

## Border Haat as a Means to Promote Trade and Cross-border Value Chains Between Northeastern States of India and Bangladesh

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*The primary objectives behind the establishment of border haats between the North-eastern states of India and Bangladesh were to provide alternative livelihood opportunities to the local inhabitants and reduce informal trade. The encouraging performance of the four existing haats reflects that these institutions are instrumental to the creation of an ecosystem that enhances interaction and cooperation between communities residing across borders.*

*In this context, this Briefing Paper explores the potential for buttressing Indo-Bangladesh trade through institutions, such as border haats. Initiatives like infrastructural upgrading, specific policy expansions and trade, and investment promotions are discussed in this regard. Furthermore, the paper highlights the possibilities of facilitating cross-border value chains leveraging border haats as hubs of increasing economic activities.*

### Introduction

Trade is considered by many to be as old as or even older than civilisation; trading as against the primordial urge to seize by force, is perhaps one of the most important building blocks of the modern civilisation.

Given the complexity of our civilisation, competing demands of society, and national interests make it necessary to regulate trade in different ways. Whenever the trade barriers are set too high, people tend to find ways to circumvent the formal system, giving rise to informal trade.

When people living in the border areas have limited livelihood options the problem is even more pronounced. The Northeastern states of India have faced these issues ever since the country was partitioned in 1947.

Before 1947, the region formed a part of a large contiguous geo-political entity including present-day Bangladesh, the rest of India, and even British Burma. Trade within this large geographic area was unrestricted, goods and people moved with ease.

Backed by abundant natural resources, an extensive network of rivers, and one of the earliest railway

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## The India Bangladesh Joint Committee on Border Haats has acknowledged the contribution of the haats in providing livelihood opportunities and enhancing people-to-people connectivity between the two countries

networks in India, Assam, which comprised most of the Northeast, emerged as one of the economically progressive regions of the country.

Products like tea, timber, petroleum produced in the upper reaches of Brahmaputra, or in the Surma Valley had easy access to seaports in Kolkata and Chittagong from where they were exported to different parts of the world.

The hill districts of the region sold substantial quantities of horticultural produces, betel nut, forest products, etc. in the markets of eastern Bengal. In return, they imported salt, yarn, and other industrial products from Bengal and other parts of the country since the late 19<sup>th</sup> century.

All this, however, came to a virtual standstill following the partition of India. But for a narrow corridor, the Northeastern states were almost cut off from other parts of India. As eastern Bengal became East Pakistan, railways and road linkages snapped almost immediately and riverine connectivity, which remained operational for some time, eventually snapped as a fallout of the war with Pakistan in 1965.

Border villages and towns which had always traded with each other were suddenly asked to stop trading with their neighbours and look for markets elsewhere because an imaginary line called the international border now divided them.

Overnight, farmers and producers lost access to their primary markets, and villagers were forced to procure their daily necessities elsewhere, often facing far greater levels of difficulty and at a greater cost.

After Bangladesh came into being in 1971 some of the old connectivity links were re-established and intermittent efforts made to ease the movement of goods between Northeast India and Bangladesh. Road connectivity across some border crossings, such as Dawki-Tamabil and Agartala-Akahaura was revived. Also, the riverine routes were partially reopened through the India-Bangladesh Protocol on Transit and Trade.

After the initial spurt of activity, however, the efforts became constrained by various factors and seamless connectivity has remained elusive to date. Despite India and Bangladesh share friendly relations, the movement of goods and services across the border with Northeast India is anything but unfettered even today.

Given the difficulties and often high transaction costs associated with formal trade, informal trade began to flourish; so much so that at one point it was estimated that the volume of Informal trade was more than double that of formal trade.

Today, Northeast India presents a unique study in contrasts. With 5300 km of international borders, the region accounts for over 35 per cent of India's total length of land borders. The region is also India's only land link with the Association of Southeast Asian Nations (ASEAN). Yet the region accounts for only a minuscule share of India's international trade.

For example, the region's trade with Bangladesh accounts for only four per cent (2.7 per cent of exports and 10.6 per cent of imports) of the country's trade with the neighbouring country. The figure seems appalling given the long-standing cultural and economic relations that the north-east shares with Bangladesh.

In 2010 during the visit of the Prime Minister of Bangladesh to India, the two countries decided to set up border haats to give a boost to people to people connectivity and help mitigate the difficulties faced by people living in the remote border areas, by providing them alternative livelihood opportunities.

It was also felt that the border haats would help reduce informal trade by creating an avenue for trade outside the normal channels of trade.

Following this announcement, the first border haat became operational at Kalaichar in Garo hills of Meghalaya in July 2011 and encouraged by its performance and smooth operation, three more border haats were established between 2012 and 2015 in Tripura and Meghalaya.

The haats located on the zero lines of the India-Bangladesh border, operate once a week during daylight hours for about six hours with a limited number of buyers and sellers.

While the border haats allow only limited trade in select products and traders require authorisation to buy or sell, the haats have been instrumental in improving livelihood conditions and in reducing illegal trade. The achievements of the haats have been so encouraging that the two governments have decided to take the initiative a step further by sanctioning border haats at six new locations.

The India Bangladesh Joint Committee on Border Haats has also acknowledged the contribution of the haats in providing livelihood opportunities, augmenting trade, and in enhancing people to people connectivity between the two countries.

## Opportunities for Growth and Bottlenecks

The border haats were established as a confidence-building tool with the limited objective of providing alternate livelihood opportunities to people living in the border areas. The existing haats have performed reasonably well in as far as meeting their primary objective is concerned.

Considering the success of Border Haats so far, it is felt that the border haats have the potential to become an important means for enhancing bilateral trade through an expansion in their scope, in terms of the number of items traded, the number of

vendors allowed and the days and hours of operation.

As of now, only a limited number of items can be traded in the border haats and only a few of these items account for the bulk of the trade.

For example, in the Kalaichar Border Haat, during the past three years, over 90 per cent of the trade value was accounted for by only a few items like Plastic Products, Betel nuts, and spices (particularly cumin seeds). Given below is an illustrative table showing the value of commodities traded at the border haat during the first quarter of 2018.

Even a cursory glance at the commodities traded in the other border haats, reveals that trade in border haats is dominated by a limited number of products, of which, given the volume, a substantial part is probably resold outside the immediate vicinity of the border haats.

Also, the buyers are only allowed to purchase goods worth a maximum amount of US\$200 per day. As far as the daily necessities of people living in the border areas are concerned, only a limited part is currently being met by the border haats.

This suggests the need for a reassessment of the list of items allowed to be traded at the border haats. It may well be argued that if the items for trade are selected based on a proper need/market assessment, the volume of trade at the border haats could see an exponential jump.

**Major Commodities traded at Kalaichar Border Haat (January-March 2018)<sup>1</sup>**

Commodity	Sold by Indian Traders (₹)	Sold by Bangladeshi Traders (₹)	% of Total Trade
Plastic Items		4,241,280	14.7%
Betel Nut		1,067,590	3.7%
Cloths		287,100	1.0%
Cumin Seeds	21,187,500		73%
Ginger	810,790		3%
Grapes	408,800		1%
Others	818,531	114,310	3%
	<b>23,225,621</b>	<b>5,710,280</b>	
Total Trade (₹)	<b>28,935,901</b>		

Source: Department of Commerce, Government of India



Now that the border haats have proven their worth and the system has been ironed out, it is perhaps time to move beyond the necessary optics of bilateral relations and recognise the economic potential of this experiment.

If the border haats are to have any real impact on economic development, a paradigm shift in the entire outlook will be required. The authorities on both sides of the border need to view the border haats as tools for enhancing bilateral trade and economic cooperation. Meanwhile, several initiatives could be taken without disturbing the existing framework.

For starters, the haats could be allowed to operate at least five-six days a week. This will not only increase the volume of trade but also make it possible to allow a greater number of traders from both sides to participate if necessary on a weekly rotation basis, even without necessitating any significant expansion of the existing infrastructure.

Then, more items should be allowed for trade, without worrying too much about hurting the interests of trade through other formal channels. The volumes are too insignificant for that to happen in the immediate future.

And if the volumes do increase to such a level that other channels of trade come under pressure, a simplified system of levying and collecting duties can be worked out at that time.

Also, the daily limit of US\$200 worth of goods that is currently allowed for each buyer should be enhanced so that there can be a meaningful expansion of trade to include other products of daily necessity. The existing infrastructure of border haats including washrooms is in urgent need of upgrading.

Connectivity to the border haats on both sides of the border also needs major improvement. Consideration should also be given to the possibility of expanding the infrastructure to allow more vendors and vendees to participate in the haats.

Given the limited number of border haats that are functioning at present, the radius of 5 km within which vendors and vendees can participate, could also be stretched to say 10 km for the time being, and ultimately even to 15 or 20 km.

## Hubs of Economic Activity

It has been acknowledged by both governments, that, apart from trading, the border haats also serve the important purpose of forging stronger people to people connectivity.

This important role played by the border haats needs to be emphasised and expanded further to catalyse business-to-business collaboration, to give a boost to bilateral trade and encourage the development of efficient value chains.

## A CUTS study on “Border Haats between India and Bangladesh as a Tool to Reduce Informal Cross Border Trade” draws attention to some cross-border value chains which got a new lease of life because of the Border haat set up in that area

The window offered by the border haats should be utilised to create a platform for businessmen from both countries to meet and discuss trade and other collaborative ventures. Basic facilities for holding B2B meetings, displaying products, etc could be developed at each border haat.

Allowing businessmen to meet without the need for time-consuming, expensive and at times difficult travel to each other’s country could give a major boost to trade and investment.

Facilities for limited value addition like sorting, grading, and packaging could also go a long way in boosting the efficiency of operations and trade volumes. If necessary, the value addition facilities could be regulated through warehouses and by creating specially designated areas running under a system similar to custom warehouses.

Ultimately, the border haats could form the nucleus around which Special Border Development Zones could come up at select locations along the border to encourage investment in manufacturing from both countries.

Such special development zones in other parts of the world have had a major impact on overall trade and investment and, in most cases, have completely transformed the local economy.

For example, the border development zones (*maquiladoras*) along the Mexico-US border employ over 1.2 million people and account for over 40 per cent of Mexico’s exports to the US. While the *maquiladoras*, set up under Mexico’s Border Industrialisation programme in the early 1960s, have played a major role in the economic development of Mexico, their impact is felt across the border also. At one point, one of the *maquiladoras* in Ciudad Juarez created 20 per cent of the jobs across the border in El Paso<sup>2</sup> (JESÚS CAÑAS, 2011).

With proper development focus, the BDZs can bring about major improvements in the supply chain, help upgrade the production base, enhance trade, and provide better livelihood opportunities. Therefore, the BDZs could give a major boost to trade and investment not only in India and Bangladesh but also attract investments from other countries.

The border development zone could either be developed as Cross Border Development Zones straddling both sides of the border or could be standalone special development zones on either side of the border. There are several examples of successful models of both kinds from across the world.

The Horgos/Khorgos Cross Border Economic Zone straddling China and Kazakhstan, and the Mohan/Boten Cross-Border Economic Zone between China and the Lao PDR, are two such cross border development zones.

The Horgos/Khorgos development zone was designed to be a hub for trade, entertainment and intercultural exchange, where merchants and travellers from China, Central Asia, Europe, the Russian Federation and Turkey could meet and stay for up to 30 days visa-free to communicate and trade.

Since its opening in 2012, the SEZ has served mainly as a duty-free commercial centre, hosting shopping centres and convention facilities. The zone on the Chinese–Lao border, in contrast, seeks to incorporate two border SEZs into one joint zone.

The Mohan SEZ on the Chinese side was established in 2001 as a border trading zone. The Boten Zone on the Lao side was developed in 2003 as a warehouse, tourism, and trade centre. The development plan of the cross-border zone was finalized in 2015 between the two governments, and the construction is still underway (Chen, 2019).



Modern, border development zones are increasingly adopting a cross-border model as a way to concentrate resources of the two governments, better distribute the benefits of the zone, and simplify the management of the zone by creating a separate customs area.

However, such cross border models may be quite complex to set up and will require close coordination between the Governments of India and Bangladesh, policies and laws will also need to be reconciled.

To begin with, therefore, both countries could choose to develop their own BDZ's close to the border haats, with the haats providing a mechanism for connecting the two border development zones.

Over time as synergies develop and inconsistencies are ironed out, more robust connectivity will evolve naturally between the BDZ's and the governments may consider integrating the two BDZs into one large economic zone.

For the BDZ's to succeed, substantial infrastructure investment will be required not only within the BDZ's but also to provide dedicated customs facilities and to build robust connectivity with the nearest economic centres. Special packages of benefits and incentives will also need to be offered to attract investments into the BDZ's.

Ideally, the BDZ's should allow visa-free entry of workers, vendors, suppliers, etc from across the

border with reasonable checks. A package of incentives with access to tax exemptions discounted land prices/rental rates, easy credit at preferential rates, duty exemptions, etc will help attract investments into the BDZ's.

Experience in similar Border Development Zones elsewhere shows that any revenue loss on account of the benefits and incentives is usually recovered many folds in overall economic benefits within a few years.

For example, the Lao Bao Special Economic and Commercial Zone on the Vietnam-Lao Border offers discounted rental rates and concessions on foreign ownership of land, a reduced corporate tax rate of between 100 per cent and 50 per cent, discount development finance from the Vietnam Bank for Investment and Development, and financial support for infrastructure development and marketing.

Between 2002 and 2009, the zone attracted 50 projects, at a total capital investment of VND3,670bn (around US\$168mn). This has brought about a major transformation in the largely rural economy of Central Vietnam.

By natural progression, the border haats should evolve into hubs of economic activity. While a different approach from the one suggested here, may yield better returns or may be more prudent, the fact remains that the opportunity for greater economic productivity offered by the Border Haats ought not to be ignored.

## Facilitate Cross Border Value Chains

Northeastern India and Bangladesh share complementarities with respect to several products and service value chains. Many of these value chains which existed through history were disrupted by partition and the subsequent disruption of connectivity linkages, while some others survive nominally through informal trade.

The study on "Border Haats between India and Bangladesh as a Tool to Reduce Informal Cross Border Trade between the Two Countries" by CUTS International, draws attention to some cross-border value chains such as the betel nut value chain in the Kalaichar- Balamari area which got a new lease of life because of the Border haat set up in that area.

Northeast India and Bangladesh, rich as they are in natural resources, are home to several other value chains that could benefit immensely from a cross-border approach to their development.

For instance, Northeast India is a source of some of the best spices and horticultural products in the world, while Bangladesh has a sizeable food processing industry that could import fruits, vegetables and spices from the Northeast.

Aggregation centres with customs warehouses and facilities for basic value addition could be set up in

the border haats or their vicinity and the products could be supplied to Bangladeshi companies through the border haats. This would however require investment in testing laboratories etc and the rules will have to be tweaked suitably.

Then again, Bangladesh has a flourishing garments industry which is also looking at diversifying its range of products. The exquisite silk and handloom products from the hills of Northeast which border Bangladesh could prove to be a valuable resource for the garments industry.

The Industry houses from Bangladesh could support handloom clusters in the border haats, with raw material and buy back their products through the border haats, with suitable provisions/amendments in respect of the rules governing the border haats.

The plastics industry in Bangladesh which imports all its raw material from countries like Saudi Arabia, Malaysia, and India (Gujarat, etc.), also sells its products in the Northeast. This industry could benefit by importing its raw material from Assam, which has a gas cracker plant and saves on transportation cost.

These are but a few indicative value chains from a long list of products and services which could benefit both countries with a cross-border approach to their development. An exhaustive study of value chains should be carried out to help identify



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products and services which could be prioritised for each border haat.

Ultimately, to develop sustainable bilateral economic cooperation between India and Bangladesh, it must be balanced and mutually beneficial. A value chain approach to economic cooperation will ensure that economic cooperation is based upon mutual complementarities.

## Conclusion

The poor and marginalised people residing in remote locations along the border between India and Bangladesh have benefitted much from the institutionalisation of border haats. A spurt of livelihood opportunities has resulted in a veritable improvement in the quality of their lives and living standards.

Women, otherwise engaged exclusively in the performance of domestic chores, have found a means to derive incomes through partial engagement with border haat trade.

Border haats, have, therefore, served as a means of women empowerment. People-to-people connectivity among residents on the two sides of the border has also been buttressed through the interactions among participants of border haat trade and the opportunities for socialisation that border haats offer. It also needs to be reiterated that informal trade has

perceptibly declined as a result of border haats.

Border haats have made a perceptible difference to the lives of the local inhabitants. Not only that, border haats may have a growing role to play if one considers the various natural resources and complementarities that the border regions between India and Bangladesh offer. Such complementarities may well pave the path to sustainable value chains in respect of various products and services.

Under the circumstances, border haats could serve as platforms for boosting business collaborations and ventures between the two countries and result in a greater flourish of bilateral trade. It may not be unduly optimistic to hope that the day is not far off when border haats will serve as hubs of economic activity and vital nerve centres of bilateral trade between India and Bangladesh.

With the learnings from the successful operation of the border haats over the last few years, it is time that the border haats be used for greater economic cooperation, by creating facilities for business-to-business interactions, exhibitions, and specially designated areas for value addition.

If necessary, a framework for the regulation of these activities could be evolved. Ultimately, the border haats could form the nucleus around which Special Border Economic Development Zones could come up. Similar zones in different parts of the world have contributed significantly to economic growth in their respective countries.

## Endnotes

- 1 Compiled from monthly reports submitted by Superintendent of Customs, Mahendraganj LCS to Deputy Commissioner, South West Garo Hills, Ampati, Meghalaya.
- 2 <https://www.dallasfed.org/~media/documents/research/papers/2011/wp1107.pdf>

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