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FACILITATING OVERLAND TRADE IN BCIM: ISSUES AND WAYS FORWARD

Abstract*

Spurred by trade liberalization, tariff barriers are now low in most countries across the world. Many argued that tariffs have been dropped to a level where in many cases any additional reduction would now no longer have a significant impact on trade. However, poor institutions and inadequate infrastructure are negatively affecting trade, differentially across countries. Therefore, the attention is now being focused on facilitation of merchandise trade, both inbound and outbound. Despite rapid trade and economic development in BCIM, inefficient trade facilitation measures are continued penalising the subregional trade. This paper argues that when the tariffs in this subregion tend to become low and

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in view of the subregion's geographical surface continuity, economies in BCIM will gain equitably a lot if overland trade is encouraged. Finally, this paper prescribes some policy options to facilitate overland trade in BCIM.

1. Introduction

Spurred by trade liberalization, tariff barriers are now low in most countries. Tariffs on average (trade-weighted or arithmetic) are less than 5 percent for rich countries and with a few exceptions are on average between 10 to 20 percent for developing countries. Tariffs have been dropped to a level where in many cases any additional reduction would now no longer have a significant impact on trade. However, poor institutions and inadequate infrastructure are penalising trade, differentially across countries. Several studies show that when tariffs tend to become low, the economies could potentially benefit substantially from higher trade if these economies effectively control transaction costs.¹ Therefore, the attention is now being focused on facilitation of merchandise trade, both inbound and outbound.

The adequacy in trade and transport facilitation measures (both visible and invisible) helps determine a region's success. For instance, studies indicate that the liberalisation of international transport services foster international trade very much the same way as tariff liberalisation does (Baier and Bergstrand, 2001; Andriamananjara, 2004). Therefore, the strategy of trade in the new millennium goes beyond the traditional mechanisms of tariffs and quotas. It includes "behind-the-border" issues, such as the role of infrastructure and governance in supporting a well-functioning trading economy.

Bangladesh, China, India and Myanmar (hereinafter called BCIM) boast a total population of more than 2.5 billion, and their rapid economic development has demonstrated broader prospects for subregional cooperation. Even though BCIM countries are heavily characterized by high incidence of poverty, the remarkable growth in merchandise trade has resulted in robust growth of the economies in

¹ Refer De (2005b, 2006b) to know the list of the studies dealing with trade costs.

the subregion. In 2004, India became the largest trading partner of Bangladesh, fourth largest trading partner of Myanmar and fifteenth largest trading partner of China. China, on the other, became second largest trading partners of Bangladesh and Myanmar, and third largest trading partner of India in 2004. Trade facilitation measures, even though late, are fast gaining attention in the subregion (Dansheng, 2006).

In the BCIM subregion, trade has gone up from US\$ 1.20 billion in 1991 to US\$ 15.35 billion in 2004 mainly due to sharp rise in bilateral trade between India and China in recent period. Therefore, trade interdependency in BCIM is quite noticeable. Trade between India and China has gone up from less than US\$ 100 million in 1991 to over US\$ 14 billion in 2004. Similar trend has also been noticed in bilateral trade between India, Bangladesh and Myanmar. Basically, three noticeable features can be observed from this rising subregional trade: (i) substantial rise in two-way trade between India and China (over US\$ 14 billion in 2004), (ii) phenomenal increase in China's exports to Bangladesh (US\$ 1.91 billion in 2004), surpassing India's exports to Bangladesh (US\$ 1.63 billion in 2004), and (iii) rise in Myanmar's exports to India (US\$ 364 million in 2004), exceeding her exports to China (US\$ 188 million in 2004). Table 1 captures this trend more clearly. Nonetheless, all the economies (small and large) in this subregion are now having more trade between each other than they used to do a decade earlier.

Table 1: Composition of Intra-BCIM Trade 1991 and 2004

(a) Exports (US\$ million)

	Bangladesh		China		India		Myanmar	
	1991	2004	1991	2004	1991	2004	1991	2004
Bangladesh			21.2	30.67	22.8	66.15	0.24	1.89
China	203.9	1906.15			144.48	5926.67	286.17	938.59
India	324.56	1624.82	48.27	4178.48			3.84	104.71
Myanmar	0.12	24.82	96.29	187.68	46.56	363.68		

(b) Imports

	Bangladesh		China		India		Myanmar	
	1991	2004	1991	2004	1991	2004	1991	2004

Bangladesh			146.91	1445.68	189.49	1745.06	0.13	27.3
China	9.24	57.01			120.34	7677.43	105.92	206.9
India	5.73	60.57	20.97	6073.29			51.22	400.05
Myanmar	0.26	2.08	314.79	1029.24	4.23	115.18		

Source: Direction of Trade Statistics Yearbook CD ROM 2005, IMF

2. Overland Trade Issues

However, the question remains: when the tariffs in this subregion tend to become low and there exists geographical surface continuity, why do these economies (in BCIM) trade less among each other through overland.² There are many studies which show that the economies with geographical contiguity could potentially benefit substantially from higher trade, provided trade and transport barriers are removed (e.g. EU and NAFTA). However, the fact is that except the trade between India and Bangladesh and to some extent the same between China and Myanmar, around 85 percent of merchandise trade in BCIM passes through sea and rest through overland. Table 2 indicates that most of India-Bangladesh trade carries through overland and the same between India and Myanmar is very negligible. However, at the same time, due to phenomenal rise in India-Bangladesh overland trade, land customs stations dealing India-Bangladesh trade (e.g. Petrapole and Benapole) are highly congested resulting which transaction costs have been growing rapidly.³ Associated costs (non-transportation related costs) alone carry more

² Weighted average MFN tariffs in BCIM have come down to 8.44 percent in 2004, from over 14 percent in 2000. Appendix 1 shows individual country's weighted average MFN tariffs in bilateral pairs in BCIM vis-à-vis world for the year 2004. It clearly indicates that tariffs tend to be lower across all the economies in the BCIM and it is therefore no longer the only influential factor in enhancing trade.

³ In a study, De (2006a) shows that the aggregate delay (loss of time) in case of Indian exports to Bangladesh through Petrapole-Benapole land border turn out to be around 4 days for a single shipment, due to which an exporter incurs approximately US\$ 230 as transaction costs at border, which in ideal condition should be around US\$ 66.

than 72 percent of estimated total transaction costs, which act as the major deterrent to India-Bangladesh official overland trade.⁴

India-Myanmar trade shows completely different picture; about US\$ 500 million India-Myanmar annual bilateral trade mostly passes through sea, showing no substantial presence of overland exports and imports. However, there is a noticeable increase in India's overland trade with Myanmar due to opening up of the border trade point at Moreh (Manipur) in 1995.⁵

Table 2: India's Overland Trade with Bangladesh and Myanmar*

Year	Export to		Import from	
	Bangladesh	Myanmar	Bangladesh	Myanmar
	(US\$ million)			
2000-01	779.51	1.23	57.48	2.75
2001-02	997.47	0.27	60.42	1.69
2002-03	1090.67	1.10	62.31	2.63
2003-04	1353.08	2.09	63.71	2.93
2004-05	1497.72	2.27	65.62	3.12

Note: * Considerable India's overland trade passes through (i) West Bengal and Northeast India in case of Bangladesh and (ii) only Northeast India in case of Myanmar.

Sources: Compiled by the author based on (i) North East Federation of International Trade, Shillong, (ii) Indian Customs Office, Shillong, (iii) Central Excise and Customs, Government of India, Kolkata, (iii) Das *et al* (2005b)

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

⁴ See, for instance, De (2006a)

⁵ Another border custom station at Zokhawthar (Champai) in Mizoram has also been opened for overland trade with Myanmar in 2004 but yet to be fully operational.

Pradesh).⁶Virtually, entire US\$ 15 billion India-China annual bilateral trade carries through sea.

Therefore, overland trade in BCIM is not the preferred mode for subregional trade transaction, despite the existence of several potential trade outlets. Except the trade between India and Bangladesh, India's overland trade with Myanmar and China is highly localised, informal and underutilised. Reasons are many and can be summarised as follows: (a) absence of integrated and harmonised transportation networks (e.g. virtually in the entire region), (b) absence of adequate and active overland official trade outlets and associated facilities (e.g.

⁶ India has border trading arrangement with China mainly conducted through Lipulekh pass (5200 m) in Uttaranchal and Shipkila pass in Himachal Pradesh. The Lipulekh pass trade route connects Dharchula in the Pithoragrah district of Uttaranchal with Taklakot in the Purang county of Tibet autonomous region. The Shipkila pass trade route mainly caters to the people living on both sides of the border. Namgya village (more specifically it is Chhupan, which is 10 kms. away along the old Hindustan-Tibet Road (mule track), and 6 kms. by motorable roads from Namgya) in Kinnaur District (in Himachal Pradesh) in India, and Jiuba in Zada county in the Tibet Autonomous Region of China, have been identified as the border trade markets. The items traded are of day-to-day needs of the people. Shipkila has been identified as the pass for entry and exit of persons, commodities and means of transport engaged in border trade, exchange of commodities and means of transportation. Chhupan is 2 kms away from Shipkila. Protocol between the Government of India and the Government of the People's Republic of China for Extension of Border Trade across Shipkila Pass signed on September 7, 1993. According to unofficial sources, approximately Rs. 32.85 million of trade between India and China was carried out at Shipkila Pass in 2002-03. The composition of exports and imports at this point show a good mix of traditional and manufactured items. Export items from India to China through Shipkila in 2002-03 were mainly atta, gur, dry herbs, spices, kesar, vegetable oil, dry cell, tea, textile, cloth, carpet, radi, tap, copper products, watches, sawing machine, bulb, tirpal, biscuits, pickle, coconut, cassette, match boxes, magi, milk powder, readymade garments, utensils, whereas imports from China were primarily wool, sheep, goats, pashmina, butter, PT shoes, clothes, Chinese cups, thermos flasks, cigarettes, yak, jackets, horses, cheese, etc. Since Shipkila and surrounding areas are topographically rather very rugged, and due to lack of modern infrastructural support, border trade at this point is yet to take a good shape (Lama, 2005).

India and Myanmar), and (c) absence of trade facilitation policy measures (e.g. primitive land customs stations).

3. Ways Forward

Tariffs tend to be lower across most of the economies in the world. Attention is therefore being paid towards trade facilitation across the world. Generally speaking, tariffs are not regarded as major barriers to trade although high-tariff items and tariff escalation still exist for certain sensitive products. With globalization of economic activities, greater attention is paid towards reduction of cost of doing business and trade. Studies clearly show that documentary requirements are burdensome to the trading community, and that trade facilitation efforts will be more beneficial than trade liberalization. Several measures have already been taken for overland trade facilitation by India through her North Eastern Region (NER), and the country continues to accord high priority to the development of trade and exports.⁷ However its effects are still limited.

(3a) Modernising Customs

Customs is an intrinsic element of any cross border movement of goods and services, and yields significant influence on the national

⁷ For instance, following the announcement made by the Prime Minister in respect of measures for the development of exports from the NER in Shillong during 21-22 January, 2000, an Export Development Fund (EDF) has also been set up with the objective of using the resources for the development of exports from NER. An Empowered Committee was set up under the Chairmanship of the Additional Secretary, Infrastructure, Department of Commerce, Government of India for approving projects to be funded from the Export Development Fund. The funds were released to the Agricultural & Processed Food Products Export Development Authority (APEDA), which has been nominated as the nodal agency for the Scheme. Adequate infrastructure being an essential requirement for sustained growth of trade, the Government of India has been assisting the NER states for creation of infrastructure under the Assistance to states for Development of Export Infrastructure and other activities (ASIDE) scheme. During 2004-05 an amount of Rs. 360 million, constituting 10 percent of the outlay under the scheme, has been allocated for the NER (Government of India, 2005).

economy. The time taken for clearance of goods has an impact on the competitiveness of countries in the global context. In case of BCIM, with an increased emphasis on administrative reform, governance, and security, the need for an efficient and effective customs administration is required urgently.

One of the major reasons for high transaction costs in BCIM seems to be cumbersome and complex cross border trade procedures.⁸ Complex requirements in cross-border trade increase the possibility of corruption. For example, at the key border crossing point between India and Bangladesh as many as 1,500 trucks queue up on both sides of the border with waiting times varying between one and four days to complete documentation requirements. Expediting customs clearance procedures reduces the discretionary power of customs officials, thus reducing the scope for corruption. An efficient, friendly and corruption free customs can help boost trade and investment in BCIM. The governments in BCIM can learn from the GMS Cross-Border Transport Agreement (CBTA), which has been very successful in implementing single-window customs clearance at all border crossings in GMS.⁹ In order to encourage overland trade, countries in BCIM may think to adopt single-window customs clearance system at all the border crossings following the example of GMS.¹⁰ Box 1 provides the key points of CBTA, adopted by GMS.

Table 3: India's Selected Land Customs Stations in BCIM

Land Stations	Custom	Indian States	Neighbouring Country
Agartala		Tripura	Bangladesh

⁸ Refer, De (2005a)

⁹ Specifically, Mae Sai-Tachilek is one of the seven pilot points selected under the GMS Cross-Border Transport Agreement (CBTA), which came into force in December 2003, to streamline regulations and reduce non-physical barriers (as the ADB terms it) for single-window customs clearance. By next year, 13 border points in the GMS region are expected to become operational (Baruah, 2005).

¹⁰ A single-stop, single-window customs clearance system has been put in place in the Dansavanh (Laos)-Lao Bao (Vietnam) border crossing point since June 30, 2005 (ADB, 2006).

Old Raghana Bazar			
Srimantapur			
Borsorah	Meghalaya		
Dawki			
Ghasuapara			
Shella Bazar			
Demagiri	Mizoram		
Karimganj Steamer Ghat	Assam		
Ghasuapara			
Sutarkhandi			
Petrapole	West Bengal		
Changrabanda			
Hilli			
Mohedipur			
Ghojadanga			
Ranaghat/Gede			
TT Shed			
Singabad			
Radhikapur			
Moreh		Manipur	Myanmar
Zokhawthar (Champai)		Mizoram	
Nathu La*	Sikkim	China	
Lipuleph Pass	Uttaranchal		
Shipkila Pass	Himachal Pradesh		

Note: * Not yet operational

Source: Author's own compilation based on Ministry of Commerce and Industry, Government of India

It is worthwhile to mention that some steps for improvement of infrastructure at LCSs have been taken by the Government of India.¹¹

¹¹ It has been decided that requirement of funds for the development of infrastructure at 12 LCS would be met from the central component of ASIDE. The RITES has been asked to conduct a study on the development of

As shown in Table 3, most of the LCSs in NER have been prioritized for development of infrastructure, out of which development of 4 LCSs, namely, Moreh, Sutarkandi, Dawki and Zokhawthar have been given highest priority.¹² But, a lot more has to be invested at LCSs to effectively encourage overland trade in BCIM.

Finally, to encourage overland trade in BCIM, customs authorities in BCIM should take significant reforms in order to adopt single-window system (a) simplified administrative document, (b) computerization of documents by connecting all custom points through EDI, (c) pre-shipment inspection for all non-government imports, (d) red and green channels in all land customs points, and (e) e-business usage.

Box 1: GMS Cross-Border Transport Agreement

The GMS Cross-Border Transport Agreement (GMS Agreement) is a multilateral instrument for the facilitation of cross-border transport of goods and people. Formulated under the auspices of an ADB technical assistance, the GMS Agreement provides a practical approach, in the short to medium

infrastructure at Borsorah and Agartala LCSs in NER. An Inter-Ministerial Committee for the development of LCSs has been constituted under the Chairmanship of the Additional Secretary (Infrastructure), Department of Commerce with representatives from the Ministry of External Affairs, Ministries of Home Affairs, Railways, Road Transport and Highways, Telecommunications, Department of Revenue, Reserve Bank of India, Central Warehousing Corporation, National Highways Authority of India, Border Roads Organization and the concerned State Governments. Coordination Committee at each of the LCSs have also been constituted under the Deputy Commissioner of Customs / Assistant Commissioner of Customs for deliberating on local issues connected with day to day functioning of the Station (Government of India, 2005)

¹² Central Warehousing Corporation (CWC) has conducted studies on requirement of infrastructure facilities at Moreh (Manipur), Dawki (Meghalaya) and Sutarkandi (Assam) for improvement of LCS. CWC is the appointed agency for the development of Moreh, Dawki and Sutarkandi LCS, whereas the Zokhawthar (Mizoram) will be developed by the Borders Road Organisation (BRO) in cooperation with the Mizoram Government (Government of India, 2005).

term, to streamline regulations and reduce non-physical barriers in the GMS. It incorporates the principles of bilateral or multilateral action, and flexibility in recognition of differences in procedures in each of the GMS countries.

The GMS Agreement includes references to existing international conventions that have demonstrated their usefulness in a broad range of countries. It also takes into account, and is consistent with, similar initiatives being undertaken by ASEAN.

The GMS Agreement is a compact and comprehensive multilateral instrument, which covers in one document all the relevant aspects of cross-border transport facilitation. These include:

- single-stop/single-window customs inspection
- cross-border movement of persons (i.e., visas for persons engaged in transport operations)
- transit traffic regimes, including exemptions from physical customs inspection, bond deposit, escort, and phytosanitary and veterinary inspection
- requirements that road vehicles will have to meet to be eligible for cross-border traffic
- exchange of commercial traffic rights
- infrastructure, including road and bridge design standards, road signs and signals

The GMS Agreement applies to selected and mutually agreed upon routes and points of entry and exit in the signatory countries in GMS.

Source: ADB (2006)

(3b) Setting up New Land Customs Stations (LCSs)

LCSs are gateways for the transit of goods, services and human beings among neighbouring countries. Present LCSs across India-Myanmar are inadequate. Therefore, new LCSs, particularly between India and Myanmar, are likely to promote subregional trade and services. There are around 35 officially recognised LCSs which are dealing India's overland trade with Bangladesh, Myanmar and China

(see, Table 3). There are many inactive but potential LCSs exist at India-Myanmar border, which can be gradually made operational to facilitate overland trade in BCIM. In 2003, India signed an agreement with China for reopening a border crossing and trade point at Nathu La in Sikkim, which could be the third direct border trading point between India and China. The two sides agree to use Nathu La pass as the transit point for persons, transport vehicles, and commodities engaged in border trade.¹³

(3c) Integrating Local (Border) Resources in Overland Trade

In general, the flow of trade across India and her BCIM neighbouring countries may conveniently be classified into two types. Firstly, India-Bangladesh trade may be characterized as growth-generating trade. For example, exports of India's NER to Bangladesh mainly consist of mineral products like coal and limestone, natural products like boulders and stone chips, and a few agro-horticultural products. About 90 percent of NER's exports to Bangladesh consist of mineral products, primarily from Meghalaya. There exists a strong base for NER-Bangladesh trade because of their mutual complementarities. The resource structure of NER is complementary to the demand structure of the Bangladesh economy. The demand for mineral products in Bangladesh has led to their commercial exploration in the hills of NER, particularly the bordering state of Meghalaya, where large scale deposits of coal (564 million tonnes)

¹³ The Nathu La pass is located 54 km from Gangtok, the capital of Sikkim in India. This is considered to be the shortest trade route to Lhasa, which is 525 km from the Nathu La pass. The Tibetan town of Yatung is 52 kms. from Nathu La. The route connects Phari, Guru, Gyantse, Karos, Chusiu, and Lhasa on the Chinese side of the trading points. Like other border trade agreements signed by the Government of India with its neighbouring countries, this agreement is also likely to have a much larger scope in terms of the coverage of regions and goods and services because of a greater accessibility to and more developed physical and institutional infrastructure in and around the trading points. Further, this trade route was a very active means of economic exchange before it was closed in the mid-1960s.

and limestone (4147 million tonnes) exist. Although NER-Bangladesh border trade has accelerated the exploration of local resources, it has not established the triadic linkages between resource mobilization, upgrading of production structure, and trade. What is observed in this case is a dyadic linkage between trade and resource use. However, the triadic linkages are emerging in the case of cement production. Within the last 30 years, the number of cement-producing units in Meghalaya has increased from 1 to 6 (Das, 2005a).

NER-Myanmar trade may be characterized primarily as transit trade. The two-way flow of goods shows that goods produced outside the region are mainly exported through the Moreh-Tamu sector. Similarly, goods of third country origin are mainly imported from Myanmar. NER-Myanmar trade has not yet been linked with the local resource bases and production structures across the border. Perhaps, because of the competitive character of resource bases across the border the linkages of NER-Myanmar trade are weak. Over and above, border trade between India and Myanmar through Moreh-Tamu trade points are carried on mostly through barter trade system.¹⁴ Normal trade on demanded items is yet to take a shape on the ground of anomaly in exchange rates between India and Myanmar resulting which traders from both the sides are not interested for opening letter of credit (LC) channels.¹⁵ There is economic sanction of the United States on Myanmar for which operationalisation of LC between India and Myanmar is not feasible at this moment.

Therefore, by implementing an effective integration plan involving local economy into overland trade would certainly help sustain the BCIM cooperation programme.

¹⁴ Traditional exchange of locally produced goods up to US\$ 1000 between indigenous people residing up to 40 km on either side of the border, and 22 exchangeable items of agriculture and forest products up to US\$ 20,000 are permissible for border trading at Moreh-Tamu sector. (Source: Chief Commissioner, Central Excise and Customs, Shillong)

¹⁵ Due to absence of normal currency exchange rate between India and Myanmar, settlement of trade transactions between Myanmar and India takes place through ACU (Asian Clearing Unit) dollar.

(3d) Setting up Industrial Zones / Free Trade Zones at Border

Needless to say, without trade, a border area becomes a closed economy. In view of the regional development, overland trade in BCIM will always be beneficial to the local population. However, its success will largely depends on intensity of growth generating trade in terms of employment creation. One way to involve local people in overland trade mechanism is to set up industrial zones or free trade zones in the border area. For example, the industrial zone in Lao – Vietnam border (at Lao Bao in Vietnam) has become very popular which actually not only enhanced overland trade between the two countries but also generated employment to local people.¹⁶ There is another good example of Gaeseong industrial complex in North and South Korea border, which has not only generated employment to local people but also making reasonable grounds for larger overland trade between the two countries.¹⁷

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

(3e) Establishing Overland Transportation Linkages

¹⁶ This new industrial zone has generated about 700 employment to the local people till 2005 and the two-way trade between Vietnam and Laos through Dansavanh (Laos) and Lao Bao (Vietnam) border crossing points had increased from US\$ 46 million in 2001 to US\$ 61 million in 2005 (Baruah, 2005)

¹⁷ The industrial complex is located at the North Korea and South Korea border at Gaeseong (inside North Korean territory) where about 15 South Korean companies have set up manufacturing facilities which has generated about 1500 new jobs for North Koreans (Cho *et al*, 2005).

An extensive travelling in BCIM subregion makes it clear that some critical components are missing in the region— harmonisation of railway networks, standardisation of all weather paved roads, international airports, and developed border trading points – which are seriously hindering subregional trade. Transport flows along BCIM's road, rail, air, and waterway corridors are constrained by poor infrastructure condition, congestion, high costs, and lengthy delays. Subregional trade is hampered by restrictive domestic policies, lack of intra-regional cooperation, and inefficient procedures for trade documentation and clearance. All of these problems are particularly severe at border crossings, many of which pose significant bottlenecks.

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

The big opportunities for BCIM lie in developing trade routes from India to Myanmar and China. The Nathu La border crossing with China is unlikely ever to constitute a major trade route between the two countries. The distances to other countries are too great, and the regular winter closures and frequent temporary closures in other times might rule out the Nathu La border as a major cross-border trade route between the China and India. This border crossing would be very suitable for local trade and tourism. A recent development is a road linking China, India, and Myanmar has been opened to traffic. The road section from Pingyuan to Nabang in Injiang county of Yunnan province in China, which lies on the border with Myanmar, was opened to traffic in April 2005. After the opening, travel distance from

Kunming (capital of Yunnan province), via Myitkyina in Myanmar, to Ledo in India has been shortened to about 1,200 km. Previously, freight transport between Yunnan and India had to follow a roundabout route from Kunming to Zhanjiang port in Guangdong province, then loaded onto ships bound for India via Malacca Straits—a total of 6,000 km. This road will also facilitate freight transport from Yunnan to Europe and Africa via seaports in India and Myanmar. Strengthening cooperation among Bangladesh, China, India, and Myanmar would facilitate direct (and non-stop) railway/road/air linkage in the subregion (Bhattacharya and De, 2005).

Average road condition and railway system inside Myanmar needs to be rebuilt. Roads leading from Myanmar to India require widening and better maintenance to allow efficient movement of larger trucks. Development of regional economic corridors taking countries in the region will facilitate investments as well as spur economic growth in the region. In this connection, greater economic and/or commercial cooperation may be sought from the developed countries of Asia which have better technological expertise on transport and communications: for example, Japan, and Malaysia are the obvious choices.¹⁸

Railways can play a positive role in integrating BCIM which will promote bulk trans-national movement. Needs are two-fold – (a) to link India's Manipur with India's main railway corridor, and (b) to re-establish and renovate railway networks in Myanmar and Bangladesh. Harmonisation of railway track in BCIM is very much essential.¹⁹

¹⁸ Towards this direction, India – Myanmar – Thailand Trilateral Highway from Moreh (in India) to Mae Sot (in Thailand) through Bagan (in Myanmar) is commendable.

¹⁹ Indian Railways is actively engaged in harmonization and construction of railway tracks in NER. Considering the projects already sanctioned and under construction, Diphu – Karong – Imphal - Moreh rail link (in Indian side) is identified for development which will link India with ASEAN. Although at present construction work is being carried out in Diphu – Karong section, linking Karong with Morea via Imphal would link India with Thailand

Without having a compatible and strong railway system inside Myanmar and Bangladesh, closer communication between India and its immediate BCIM neighbours will be unfulfilled. Indian government has come forward and extended US\$ 56 million credit line to the Myanmar government for upgradation of 640 km railway system between Mandalay and Yangon section.²⁰ Similar initiative should be taken up for up-gradation of railway network system in southern (Yangon to Dawei) and northern (Mandalay to Kalay) Myanmar.

(3f) Controlling Trade Costs

China (and to some extent India) has made significant adjustments through downward movement of FOB prices for most of her merchandise exports as well as a reduction in the CIF prices of major imported items. Further market adjustments are likely to occur in the region due to rising competition as a derivative effect of SAFTA, BFTA, AFTA and APTA.²¹ Nonetheless, the increasing competitiveness in the global market will require that importing countries gravitate towards low-cost exporters, but these exporting countries must offer products of the quality demanded by buyers (importing countries) with production procedures that are consistent with international norms, e.g. ISO certification and social responsibility, are treated as givens. The ability of BCIM's export industries to meet these requirements will lead towards higher growth in trade.

(3g) Accepting Transit Trade

Uninterrupted road or railway facilities across border positively influence the trade in goods and services. Since countries in BCIM are

provided railway system in other side (Myanmar) is also developed simultaneously.

²⁰ According to the Ministry of External Affairs, Govt. of India

²¹ Specifically, SAFTA refers South Asian FTA, BFTA means BIMSTEC FTA, AFTA refers ASEAN FTA, and APTA means Asia Pacific Trade Agreement (previously known at Bangkok Agreement).

geographically interlinked and subregional trade is growing very fast, BCIM countries should agree to transit of goods moving from one country to another within and/or outside BCIM. Asian Development Bank's highly successful GMS cooperation project seeks to promote the three Cs: connectivity, cooperation, and competitiveness. One of its two East–West road corridors is aimed to connect the Andaman Sea (the Myanmar coast) through Thailand and Laos with the South China Sea (at Danang in Viet Nam). All this has happened only due to acceptance of 'Treaty of Transit and Trade', or what they called GMS Cross-Border Transport Agreement (CBTA). Nonetheless, there is an urgent need to accord similar arrangement in BCIM.

4. Concluding Remarks

The key objective of the cooperation in trade in BCIM should be to achieve more rapid growth in trade through improvements in transport and logistics. Since countries are geographically interlinked, governments in BCIM should encourage overland trade. Subregional complementarities and equal partnership could help BCIM countries in realising its latent potential in trade and commerce (Sikri, 2006). To gain anything meaningful from the overland trade, associated infrastructure to support the trade should be in place simultaneously. These include: (i) approval and implementation of required legal and policy reforms; (ii) implementation of effective border crossing and transport services; (iii) effective agreement on trade and transit treaties; (iv) Customs modernisation and setting up of new LCSs; (v) involvement of local economy in border trade, (vi) control of trade costs, and (vii) uninterrupted overland transportation linkages. Finally, spirit of friendship, trust and mutual understanding among the countries in BCIM are equally important to encourage overland trade in BCIM.

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Appendix 1: Bilateral Tariffs in BCIM in 2004

Importer	Exporter	Tariff (%)
Bangladesh	China	19.80
Bangladesh	India	13.41
Bangladesh	Myanmar	1.66
Bangladesh	World	15.43
China	Bangladesh	7.34
China	India	3.45
China	Myanmar	2.34
China	World	5.96
India	Bangladesh	16.26
India	China	11.77
India	Myanmar	16.67
India	World	14.58
Myanmar	Bangladesh	1.44
Myanmar	China	4.57
Myanmar	India	2.59
Myanmar	World	4.21

Notes: 1. Tariffs consider MFN weighted average tariff for all goods. 2. India’s tariffs are for the year 2005.

Source: WTO