



A tale of two borders- Informal agrifood trade between India-Bangladesh and India-Nepal

Presented by:

Mamata Pradhan, Devesh Roy, Sunil Saroj, Abul Kamar,
Shalini Gupta

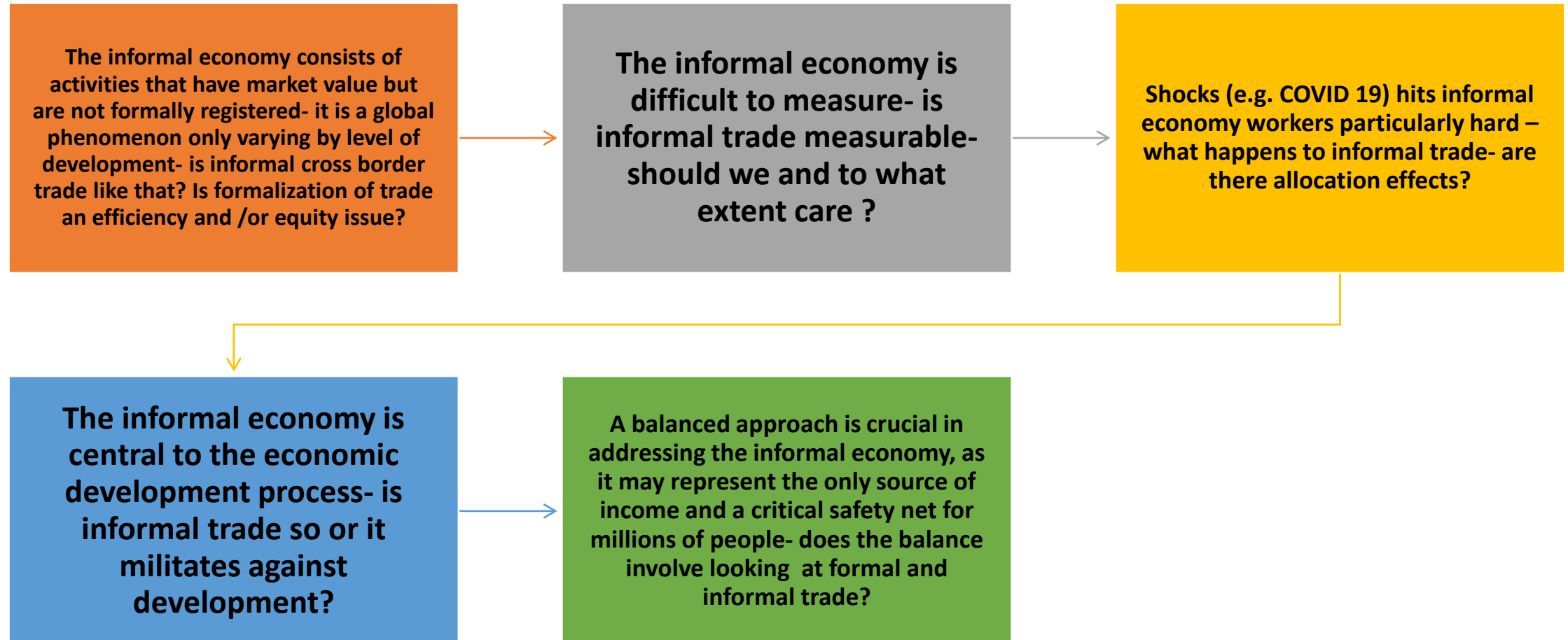
International Food Policy Research Institute

In collaboration with SAWTEE team & ICRIER



Informal economy –tenets in 5 points (IMF)

- what about informal trade?



Since we are reminiscing about Dickens? The two nodes of formal and informal trade and the two borders follows- Story of informal agri-food trade

It was the best of times, it was the worst of times,

it was the age of wisdom, it was the age of foolishness,

it was the spring of hope, it was the winter of despair,

we had everything before us, we had nothing before us,

India –Bangladesh and Nepal India cross border trade in agri-food

A significant proportion of two borders trade -conducted informally.

Note we deliberately say significant proportion not what proportion? This is quite potent



refer to imports and exports of legitimately produced goods and services (i.e., legal goods and services), which directly or indirectly escape from the regulatory framework for taxation and other procedures

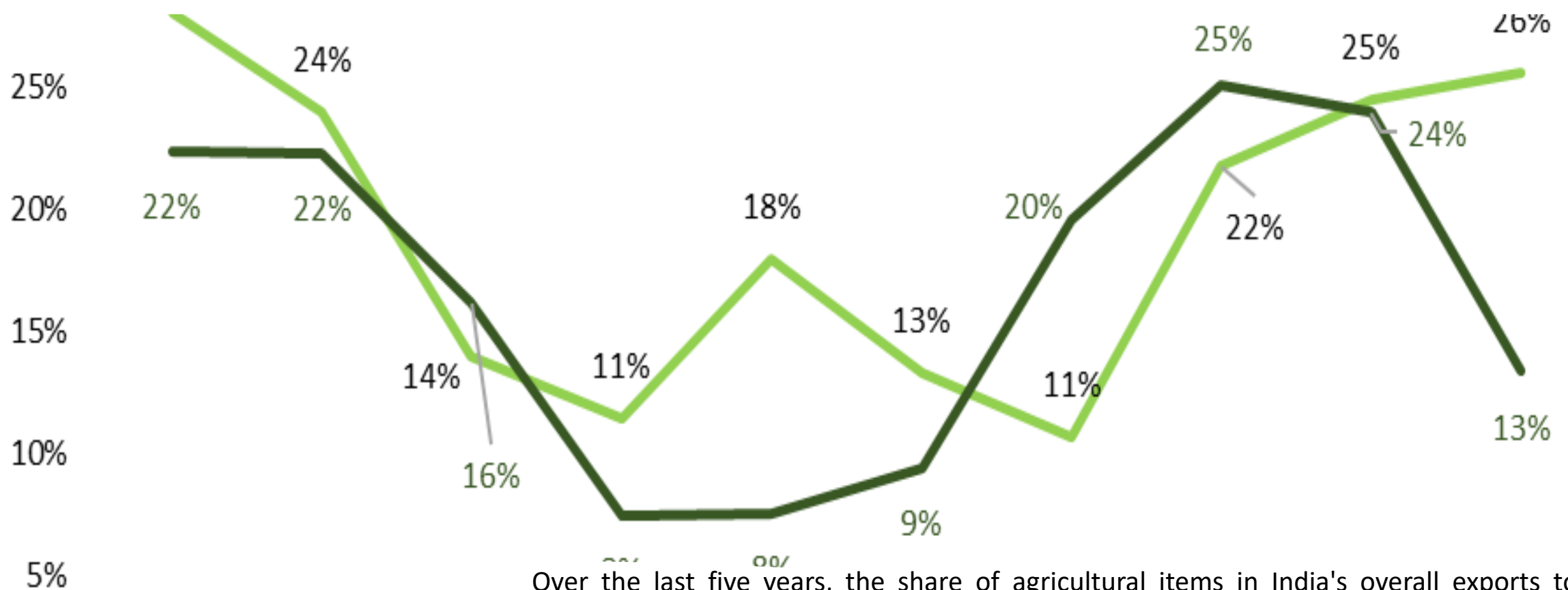


and often go unrecorded or incorrectly recorded into official national statistics of the trading countries.

Background

- **India's trade with Bangladesh in Agriculture:**

- *Best of times*- India's largest trade partner in South Asia-Bangladesh- For Bangladesh India- second biggest trade partner after China
- *Worst of times*- Trade way below potential and in relation to comparators trade highly volatile and even unpredictable
- *Age of wisdom*- India and Bangladesh agreed to sign a bilateral comprehensive economic partnership agreement (CEPA) in 2018
- *Age of foolishness* - trade policy uncertainty
- *Spring of hope* - Agriculture trade accounted for 26% of India's bilateral trade with Bangladesh- zero hunger death in flood of century
- *Winter of despair*- Trade getting undone with every shock
- *Overall, the story is*- we had everything before us (historical links, proximity, trust) we have nothing before us (in relation to that)
- a significant amount of the cross-border trade in agricultural items takes place through informal channels- is the right side of the tale the spur and basis for informal cross border trade?
 - institutional mechanism which facilitates and supports such trade
 - Transaction cost (if it is less in informal trade, will continue to thrive)



Over the last five years, the share of agricultural items in India's overall exports to Bangladesh has increased from 13% in 2018-19 to 26% in 2022-23. Particularly, essential commodities such as rice, wheat, maize, and sugar have emerged among the top exports.

Only Warren Buffet will like this?

It is recorded trade – what is sneaking in?

Source: DGCI&S, Ministry of Commerce & Industry, GoI

Informally traded agriculture items facing prohibition/restriction in India and Bangladesh (For example)

Agriculture Good Traded Informally	India	Bangladesh
Edible oils	Restricted	Import ban of artificial mustard oil; import restrictions on refined oil
Rice seed	Restricted	-
Tea	Free Export	-
Fertilizer	Restricted Export; Free Import (other than urea)	Conditional Export: Export ban of Urea fertilizer produced in all factories except KAFCO can be exported with the prior approval of the Ministry of Industries
Soyabean oil	-	Export-Prohibited Product
Palm oil	-	Export-Prohibited Product
Wheat	Restricted	Export-Prohibited Product
Non-Basmati Rice	Restricted	Export-Prohibited Product
Onions	Restricted	Export-Prohibited Product
Sugar	Restricted	Conditional Export

Main message



Informal is there because formal exists in principle



Must look at them in conjunction



Remember institutional economics insight- formal institutions depend on informal institutions especially with trade



Trade has always depended on informal migrant networks

Questions to mull- 5 “w”

- **What** – is traded
- **When**- is it traded
- **Why**- choose informal or formal
- **Who**- trades it
- **Which manner**- How informal trade occurs and is sustained? Quality, contract negotiation renegotiation
- *What follows----*
- What impact does it have on allocation between formal and informal trade?
- Shocks lead to reallocation
- The third column – trade is not all about border policies
- Trade cost is lot about domestic cost
- What are the questions to ask about informal agri-food trade?



Study objective

- the magnitude (not our primal focus) and factors that drive informal trade and how the institution works (our primary focus)
- Informal trade can occur due to distortions
 - in trade policy (tariff, NTB, export duty, export or import bans)
 - Sugar (Since 2022, sugar export has been shifted from free to restricted category)
 - Wheat (India imposed a ban on exports in 2007, subsequently in 2009 (Bangladesh, Nepal, Afghanistan and Maldives) were subject to permissible quotas but frequently changing***
 - Non-Basmati Rice, Onion***
 - domestic policy (NFSA, fertilizer subsidy, energy subsidy);
 - regulatory barriers (seed regulation plant quarantine)
 - institutional factors (time at port, clearance)
- India – Bangladesh- ICBT occurs through several locations with two distinct modalities (i) through official border crossings and (ii) along the unfenced porous border
- Location and geo-spatial analysis shed light on trade costs
- Informal trade takes place through small traders who are in search of livelihoods and informal trade is their main economic activity)

Locations and brass tacks of trading

- 5 key locations Phansidewa, Chawlhati, Gitaldaha, Hili and Basirhat along India-Bangladesh border- to understand-how informal trading networks are organized and how they facilitate ICBT
- 5 locations for formal trade also surveyed to assess impediments/ complexities of formal trading, Fulbari, Changrabandha, Ghojadanga, Petrapole and Kolkata.
- Well oiled trade and finance nexus –Hundi or hawala mechanism of informal international money transfer - pre agreed transaction value limit and payments settled once a month or earlier if agreed transaction value reached- mimics trade credit
- The payments are received in either currency as Sahukars on either side provide exchange of currency as and when required.

Key insights/findings

- Locations historical trading hubs till 80s or 90s. Phansidewa- a river port (bandar gaach)—and trading post (border haat), hub of commercial activities supplying nearby towns both sides.
- Border fencing in the 1980s by India free movement diminished and the *haat* eventually closed down
- substantial incentives for informal agri-food trade to reap economic opportunities.
- Scarcity & product differentiation -*desi* (local) variety of seeds imported into India-perceived organic/better quality. culturally-important hilsa fish, with demand increasing during holidays such as Durga Puja festival.
- On India Bangladesh- **oligopoly of traders**- Facilitated by eight to ten local traders, called “linkmen” or *paraparkari*, and local intermediaries called “carriers.” –question is why? What kind of entry barriers
- About 80% carriers are women, as most of the border points have no women security personnel and women are less likely to be searched or frisked- ICBT has large gender footprint
- large scale informal trade controlled by mafia style syndicates with political patronage
- Information rent and network specificity – how technology like connectivity, instant messaging digitization make ICBT even more feasible and efficient



Learning

- ICBT in agri-food probably impenetrable
- Should that be a worry beyond the tax man and health or other negative outcomes if any
- Implausible attempt to measure the measurement error- qualitatively high or low and trajectory – valuable information
- 5 Ws can determine the course of policy

In the era of GVC

- Understanding-intricacies of informal agri-food, its coexistence with formal trade (its organization including system of implicit contracts working through social ties and repeated interactions, quality management, price formations and price discovery under incomplete and asymmetric information)
- Exploration of different facets of informal agrifood trade comprising exchanges of both inputs and outputs
- Extensive set of agents for ICBT



Methods/process

- Stakeholder consultation
- primary surveys:
 - qualitative data through structured interviews, observations, and questionnaires administered to local traders, customs officers, border forces, leaders of the business community, the gram panchayat (village council) head, zilla parishad (district council) members, informal goods carriers, intermediaries, wholesalers, and retailers.
 - What do we learn?
- Formal agency plays a significant role in informal trade
- Portfolio of trade is dynamic
- Nature of trade can be mapped in portfolio, domestic policy

ICBT India-Nepal and India-Bangladesh comparison

- Differences in border porosity- IB border largely fenced
- Coping mechanisms differ- mode of operation trading at night, gender engagement
- Determines the scope and extent of transfers for authorities
- Differing institutions of middlemen *blackia* and in ICBT Bangladesh India
- Family links more set in India Nepal- solving the large problem of trust in trade
- Extent and form of treaty in formal trade differ
- Nepal is landlocked Bangladesh is not
- Border *haats* (not there in Nepal ICBT)

Only God knows the border
-or may be not



Border haat

Exported items from India (Phansidewa) to Bangladesh

- Rice, pulses, wheat, sugar, hybrid rice seeds, vegetable seeds, pesticides, fertilizers, spices such as cardamom and cinnamon, edible oil, and agriculture machinery spare parts.
- Go back to factors/determinants – specific look at domestic policy and shocks
- Imports- comparatively small, perishables – time to trade important determinant including regulatory barricades

Major informally traded agrifood commodities (India-Nepal)

- **Exporting:** rice, wheat, maize, sugar, hybrid seeds, pesticides/fertilizers, agriculture machinery spare parts.
- By volume the biggest trade is assumed in rice, wheat, and maize.
- There is also services trade for machinery and equipment are moved across the border for repairs to avail of price differences and better availability of spare parts.

- **Importing:** honey, herbs, ginger, turmeric, and turmeric oil. These exports have faced significant non-tariff barriers in formal trade.
- Policy induced GVC in edible oil
- India imposed a ban on Nepali ginger, perceived related to surplus production in India.
- Big driver is trade policy uncertainty

How is informal trade is actualized across the borders



A woman walks past a gate in the India-Bangladesh border fence at Phansidewa as employed as tea garden worker.



Blackia crossing the Nepal-India border in Birgunj with sacks of rice.



Random checking at Birgunj, Nepal-India border

Questions to ask

- Can and should the cycle be broken?
- How can it be broken?
- Is there and should there be a middle ground – quasi formal trade?
- India and Bangladesh are reviving border haats to facilitate trade between local communities, with five currently operating and 16 more are planned with locations not yet established.
- These makeshift weekly markets have been quite successful at generating livelihood and income opportunities for local communities. A study by ICRIER on Trade Facilitation Measures to Enhance Participation of Women in Cross-border Trade in BBIN found that women constituted 34%-36% of local Indian traders licensed to operate at the border haats.

Conclusion and policy implication (for India-Bangladesh)

- So how can informal trade be shifted to formal channels?
 - Search for middle ground
 - Need for formalization case specific
- Time to trade and cost to trade – role for trade facilitation
- A more collaborative approach with Bangladeshi authorities will help in setting up facilities for testing.
- Barriers but more important uncertainty
- improving infrastructure at land ports would remove some of the impediments to formal trade.

Some of the new measures such as Suvidha, are effective at ports like Petrapole where the volume of trade is high but such costs at other ports should be lower at ports where the volume of trade is low. Rationalisation of rates across all land ports would reduce transaction costs incurred in transportation of goods across borders.

- Border *haats* can be established along the India-Bangladesh border. Since the volume of informal trade along the borders is low but is an important source of income for the local populations residing in these areas, border *haats* can serve as safe and secure trading spots for the local traders. Border *haats* would benefit women greatly as a substantial number of women are engaged in informal trade.

Take home

- Music and art have no boundaries
- Runa Laila
- Manisha Koirala
- Ambassadors of GVC
- Why agri-food trade have so many boundaries?
- Let Runa Laila and Manisha Koirala paradigm work for agrifood trade