers. In such conditions, developing more formal, better regulated and efficient markets require a transformation of the ecosystem supported by both regulatory change and change in the business models.

As Stern (2015) points out, investments in market infrastructure (that is, mall-like structures, or organised and well-built retail spaces) that provide a solid impression of formality, regulatory institutions and development of protocols that inculcate trust among buyers and sellers (for

*The India-Bangladesh border is characterised by significant population concentrations, cultural affinities and long-standing commercial and trade relations*

example, payment systems, proper receipts) are all part of this mix.

- **The differential pressure across national boundaries:**

Per capita income levels and policies that have an impact on retail prices also have a significant impact on what consumers buy and which side of the border they would like to source their purchases from. Campbell and Lapham (2004) for example demonstrate the impact of real exchange rate fluctuations on the dynamics of retail trade in the US-Canada border. We have already discussed Merriman's (2010) analysis of cigarette purchasing behaviour in light of tax differentials across borders.

Leal et al. (2010) have demonstrated that differences in the taxation of the same good or service between neighbouring countries, neighbouring regions, or municipalities in the same country encourage consumers to travel to the jurisdiction where taxation is lower to acquire that good or service, as long as the tax-saving compensates for the costs of travelling from one jurisdiction to another. A similar idea of consumer decision optimisation has been put forward by Kanbur and Keen (1993).

- **Transfer Costs:** Transfer costs reflect the price imposed on these flows on crossing the boundaries. This in turn might be a function not only of costs of addressing formal barriers to cross-border flows such as documentation for compliance with regulations, taxes and duties, and transport but also of costs of search, marketing and effort required to either sell to or buy from across the border.

These concepts of market size, differential pressure, permeability, transfer costs and circuitry effect have a direct bearing on the nature of border zone trade, that is, whether such trade would be conducted formally or informally, or the extent to which formal channels would be subject to abuse. These factors would also define the demand and scope of border-zone retail.

Table 3 uses these five broad factors to analyse the prospects and potential models for successful and sustainable border zone retail trade in the India-Bangladesh border, more specifically the sections of the border that are relatively far (or in economic and supply chain terms not connected with) from the main trading corridors.

The India-Bangladesh border, especially the sections bordering West Bengal and Tripura are characterised by

**Figure 1: The relation between Cross-border market size and Differential Pressure, Permeability, and Transfer Costs**

Cross Border Market Size and Differential Pressure	Large/High	Significant demand in combination with high transfer costs of formal trade and low permeability (borders are effectively hard) creates incentives for informal trade. Low permeability in the border zone also results in circuitry effect for formal trade. There is strong case for developing formal border zone retail solutions	Significant demand and differential pressures means there is a case for border zone retail. Presence of high transfer costs with the border being permeable would mean that significant amount of informal trade would already exist in the border zone. Investment in infrastructure and regulatory solution for border zone retail can help shift informal trade to formal channels	High	Transfer Costs
	Small/Low	While lower levels of permeability (relatively open borders) might result in some circuitry effect, this is counterbalanced by low transfer costs. Given modest market size and low differential pressure, there would be relatively low retail demand inthe border zone. Infrastructure and regulatory investments would not be justified	Low levels of demand and differential pressure would mean a modest market for border zone retail. Low transfer costs and high level permeability would mean that this modest demand can be easily met by existing formal cross-border trade solutions. Infrastructure and regulatory solutions for border zone retail would not be justified.	Low	
		Low	High		
		Permeability			

Source: Author's summary based on literature

significant population concentrations, cultural affinities and long-standing commercial and trade relations, and a border zone, without natural physical barriers, which is difficult to completely seal off. There are significantly high transfer costs (due to trade-related and logistical costs) for formal trade. Not surprisingly this results in significant

demand for goods (and services), which can often be serviced more effectively by distribution networks across borders. With high transfer costs and a relatively permeable border, there is understandably a high volume of informal trade. No doubt, there is a visible presence of goods from across the border in border zone markets on both sides.

***There is a strong case for developing border zone retail solutions in the India-Bangladesh border***

As Ford (1988) underlines, the presence of 'paired' urban concentrations in the vicinity of the border zone adds significantly to the demand for border zone retail solutions. There are also large urban concentrations at short distances across this border.

Some examples include Bongaon (India)-Jessore (Bangladesh), Behrampore/Murshidabad (India)-Rajshahi (Bangladesh), Balurghat/Malda (India)-Dinajpur (Bangladesh), Siliguri (India)-Thakurgaon (Bangladesh), Coochbehar (India)-Lalmonirhat (Bangladesh), Silchar (India)-Sylhet (Bangladesh), Agartala (India)-Comilla (Bangladesh).

These urban/suburban concentrations act as both demand multipliers as well as distribution hubs that connect local markets with surrounding areas and this can potentially help service a border zone retail market more effectively if such a market is allowed to develop.

Differential pressure is also high given that many of these border regions and the associated

urban concentrations are some distance away from their national hinterland. This would mean that the effective prices of retail for various products at these border regions would be at variance with the cross-border traded prices of these products between the Indian and Bangladeshi hinterland, creating opportunities for price arbitrage for retailers.

Also, differences in tax and imposition of customs duties create differential pressure, at least if these goods are formally traded and sold, due to price differences.

The India-Bangladesh border zone, therefore, represents a situation characterised by the upper right-hand quadrant in Figure 1. When there are sudden crackdowns on informal border trade making the borderless permeable, the border zone can also resemble the situation outlined in the upper left-hand quadrant. In either scenario, there is a strong case for developing border zone retail solutions in the India-Bangladesh border.

## Some Existing Cross-Border Retail Models

***Border zone retail trade is a frequent shopping activity of people living in borderlands towards the other side of the border to make a profit***

Kovacs (2011) defines border zone retail trade (or as per his nomenclature-cross-border retail) as a frequent shopping activity of people living in borderlands towards the other side of the border to make a profit. 'Profit' in this context can be either in the form of lowering consumption expenditure or through gains from petty trading.

In this type of shopping, mostly fast-moving consumer goods (FMCG) products are purchased primarily for household consumption.

However, since the time of Kovacs writing his paper in 2013, the nomenclature of cross-border retail has been increasingly used in the context of online purchases (that is, cross border e-commerce), and therefore to avoid confusion this paper uses the more specific term of border zone retail.

Using a modified version of Kovacs differentiation between retail models, Table 1 specifies the characteristics that define borderland retail and sets it

apart from shopping tourism and other generic types of cross-border retail. Market development in the vicinity of borders (that is, in the border zones) has typically used a mix of border zone retail and shopping tourism characteristics (which are outlined in Table 1).

The key differentiating factor between the two relates to the fact that while border zone retail requires a specific physical market location, preferably located close to or at the border, shopping tourism can take place at any location. But a fundamental fact in both these models is that access is controlled by customs and other authorities, thus providing the ability to regulate the flow of goods and people to and from these markets.

It is important to focus on a few key examples of border zone retail activity that allow consumers to cross borders (or move to a dedicated facility) to understand the specific nuances of how such cross-border movements are managed and the administrative practices and institutional solutions that have emerged from them.



**Table 1: Differences between Retail connecting Buyers and Sellers across Borders**

	<b>Borderzone Retail</b>	<b>Shopping Tourism</b>	<b>Cross-Border Retail</b>
Participants	Typically involves people living in borderlands	Anyone, no spatial determination	Anyone, purchase and payment are online (or based on catalog)
Catchment Region of buyers	Mostly concentrated around border regions	From anywhere	From anywhere
Purchasing Behaviour and Preferred Products	Food, clothing, items of daily use including FMCGs and electronic appliances	Typically, high end branded luxury goods, electronics, alcohol, and tobacco products	All types of products, but tends to be biased towards higher value items/brands not easily available in local markets, or esoteric niche products
Need for Presence and Duration Across Border	Physical presence close to the border, or in a transit zone between borders of two countries	Longer-duration travel across the border into another country	No need for physical presence across the border
Customs and Regulatory Model	Application of physical checkpoints with simplified customs clearance declaration and inspection, similar to models applied to international passengers at airports	Inbound customs at entry gateway, with simplified rules applicable to international passengers	Either simplified customs regulations governing lower-value small parcels or general customs regulations depending on value and other details of the products

Source: Author's modification of classification table developed in Kovacs (2011)

### **The US-Mexico Border Zone**

The US-Mexican border zone represents a vibrant cross-border commercial eco-system for residents living in this region. As Canas et al (2006) point out, US consumers cross the border in large numbers to go to restaurants or avail personalised services such as a haircut, massage, or dental services.

Mexican consumers travel to large urban agglomerations such as Chula Vista, San Jose, Laredo, El Paso and Nogales to

buy items ranging from a day to day groceries and FMCG to high-end fashion items. More than 650,000 people cross the US-Mexican border every day.

Given the importance of such cross-border commercial activity for the border zones on both sides, and its impact on local economies, local community leaders and business associations have a strong stake in its growth and continuity and have formed institutions that play an important role of intermediaries with regulators. One such institution is the



***The fundamental regulatory aspects for border zone consumers relate to their ability to physically cross borders and bring back their purchases with the minimal hassle***

Smart Border Coalition, which will be elaborated later in this discussion.

The fundamental regulatory aspects for border zone consumers relate to their ability to physically cross borders and bring back their purchases with the minimal hassle (customs duties and other taxes, and procedures related to them). A brief discussion on these aspects in the context of the US-Mexico border follows:

#### **Movement of Goods**

In both the US and Mexico, purchases made by individual consumers across the border are subject to personal exemption limits. These exemption limits apply to any US or Mexican citizen re-entering his or her own country after having travelled abroad, that is, there is no special provision for border zone

residents who cross land borders for a short duration (typically less than 24 hours) shopping trip to a nearby location across the border. The personal exemption limit is US\$800 per US citizens re-entering the US and US\$300-US\$500 for Mexican citizens re-entering the US.

Both US and Mexican authorities provide local tax exemptions. Specifically, US Federal law prohibits the imposition of local taxes on exports and, therefore, all border states maintain a system of refund of such taxes to foreign shoppers. The Texas system of refund of such taxes is considered to be the most user-friendly. A large percentage of Mexican shoppers find this to be an important driver of their decision to make purchases across the border in Texas.

*The Border Crossing Card has enhanced graphics and technology that allow easier processing during entry and exit*

However, it seems despite this relatively user-friendly system, the refund process still requires some effort, and only shoppers making large purchases use it and day shoppers (the typical profile of a border zone consumer) do not typically file for a refund.

### **Movement of People**

US citizens do not need a visa to cross the border, which is one reason why US consumers can make more frequent trips and also avail personalised services such as haircuts or appointments with dentists that offer significant price arbitrage. However, since visas are required for Mexicans entering the United States, it is relatively more difficult for Mexican citizens to make the trip across the border.

However, the US offers Mexican citizens a solution, which is extremely useful in the border zone context in the form of the Border Crossing Card. It has enhanced graphics and technology that allow easier processing during entry and exit. The card itself is valid for 10 years and allows unlimited entry during these years. A border zone resident can, therefore, easily enter the US for day trips related to shopping with relatively minimal hassles.

There is also an example of a specific border zone related infrastructure solution for facilitating the movement of people in the US-Mexican border between Tijuana

(Mexico) and San Jose (US) in the form of 'Border Xpress'. The Border Xpress is closed access, CCTV monitored pedestrian crossing across the border that allows US citizens to enter into the airport at Tijuana just across the border to either take flights or use retail services in and around the airport. Mexican citizens with visas (or Border Crossing Cards can also walk across into the US).

### **Institutional Solution**

As mentioned earlier, successful border zone commercial development requires businesses to develop trust with authorities that flexibilities and facilitations provided would be used legitimately and that businesses would serve as a partner in enforcement as well as in finding solutions to regulatory issues.

The Smart Border Coalition, an association of businesses in the San Jose-Tijuana border brings together businesses, local governments and federal agencies on both sides of the border to ensure that borders do not act as barriers for consumers to access retail and services on either side.

### **China-Kazakhstan Border Zone**

The China-Kazakhstan border zone at Khorgos is very different from the US-Mexico example in the sense that it is a sparsely populated area, with the nearest major urban agglomerations on both sides, that is, Almaty in

Kazakhstan and Urumqi in China more than 300 km away. The rationale for the development of a transit shopping zone at the Khorgos International Centre of Cross-Border Cooperation (ICBC) was based on the development of Khorgos as one of the key border points serving the Eurasian rail corridor connecting Europe to China via Russia.

The Khorgos ICBC invested in developing specialised retail experience (i.e. well-developed malls with rest and recreation facilities) that would attract shoppers from the larger urban agglomerations, on both sides of the border. It has primarily attracted Kazakh citizens from Almaty (340 km from ICBC), Kapchagay (350 km from ICBC) and Taldykorgan (316 km from ICBC) travelling to avail bargains for Chinese made FMCG,

electronic gadgets, and appliances.

Very few Chinese shoppers use the Khorgos ICBC since the Kazakh manufacturing industry has very little to offer that would be interested in most Chinese shoppers. Since China bans the sale of agricultural products that would have been of interest to Chinese consumers (especially ethnic Tajiks and Uighurs citizens who have similar food culture with the Kazakhs), the opportunity for two-way border zone trade is thus reduced.<sup>5</sup>

The Khorgos ICBC has invested in a physical infrastructure at a transit zone with controlled entry and exit from both sides. This border retail zone is a well-planned five-storey mall with over 2000 shops. The entry/exit points at both sides of the



*Since China bans the sale of agricultural products that would have been of interest to Chinese consumers...the opportunity for two-way border zone trade is thus reduced*

border are manned by customs/immigration and security personnel to prevent unauthorised entry of goods or people. Given that the ICBC receives 5,000 plus shoppers on a typical weekend day, it represents a moderate commercial success.

It needs to be noted that the typical menu of goods sourced by Kazakhs shoppers from the ICBC was already available in local markets in Almaty or Kapchagay, but this trade was largely illegally mediated and customers were not sure if they were getting genuine goods or whether they were being cheated in terms of price. Replacing this informal trade with the formal establishment of a large mall has led to increased consumer confidence and thereby its popularity with Kazakh shoppers.

#### **Movement of Goods**

Kazakhstan allows its citizens a personal exemption on customs duties and taxes of US\$1,640 per month for items of personal consumption. If the shopper makes more than one trip per month, then a flat applied rate of 30 per cent of the value of goods is imposed on such purchases.

China allows a personal exemption of about US\$285 per person, subject to an annual limit of US\$2,850 per person. Anecdotal evidence seems to indicate that there is some degree of rent-seeking in

customs, but most shoppers have access to agents or touts that help deal with such challenges.<sup>6</sup>

#### **Movement of People**

Free movement of people is allowed into the Khorgos ICBC from both sides. However, a Kazakh citizen would need a visa to exit from the Chinese side, having entered from the Kazakh side and vice-versa. Shoppers are allowed to spend a full day before they have to exit the zone. There are no restrictions on the number of visits to the zone.

#### **Institutional Solution**

The ICBC itself, that is development of physical infrastructure with secure access manned by customs and immigration, with agreed-upon rules for the movement of people and goods and the incidence of taxes and duties on such goods that are being purchased within the ICBC represents an institutional solution. The mall, with its allied maintenance and commercial organisation represents the business side of the institutional solution for ICBC.

Also, an eco-system of services, for example. buses that ply shoppers overnight from Kazakh cities some distance away from the ICBC has also been created around this shopping facility. In that sense, the Khorgos ICBC represents a specific border zone shopping solution.



## Potential for Retail Development on India-Bangladesh Border

**India-Bangladesh border has the potential for developing retail-oriented businesses that cater to consumers from both sides of the border**

As discussed in section I, the India-Bangladesh border has the potential for developing retail-oriented businesses that cater to consumers from both sides of the border. The discussion in section II on the different models of border zone retail indicates that the India-Bangladesh border resembles both the US-Mexico and China-Kazakhstan scenarios for citizens (of at least one of the countries) requiring a visa or a permit to enter the territory of the other.

The India-Bangladesh border also closely resembles the US-Mexico scenario in terms of

having significant population density and proximity of urban agglomerations with cross-border business networks and relationships.

To an extent, there are parts of the border on the Indian side that resemble some parts of the Mexican border and the Kazakh side of the Khorgos ICMC in that they remain at a relative disadvantage (compared to most other parts of their country) in terms of retail choice and pricing and this disadvantage is offset to an extent through access to more developed commercial agglomerations across their borders.





**Table 2: Potential Addressable Markets: Agartala Airport and Lakhimari Sonahat Border Zones**

Agartala Airport Commercial Borderzone			
Population <i>Immediate Vicinity</i> <sup>1</sup>	15 million	Market Size <i>Immediate Vicinity</i>	US\$31bn
Population <i>Extended Region</i> <sup>2</sup>	32 million	Market Size <i>Extended Region</i>	US\$62bn
LAKHIMARI -SONAHAT COMMERCIAL BORDERZONE			
Population <sup>3</sup>	18.5 million	Market Size	US\$28bn
<sup>1</sup> Includes Khowai, West Tripura, Shipahjala, Gomati (IND) and Brahmanbaria, Comilla, Noakhali, Feni (BAN) <sup>2</sup> In addition to immediate vicinity districts, includes Cachar division of Assam (IND) and Shylet division (BAN) <sup>3</sup> Includes Alipurduar, Cooch Behar, Dhubri, Bongaigaon, Kokrajjar, Goalpara, West Khasi (IND) and Kurigram, Lalmonirhat, Rangpur, Nilphamari (BAN)			

Source: Author's calculations. Population data from national government websites of both countries. Market size is based on State level GDP per capita (for India) and divisional level GDP per capita (Bangladesh)

**The two specific border zones selected for discussion in this paper are the Agartala Airport border zone and the Lakhimari-Sonahat border zone**

The two specific border zones selected for discussion in this paper are the Agartala Airport border zone (Tripura state of India and Chittagong division of Bangladesh) and the Lakhimari-Sonahat border zone (West Bengal state of India and Rangpur division of Bangladesh).

Table 2 provides the basic data concerning consumers and market size potentially addressable from either of these two border zones, followed by a discussion on the specifics of the potential commercial and associated regulatory models required to develop and sustainably operate these border zone retail solutions.

### Proposal for Agartala Airport Border Zone Development

The Maharaja Bir Bikram Airport at Agartala is situated right next to the border. The distance between Ajampur Railway station in Bangladesh territory

and the peripheral wall of the airport is just about 900 metres. Bangladeshi citizens are major consumers of Indian health and education services.

Many of the services clusters are situated in metropolitan centres in India such as Kolkata, Bengaluru, Chennai, Delhi NCR, Mumbai, and Pune. Bangladeshi citizens are increasingly using the North Bengal hills, Sikkim and Bhutan as tourist destinations. The network of private boarding schools in the North Bengal hills serves a sizeable number of Bangladeshi students. In short, there is a huge demand for connectivity to different parts of India.

The extended region of the Agartala Airport border zone (see Table 2) on the Bangladesh side of the border is located some distance away from the main airports in Bangladesh. Thus, their current route to these locations in India is to travel to either through Dhaka or Chittagong and find a flight



to a major metro such as Kolkata, Delhi, or Mumbai and then again find further onward connections. Customs and immigration are done at airports of entry in India. Agartala Airport, therefore, offers an alternative point of entry.<sup>7</sup>

If an approximately 300-metre-long covered access-controlled walkway (non-elevated) is developed across the border,<sup>8</sup> Bangladeshi citizens could enter into Indian territory through this walkway, and undergo all customs and immigration formalities before boarding a flight. They can then use the entire domestic flight network from Agartala Airport to connect to the rest of India.

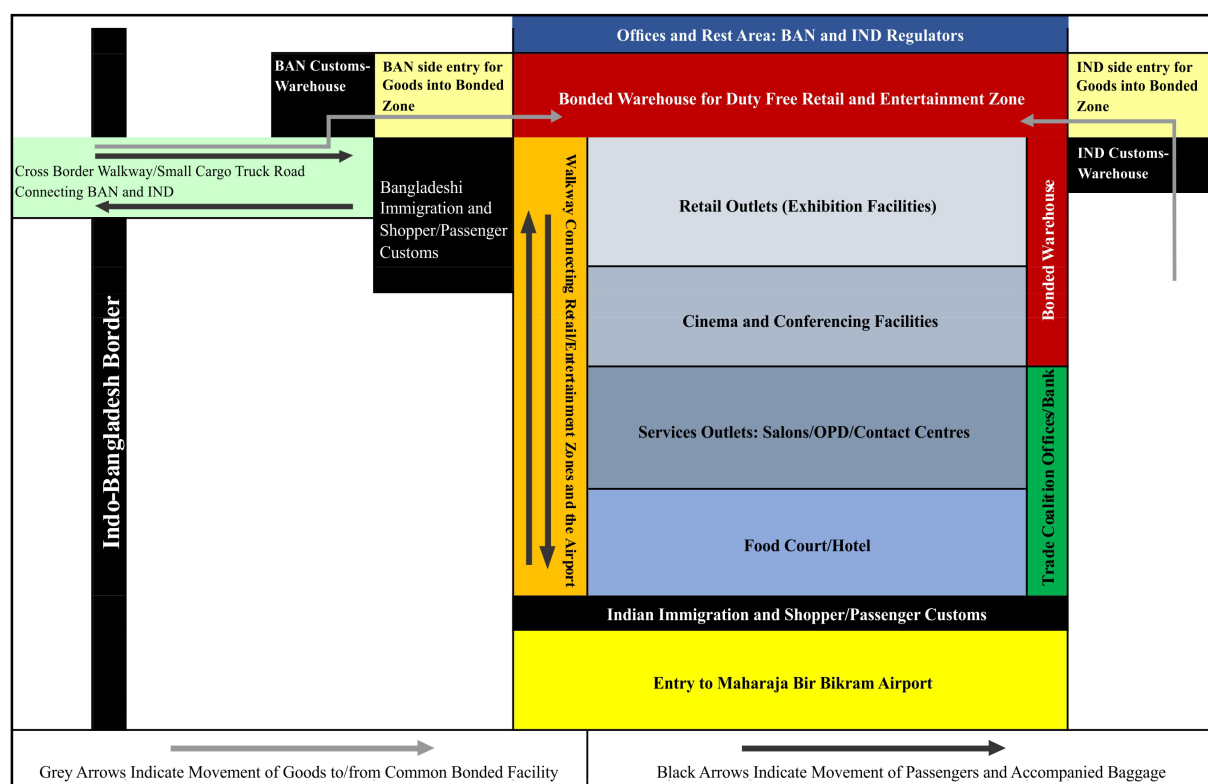
Similarly, Indian citizens who might want to travel to Comilla, Chittagong, Sylhet, Noakhali and other such urban agglomerations for trade (and with the development of the beach resorts in and near

Chittagong) and tourism can easily enter into Bangladesh through this corridor and then avail relatively cheap local transport for onward journeys. They would complete their customs and immigration into Bangladesh at the exit point of the walkway on the Bangladeshi side. A diagrammatic representation of such a facility is provided in Figure 2.

As Figure 2 indicates, a fully-fenced corridor with a pedestrian walkway (for passengers/shoppers) and a two-lane road running parallel to the pedestrian walkway (to be used for small commercial vehicles carrying goods to stock in the customs bonded warehouse or directly used in-shelf inventory in stores inside the CBZ) would need to be developed across the India-Bangladesh border near the airport. This corridor would be manned by security personnel from Bangladesh and have full CCTV coverage.

***Customs and immigration are done at airports of entry in India. Agartala Airport, therefore, offers an alternative point of entry***

**Figure 2: Diagrammatic Representation of the Proposed Agartala Airport Commercial and Entertainment Border zone**



Source: Authors Conceptualisation

**Past the Bangladeshi customs and immigration point, a walkway would connect passengers/shoppers to the Airport entry, and various facilities in the CBZ**

The corridor would have separate entries into the CBZ facility for passengers/shoppers and goods being supplied to the retail and other commercial establishments in the CBZ. The goods would be inspected before they enter into the common bonded warehouse (common in the sense that this warehouse would be under the joint supervision of Bangladeshi and Indian customs).

A separate customs and immigration facility (manned by Bangladeshi officials) would also be developed at the entry/exit point of the corridor to process movement of passengers/shoppers into/out of the CBZ facility from/to Bangladesh.

Past the Bangladeshi customs and immigration point, a walkway would connect passengers/shoppers to the Airport entry, and various facilities in the CBZ. As illustrated in Figure 2, the proposed facilities include retail and exhibition space, a multiplex cinema that can double up as a conferencing facility, personalised services outlets, and food court and hotel. A brief description of each of these follows shortly.

At the entry/exit point to the airport, Indian immigration and customs would be able to check passengers/shoppers entering/exiting Indian territory from the CBZ. There would be a

***The services outlets could serve a crucial aspect of the Indian services that are exported to Bangladesh***

separate entry from the Indian side into the common bonded warehouse for goods and other commercial material to supply retail and other commercial outlets in the CBZ, manned by Indian customs.

Thus, the two ends of the CBZ (at the entry/exit point of the cross-border corridor and the entry/exit point of the airport) would be securely manned by customs and immigration of the two countries. The customs and immigration authorities would have Standard Operating Procedures (SOPs) similar to managing airport or land passenger terminals, with a high degree of facilitation.

The CBZ itself would have a retail space for rent for traders/retailers from both India and Bangladesh. Besides a few sensitive items, all types of merchandise should be allowed for sale on these premises, including goods not manufactured in India or Bangladesh. In a sense, this would be similar to a duty-free shop, but with several different retailers leasing space and not just one (or a few).

The customs treatment on both sides should also typically be akin to duty-free merchandise, that is, personal purchase exemptions. The governments of both countries could enhance the personal import exemptions for purchases made in the CBZ.

Dedicated stalls could also be made available to large Indian

and Bangladeshi e-commerce players. Consumers can order online and collect their merchandise in these stalls using point-of-sale cash or card payment at the stalls. This would especially help Bangladeshi customers who have limitations on being able to make online payments in foreign currency.

Given the popularity of Indian films in Bangladesh, having good quality cinema halls in the CBZ would further attract footfalls from across the borders, and increased footfalls would help the retail business, as well as the food-court. A competitively priced hotel having both three- and two-star quality rooms would also support shoppers, travellers, traders.

The stalls could be turned into exhibition centres for bilateral trade fairs and provide a platform, especially for Bangladeshi traders seeking to reach out to the Indian market. Since both sides will have visa-free entry into the CBZ, it would be an ideal meeting point.

Similarly, the cinema halls could be utilised for business conferences, cultural and academic meets. Since food-related and hotel services would also be present in the CBZ, having conferences or exhibitions for trade promotion conceived for a few days would also not be a challenge.

The cinema halls space could also be used for live shows.

***The cinema halls space could also be used for live shows. Bangla rock-bands have fans across the border***

Bangla rock-bands (from India and Bangladesh) have fans across the border. Bengali and Hindi film industry-related live shows, reality shows, and even *jatra* (a traditional form of theatre) could be hosted, serving clientele from both sides of the border due to the visa-free access.

The services outlets (see Figure 2) could serve a crucial aspect of the Indian services that are exported to Bangladesh. Space could be rented to provide out-patient-services (OPD) and diagnostic services to Bangladeshi customers. Since a visa would not be needed to enter the CBZ this would facilitate much greater ease of physical access for Bangladeshi consumers seeking such services.

Contact centres of education institutions and tutorials and exam preparatory service providers interested in Bangladeshi customers could also avail space. Associated services such as high-end salons or spas could also be developed to attract middle and upper-middle-class clientele.

***Contact centres of education institutions and tutorials and exam preparatory service providers interested in Bangladeshi customers could also avail space***

The CBZ and Raja Bir Bikram Airport would then potentially act as force-multipliers for each other. Over some time, the increased demand from Bangladesh would lead to an increased number of flights from this airport to the rest of India, and allow for direct flights to many more locations. Just to use a few examples, direct

flights to Jaipur (due to demand for religious tourists from Bangladesh to Ajmer) and Pune (Bangladeshi education and some healthcare-related tourists) would be made possible.

Bangladeshi travellers would gain from cheaper fares and faster transit times than their current routes from eastern parts of Bangladesh. Similarly, the tourism sector around the Chittagong hill-tracts and some really good beaches in the Chittagong division could be developed through this corridor, attracting Indian tourists who are emerging as one the most important drivers of the global tourism industry.

Perhaps the most important advantage of the design outlined here is from a regulatory perspective. Customs, immigration and security-related agencies from India and Bangladesh would not be required to re-invent the wheel or develop new rules or procedures.

The existing SOPs for duty-free shops with their associated bonded warehouse for inventory, with minor tweaks for having multiple retailers instead of one or a few, would suffice for managing the flow of goods.

Similarly, the existing SOPs for processing immigration controls and customs (for accompanied baggage including duty-free shopping purchases) currently extant would suffice. Minor

***A special regime of digital cards with biometrics could also be developed***

tweaks would be required to adjust to the visa-free access from both sides to the CBZ entry/exit points (airport and cross-border corridor being the two gateways), and the larger numbers of people expected to use this. The use of technology and smart risk management systems would eliminate whatever minor risks that agencies can perceive.

Critical to the commercial development and sustainable management of this facility, and its ability to make local businesses from both sides of the border (retailers, exhibitors, services providers, entertainers) gain from this initiative would be a dynamic business association dedicated to supporting this facility comprising of key local players from both sides of the border.

Such an institution would also be a partner in ensuring regulatory compliance with concerned agencies and ensure that facilitation in process management is not abused. It could look to examples such as the Smart Border Coalition that serves the Tijuana corridor in the US-Mexico border discussed earlier.

A special regime of digital cards with biometrics could also be developed. These cards would be given to the staff and management of the retail and other commercial facilities. These cards would allow the holders to facilitate access to the CBZ. The issuance and

management of these cards would be best administered by this bilateral association, which would also look into the overall maintenance and in-house security of the premises of the CBZ. This bilateral association would also be able to ensure fair access to retail and other commercial spaces to local stakeholders.

Over time, the association could develop a regime of special digital cards in partnership with the authorities of both countries that would also accommodate short-term temporary entry to local business associates from the two countries into each other's territories.

Figure 4 includes a space for the office premises of such an association, which would be collectively responsible for the administration of this CBZ (either as a cooperative or a special purpose entity). This space would also be used by banks that provide FOREX services (for shoppers and businesses using the CBZ).

The overall commercial, business development, and connectivity growth (from the perspective of increased connectivity with Raja Bir Bikram Airport) for the Agartala region should potentially serve as credible reasons for the State Government of Tripura to arrange for the land needed for the corridor (in the Indian side) and the CBZ in the proximity of the airport. Given the ability of such a corridor linked CBZ to



***The Government of India should work to develop the corridor on the Bangladeshi side with the cooperation of the Bangladeshi government***

foster overall growth of bilateral economic, cultural and people to people connect between India and Bangladesh, the Government of India should also be keen on such a project, and work to develop the corridor on the Bangladeshi side with the cooperation of the Bangladeshi government.

### **Proposal for Lakhimari Sonahat Border Zone Development**

The Lakhimari-Sonahat border zone is located in the Dhubri district of Assam. (Sonahat lies in Kurigram district of Rangpur division in Bangladesh. A land customs station (LCS) exists in Lakhimari with its counterpart Bangladeshi customs in Sonahat). A land-port has been operational in Sonahat since 2014, while a so-called 'International Market' and

border trade centre has been set up in Lakhimari and has been operational since 2015. Most developmental efforts so far have been piecemeal and the infrastructure has been essentially geared to manage the movement of goods via trucks across borders.<sup>9</sup>

The major item of trade being stone-chips and coal, the warehousing and storage infrastructure remains rudimentary. However, local media reports over the last several years indicate that there is a strong demand for expanding the list of items allowed for trade. Indian ginger, garlic, onion, pulses and rice have a large market on the Bangladeshi side, as do FMCG and electronic goods. Similarly, there is strong demand for Bangladeshi fresh vegetables, fish and garments.<sup>10</sup>



***The Lakhimari-Sonahat border zone is ideal for a mature commercial border zone***

The local populations on both sides have also long demanded a proper immigration facility. The land-port/border trade centre has become somewhat of a tourist spot, with people gathering near the zero points to meet and greet each other and even organise local live entertainment.

All this led to a local media outlet to describe such events as '*Dui Banglar Milon Mela*', loosely translated as a fair for coming together of the people from both sides of Bengal; though strictly speaking Dhubri on the Indian side lies in the state of Assam.<sup>11</sup>

In light of this, India's Border Security Force (BSF) declared their plans for developing a 'Wagah like' border at this location, with flag-lowering ceremonies and cultural programmes to draw tourists.

The Lakhimari-Sonahat border zone is ideal for a mature commercial border zone. As pointed out in Table 2, this zone caters to a catchment area of close to 20 million consumers and a market size close to US\$30bn. As Table 3 indicates, several major towns that are relatively under-served by retail networks of their respective countries, exist in the periphery of 150 km.

The proposed Dhubri-Phulbari bridge (West Khasi Hill District, Meghalaya), once built, will bring several other regions nearby. The development of the Dhubri-Phulbari bridge, the longest in Asia, spanning about 20 km, would act as a game-changer for this entire region.<sup>12</sup>

Both Sonahat and Lakhimari (Golokganj) are connected by railways, which would also facilitate entry of potential

**Table 3: Some Major Urban Agglomerations at Lakhimari-Sonahat Border Zone**

India		Bangladesh	
Town	Distance to Proposed CBZ	Town	Distance to Proposed CBZ
Cooch Behar	60	Kurigram	47
Alipurduar	65	Lalmonirhat	52
Bongaigaon	150	Rangpur	86
Kokrajhar	88	Nilphamari	142
Dhubri	37	Phulbari (Dinajpur District)	43
Goalpara*	130	Saidpur	134
Phulbari* (West Khasi District)	45		

Source: Author calculations. \*Distances from Goalpara and Phulbari assuming the development of Dhubri-Phulbari Bridge



***The development of the Dhubri-Phulbari bridge would act as a game-changer for this entire region***

customers to the proposed commercial border zone and help sustain footfalls.

The currently unused road bridge connecting Golokganj station with the border could be creatively re-developed (bridge upgraded with handle-rail and proposed rail connectivity, which is also being considered). That there is demand for retail, as well as cultural and entertainment facilities connecting the populations of the border zone has already been established.

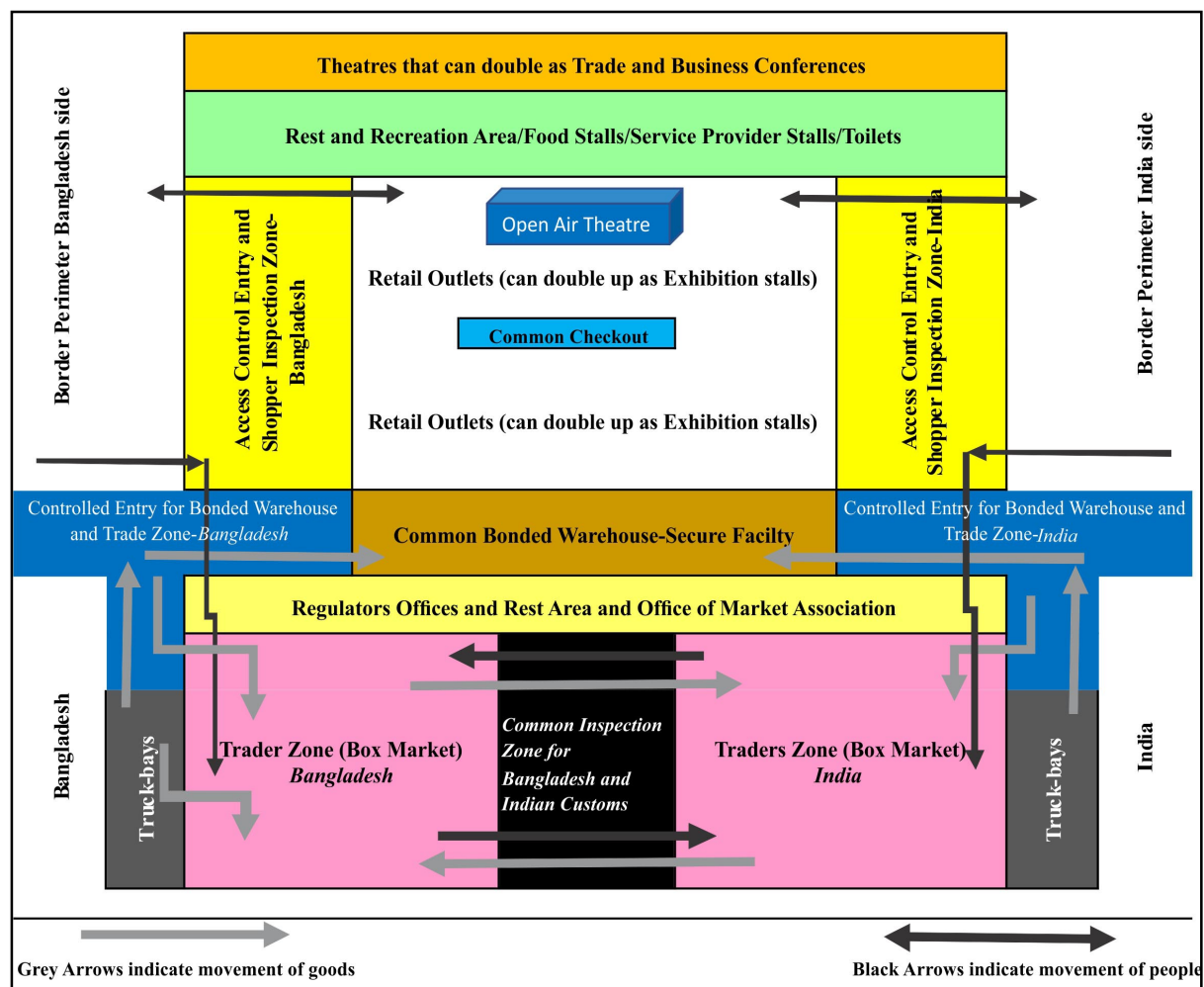
But the plans for this border zone (most of them on paper) have been haphazard, to say the least. There is little coordination between Bangladesh and the Indian sides. Development initiatives such as the proposed 'Wagah like' border ceremony post replete with galleries do not cater to a holistic attempt to integrate shopping traffic and

wholesale trade, with facilities and procedures allowing for visa-free entry to a transit zone, which integrates facilities for entertainment, business meetings, food courts and immigration (for those who have visas).

This is a failure of imagination and planning and a classic example where a good initiative, that is, the Border Haat, has not been built upon to mature into something bigger and more ambitious despite conditions for such development.

Besides the commercial, locational and logistical advantages already discussed, this border zone also has land available along the border perimeter that would allow such a border-zone development. Thus, there is an opportunity to develop an advanced integrated commercial zone.

**Figure 3: Diagrammatic Representation of the Proposed Lakhimari-Sonahat Commercial Border Zone**



Source: Authors Conceptualisation

But this has to be done before some of the more haphazard, piece-meal ideas take shape and construction starts. Figure 3 provides a diagrammatic representation of a commercial border zone (CBZ), which requires about 3.5 to 4 hectares of land, which is available.

The crux of a CBZ (to re-iterate discussions elaborated upon for the Agartala Airport CBZ previously) is that it eliminates the need for visas for people to

shop or avail cultural and entertainment services and for traders to meet and undertake business. Additionally, the development of customs protocols akin to 'duty-free shops' creates an eco-system, conducive to the development of the viable retail-led commercial zone.

If such a facility also integrates a whole-sale trade zone, it enables optimal use of the regulatory resources and



infrastructure being developed, while at the same time facilitating trading opportunities for small traders with relatively modest means. Such a facility would essentially allow small traders and retailers to purchase relatively small parcels of goods for further sale or distribution in their home markets. Such a wholesale market would, therefore, lead to much greater product diversification.

The proposed design in Figure 3 embodies this idea of integral development. None of the independent piecemeal initiatives for this location conceives of this opportunity for integration and most importantly misses the point on the vitality of visa-free access to a transit zone and facilitated customs movement.

The proposed facility design for this CBZ envisages secure access-controlled entry/exit points to the CBZ from both the Indian and Bangladeshi sides (see Figure 3). These entry/exit points would be manned by officials who will check identity to ensure that Indians do not cross-over to Bangladesh or vice-versa through the CBZ.

They would also implement the 'light touch' risk management-based check and inspections of goods being carried out of the CBZ by shoppers after their purchases. The access to the CBZ for the staff and management of stalls and other commercial facilities, as well as maintenance staff, would be

facilitated by the issuance of digital cards that are biometric-enabled (discussed earlier in the context of Agartala Airport CBZ).

Once inside the CBZ, shoppers would also have access to a food-court and toilets. A movie-theatre could also be located inside the CBZ allowing shoppers to catch an Indian or a Bangladeshi movie. The theatre could be also used for live-shows or trade and business conferences.

If local demands so indicate, services related stalls such as doctors OPD chambers, diagnostics, or contact centres for tutorial and other educational services could also be located with space allocated either in the core retail zone or in the food-court/services facilities zone (see Figure 3). All of this would add to the commercial viability and overall attractiveness of this CBZ.

Based on the current interest in live entertainment for local performers that often take place at Lakhimari-Sonahat border zero-point, the core retail zone could also develop an open-air theatre for such performances, adding further to footfalls. This open-air theatre could also double up as space for business association meetings and small trade fairs and exhibitions, targeting the wholesale aspect of trade proposed for this facility. The inventory for the retail (and services related) stalls would be stored in a common

***In the case of Lakhimari-Sonahat CBZ, there would be a frequent change of entities renting the stalls on a short-term, thereby reducing the 'known entity-lower risk' factor in regulatory management***

bonded facility managed by customs administrations of both countries and there would be a special controlled entry for goods, whether directly going to the shops or being stored as inventory (see Figure 3).

A common 'check-out' facility has also been included in the proposed design for the CBZ. A common check-out, that is, a single point of payment is a regular feature of food-courts with several different stalls and the software and management practices required for this are commonplace. Many local fairs use a variation of this system using pre-paid coupons or receipts. The reason for the inclusion of this feature is to allow a further layer of assurance to regulators.

Since all transactions and payments go through a set of common registers and all cash/credit card payments are managed at this single-point, the transactional history of retail would be transparently available regularly to the regulators, especially customs and tax authorities. In combination with bonded warehouse (with associated control measures) and controlled and secure entry and exit of goods (with CCTV cameras and if needed, basic scanning machines in place) this provides substantial checks and balances against abuse of duties and tax-related violations or even smuggling of contraband items.

The reason for suggesting this feature in the case of the Lakhimari Sonahat CBZ, while not in the case of Agartala Airport CBZ is that Agartala Airport CBZ would be a more conventional 'duty-free' zone with the permanent presence of certain retailers (having long-term lease arrangement for their stalls).

A few stalls should be made available to smaller-retailers temporarily, but control arrangements in place with a few tweaks in the protocols should be able to provide ample assurance to regulators in the Agartala Airport eco-system, especially with the help of a robust business coalition as a partner, as has been suggested.

In the case of Lakhimari-Sonahat CBZ, there would be a frequent change of entities renting the stalls on a short-term, temporary basis, thereby reducing the 'known entity-lower risk' factor in regulatory management. Thus, this additional feature might become a critical level of assurance to regulators on both sides for them to confidently allow such a model of commerce to operate, and eliminate all existing restrictions that have been in place for the 'Border Haats' so far.

The controlled entry of goods (manned by customs on either side) would also serve as the



***As in the case of the proposed Agartala Airport CBZ, developing an institutional solution for the administration, management and promotion of the CBZ is important***

point of entry for the trade-zone or wholesale market. This zone could be on the lines seen in Khorgos in the form of containers doubling up as 'stalls', that is, 'box market'. Goods could remain locked up in individual 'boxes' when the market is not in operation or stored in the bonded facility. Basic truck-bays would be developed on either side of the goods entry, and allow goods to be carted inside/carted outside (see Figure 3).

Like in the case of the retail zone, goods can be taken to the shops directly once registered with customs and inspected, or sent to the bonded facility for future use. Registered cycle-van operators could be allowed inside the CBZ to provide carting services. The wholesale trade zone or box-market would be physically segregated into Indian and Bangladeshi sections.

A common customs inspection shed could also be developed in the centre of the whole-sale zone to segregate and control the movement of exports and imports (that is, traders purchases) moving from the Bangladeshi side to the Indian side and vice-versa (see Figure 3).

Traders, once having entered the zone through the access-controlled entries from their respective sides of the border, would be able to move freely between the Indian and Bangladeshi portions of the

traders-market across the customs inspection zone (Figure 3). Having this facility where they can see/touch/feel the goods, negotiate and then prepare a wholesale consignment and take it back into their own country would be a major booster for trade, especially for the larger local eco-system consisting of the hinterlands of Rangpur division in Bangladesh and North Bengal, western Assam and western Meghalaya.

Key to the success of this proposed CBZ would be lifting of all current restrictions on what can be sold and who can buy and sell. A large number of restrictions like what applies to border-haats must not apply to this CBZ. Indeed, as suggested in the case of the proposed Agartala Airport CBZ, this CBZ must also be free to sell any product (barring notable exceptions such as liquor and other restricted items) and allow any citizen of both countries to come and shop or trade.

As in the case of the proposed Agartala Airport CBZ, developing an institutional solution for the administration, management and promotion of the CBZ is important. A 'Haat' or market committee with equal representation from both sides of the border would serve as this institutional solution. This committee would also have a few 'elders' as members. Such 'elders' could be local legislators or eminent citizens from both countries such as retired

***Once cross-border rail facilities are established a special 'halt' proximal to the CBA and with a secure access footbridge leading to it could also be developed***

members of the judiciary, bureaucracy, security forces, or prominent local captains of industry.

Representation from customs, immigration, local administration and border security agencies of both countries would serve as observer members. Such a composition would automatically ensure that this committee also serves as an institutional platform for cooperation and partnership between businesses and administrators/regulators.

The allocation of retail and other commercial spaces in the CBZ should follow a typical 'Haat' model, that is, space would be made available to retailers for temporary periods. Space allocation should be made through transparent auctions and there should be some pre-eligibility criteria for being able to participate in these auctions. The criteria would need to be designed most inclusively, especially taking care not to exclude smaller retailers and indeed incorporating some positive discrimination in their favour.

The auctions would be managed by a 'Haat' Committee. This committee

would also be made responsible for the operation and management of the common check-out point. The 'Haat' Committee would have to dedicate the necessary space for offices, which include rest and recreation area for the CBZ staff and regulatory agency staff (Figure 3).

An additional infrastructure augmentation on the Indian side could be the strengthening of the existing old road bridge as a link between the Golokganj rail station (and the town of Golokganj) and the CBZ, with e-rickshaw services to and from the CBZ. The bus-stop and taxi stand in Golokganj to the CBZ could also be served by such e-rickshaws to avoid congestion and chaos that would emerge from allowing large commercial passenger vehicles, unregulated numbers of auto and cycle rickshaws right up to the CBZ, which would also require additional space for parking.

Once cross-border rail facilities are established a special 'halt' proximal to the CBA and with a secure access footbridge leading to it could also be developed, further improving its commercial viability. Similar interventions could also be considered on the Bangladeshi side.

## Conclusion and Recommendations

**T**his paper argues for a more integrated approach to cross-border commercial development, especially focused on retail and personalised services in select points in the border keeping in mind the demand for such innovations and operational feasibility.

Also, the operational feasibility prioritises the needs of regulators putting models in place that address the key regulator concerns relating to revenue leakage, smuggling and other illegal acts.

Having discussed at length both existing international examples, as well as the proposed solutions for the Indo-Bangladesh borders, it is important in the final summation, to provide some of the key regulatory flexibilities and developmental support that such CBZ development would need from policymakers:

- Removal of any restriction on eligibility regarding who can shop at such CBZs, as long as they are citizens of either country and have documentary evidence to support the same. The two

governments can agree with what such valid documents would be.

- Removal of any restrictions on the eligibility regarding who can set up retail/ personalised service stalls at such CBZs, as long as they are citizens of either country. An additional requirement for a proposed Agartala Airport CBZ would be the need to be registered with tax authorities and customs (given the permanent/ long-term nature of establishments).

Given that Lakhimari-Sonahat CBZ is being proposed for smaller-scale retailers who will put up stalls on an intermittent or temporary basis, requiring them to be registered with indirect tax and customs would not be appropriate.

Therefore, a local protocol for registration with customs could be developed requiring minimal documentation and verification. The proposed CBZ bilateral business association could also play a role in the verification of

***Lakhimari-Sonahat CBZ would also need a much more facilitated system of using the bonded facility, especially small retailers/traders and service providers***

antecedents. A system similar to house-rent verification could also be considered, where verification by the local police station could be submitted as proof of antecedents.

- A special pass, preferably with bio-metric facilitation, needs to be developed for those persons who would access the CBZs daily. They include stall staff, maintenance personnel, security personnel (private security engaged in Agartala Airport CBZ), entertainer and performers, warehouse workers and other support staff.

Such a system of passes should preferably be managed jointly by government agencies and the CBZ business association. It is important to note that the cost of implementing and operating such bio-metrics has reduced significantly in recent years.

- High-levels of trade facilitation for shoppers in terms of customs processing of purchases made at the CBZ being brought into their territories. Highly targeted risk management, which does not interdict or physically check more than 5 per cent of the total footfall flow into these CBZs should be the initial target and

improve to around just 2 per cent over two-three years as regulators get more comfortable with CBZ operations and have better intelligence and information to use for more targeted profiling.

- Lakhimari-Sonahat CBZ would also need a much more facilitated system of using the bonded facility, especially small retailers/traders and service providers. This would mean having low charges for using the bonded facility and no requirement of any bond or bank guarantee. This would require major tweaking of current procedures and norms.

It also means that the owner/operator of the facility would need additional support if the usage fees are kept low. Either both governments or one of them could consider running and operating this facility with a substantial subsidy to keep user costs low for a period of three to five years to promote border trade, regional integration and people-to-people cultural exchange.

After the initial period of support, the commercial viability of this CBZ should become robust enough for users of the warehouse to afford market rates.

***In the case of the Agartala Airport CBZ, it also integrates air connectivity between a relatively under-served region of Bangladesh with the rest of India***

- While both these concepts could be commercially interesting, they are both targeting eco-systems somewhat far away from the economic/metropolitan cores of their respective countries. Therefore, to expect the private developer(s) to jump in, that too at market rates for land and other infrastructure development required, would be somewhat of a rosy assessment. These projects are building blocks of market development and as force multipliers aimed at commercial growth for the larger hinterland of these CBZs, as has been argued in Section III.

In that context, these projects could be taken up with substantial government funding and with land being provided at rather

competitive rates by the state. To the extent these CBZs serve as important regional integration initiatives, multilateral agencies such as World Bank, Asian Development Bank, or AIIB could also be roped in for support.

- In that context, a PPP model could evolve where government brings in substantial funds and land as equity and the private partner(s) bring in some funds (as commitment financing) and expertise to build, operate, manage and market such a facility. Just as in the case of some housing and retail real-estate developments, the developer eventually hands over the facility to the actual users, that is, the operators of the stalls, theatres and facilities in the CBZ.



The above list is indicative and there are many more levels of regulatory and developmental support that would be required at every stage of development of such CBZs. If there is a commitment from governments of both sides and support from the private sector including the all-important local business communities, then the micro-modalities of actualising these ideas would be easy to develop.

In conclusion, it is important to reiterate that these CBZs are force multipliers for regional integration. The essence of market-led development is to have a market, somewhere to meet, touch and feel products, negotiate and enter into contracts (formal or informal).

These CBZs meet that requirement without encumbering interested people from both sides to undertake the hassles of visas or complicated customs clearance procedures (up to some limits of goods purchased).

Such CBZs also provide a place for entertainment and a place to sell and promote other services such as healthcare, education and even tourism. In the case of the Agartala Airport CBZ, it also integrates air connectivity between a relatively under-served region of Bangladesh with the rest of India and allows the Agartala Airport to build on these additional passengers to increase its connectivity with the Indian hinterland.

This enhanced connectivity also helps India and Bangladesh to sell important services such as healthcare, education and tourism much better.

Last but not the least, it greatly improves the consumer welfare of the populations on both sides of the border by making available a wider variety of goods, at more competitive rates and through formal channels that eliminate criminal elements that dominate such exchange of goods in the present eco-system.



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## Endnotes

- 1 Circuitry refers to the reduction in the potential of economic activity since boundaries are permeable only at certain points and not at others. This inhibiting characteristic of the border results in fewer opportunities for economic development.
- 2 For example, border developments along the Vietnam-China border serve the needs of the industrial cluster in Chengdu (China) and Hanoi (Vietnam) that are being linked by a corridor and trade facilitation developments, but fail to address the commercial and cultural needs of the population in the borderland.
- 3 The list of factors here borrows from the conceptualization presented by Clark (1994)
- 4 Mogab et al. (2005)
- 5 Zhou, Y (2019) The buyers and sellers of Khorgos, a special trade zone on the Kazakhstan-China border, October 26<sup>th</sup>, Quartz, available at <https://qz.com/1720196/who-visits-khorgos-the-trade-zone-on-china-kazakhstan-border/>
- 6 *Ibid*
- 7 The author would like to acknowledge Bhuwan Bhaskar Agarwal, Consultant Asian Development Bank (ADB) for pointing the author to the potential of Raja Bir Bikram Airport to serve a large Bangladeshi market given its locational advantage right on the border
- 8 Similar to Border Xpress between Tijuana and San Jose in the US-Mexico border discussed earlier
- 9 Essentially weight bridges, very basic customs offices, uncovered dumping yards for products like stone-chips, and very covered godowns, which remain largely underutilised given product restrictions on trading using this point
- 10 Authors summary of several local print media reports, as well as electronic news reports available on youtube
- 11 *Ibid*
- 12 India's longest bridge set to come up between Assam and Meghalaya, North East Today, March 8, 2020, <https://www.northeasttoday.in/indias-longest-bridge-set-to-come-up-between-assam-meghalaya/>

## About the Project

CUTS International with the support of the Foreign, Commonwealth and Development Office, UK and in partnership with Unnayan Shamannay, Bangladesh is implementing a project entitled 'Border Haats between India and Bangladesh as a tool to reduce informal cross-border trade'.

It aims at understanding the prospects of establishing border haats as a tool to reduce informal cross-border trade between India and Bangladesh; and analysing its impact on gender and livelihood.

There would be greater awareness and consensus among stakeholders on the prospects of establishing border haats as a tool to reduce informal cross-border trade between India and Bangladesh; and preliminary feasibility assessment in select locations where the establishment of border haat has been proposed.

For details, please visit:

<https://cuts-crc.org/border-haats-between-india-and-bangladesh-as-a-tool-to-reduce-informal-cross-border-trade-between-the-two-countries>

## CUTS International

Established in 1983, CUTS International (Consumer Unity & Trust Society) is a non-governmental organisation, engaged in consumer sovereignty in the framework of social justice and economic equality and environmental balance, within and across borders. More information about the organisation and its centres can be accessed here: <http://www.cuts-international.org>.



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