

PhD

Research Topic

Informal Border Trade between Bangladesh and India:  
A critical study

PhD Researcher

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## **Abstract**

*India is an important trade partner of Bangladesh. Trade relation in consideration to value and volume is increasing gradually at a sustained rate. Official trade gap between Bangladesh and India is also widening. At present it is almost ten times higher in favour of India. But the most important issue is the informal trade practices between the two countries. According to different studies including this study the informal trade figure is almost equal to official trade. Interestingly the gap of informal trade is also in favour of India. Study shows that two items dominate the informal trade sector that is cattle and Textile. Demand supply gap along with official restrictions on cattle trade from the Indian side initiated informal cattle trade between the two countries. On the other hand demand for Indian textile the price quality relationship along with non tariff barriers initiated huge scope of informal trade. Though the trade is both way but like official trade gap informal trade gap is infavour of India. Large numbers of people in the border areas are involved in informal trade practices. The study focused on the impact of informal trade on macroeconomic aspects of Bangladesh. The study found that impact of informal trade is significantly high for the economy of Bangladesh. Study also highlighted that informal trade of cattle influencing different areas of economy such as employment, balance of trade, food inflation, export oriented leather and dairy industry as well. The informal trade has got both positive and negative impact on the economy. But in the long run the negative aspects outweigh the positive impacts of informal trade. The study suggests that reducing the magnitude of informal trade and diverting the informal trade through official channels will benefit both the countries.*

**Key Words: Informal trade, Trade gap, Cattle trade, impacts, macro economy .**

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## Plagiarism Declaration

I confirm that PhD thesis titled 'Informal Border Trade between Bangladesh and India: **A Critical Study**' is my own work, is not copied from any other person's work (published or unpublished), and has not previously submitted for assessment or not under consideration anywhere for publication.

Author

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Syed EjazAhsan

## **Certificate**

Certify that Syed EjazAhsan, a candidate for the degree of PhD in Marketing has completed his thesis entitled, "Informal Border Trade between Bangladesh and India: A critical study" Under my supervision.

To the best of my knowledge and belief, the research work is an original one and it has not been submitted to any other University or Institution for the award of any degree or diploma.

(Professor Dr. BelayetHossain)

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**Abréviations**

**ICBT** : Informal Cross Border Trade.

**TCB** : Trading Corporation of Bangladesh.

**SAFTA** : South Asian Free Trade Agreement.

**EAC** : East African Community.

**WCO** : World Customs Union.

**CPD** : Center for Policy Dialogue.

**BSTI** : Bangladesh Standard and Testing Institute.

**SAARC** : South Asian Association for Regional Cooperation

**EU** : European Union.

**BIMSTEC** : Bay of Bengal initiative for Multi-Sectoral Technical and Economic Co-operation.

**FTA** : Free Trade Agreement.

**CU** : Customs Union

**WTO** : World Trade Organisation.

**FBCCI** : Fédération of Bangladesh Chambers of Commerce and Industries.

**BIFT** : Bangladesh Institute of Foreign Trade

**BIDS** : Bangladesh Institute of Development Studies.

**REER** : Real Effective Exchange Rate

**AD** : Anti dumping

**MNF** : Most favoured nations

**RMG** : Ready Made Garments

**L/C** : Letter of Credit.

**RTA** : Régional Trade Agreement

## **Outline of the research**

### **Research Title:**

Informal Border Trade between Bangladesh and India –A critical study

### **Research Question**

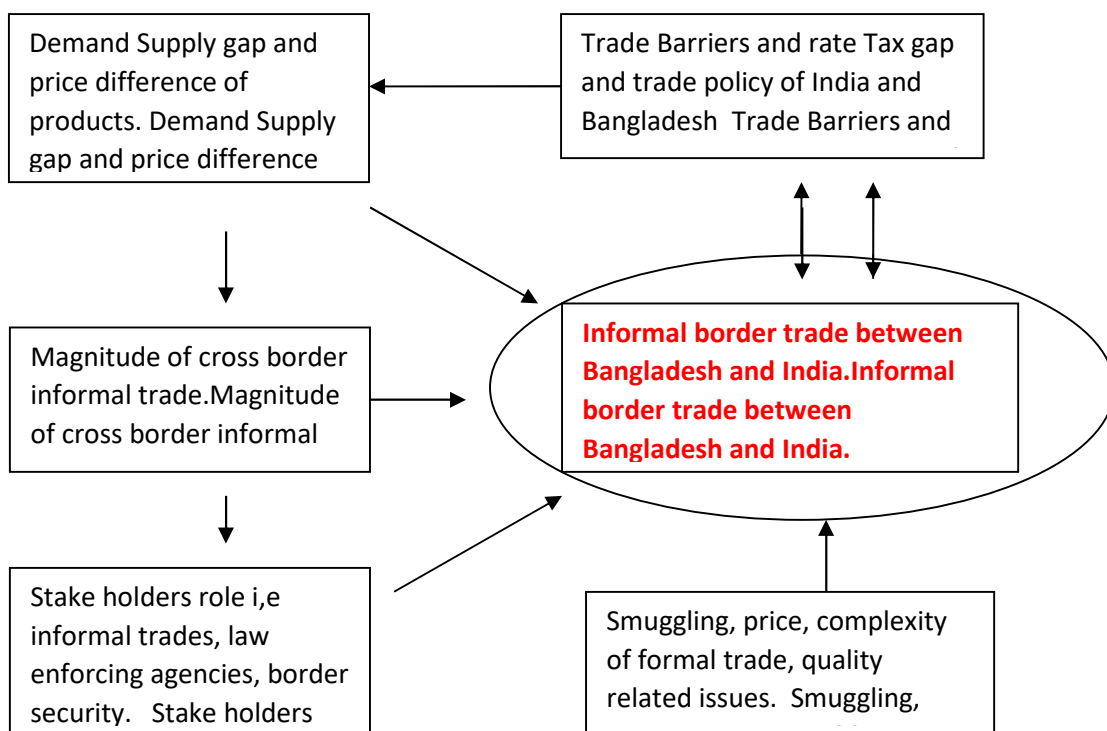
Causes and consequences of Informal trade on macro economic factors of Bangladesh

### **Hypothesis:**

1. Informal trade has significant impact on the economy of Bangladesh.
2. The value and volume of informal trade between India and Bangladesh changes time to time in consideration to value, volume and product line.

**Figure 1**

**Conceptual frame work**



**Research gap and Rationale of the research:**

Most of the studies related to cross border trade focused on single effect of informal trade but this research focused on the multiple impacts of cattle and textile trade on the macro- economic factors of Bangladesh. Without such research it is difficult for the policy makers to realize the depth of complexity.

Though there are some positive sides of informal trade but in the long run the demerits outweigh the benefits. Turning informal trade into formal sector, country could enjoy multiple benefits. The study through revealing the root causes of informal trade allows the policy makers to design trade policies that could reduce the magnitude of informal trade significantly.

**Research objective:**

**General objectives:**

Identify the causes and assess the consequences on macro economic factors of Bangladesh i.e employment, balance of trade, inflation.

**Specific Objective :**

- 1. Trends in cross border trade especially the size and composition.**
- 2. Multiple effects of Textile and Cattle trade on the macro-economic factors of Bangladesh.**
- 3. Evaluate Potential growth of cattle and textile industry through restricting informal cross border trade.**
- 4. Identify magnitude of unofficial trade gap due to informal trade.**
- 5. Evaluate the possible ways that could reduce the cross border trade between Bangladesh and India.**

**Type of research and research design:**

Exploratory research (its focus is on the discovery of ideas and insights as opposed to collecting statistically accurate data. Qualitative research is primarily exploratory research. It is used to gain an understanding of underlying reasons, opinions and motivations. It provides insights into the problems or helps to develop ideas or hypothesis for potential quantitative research).

### **Research methodology:**

Smuggling is inherently difficult to measure. Nevertheless, the magnitude and nature of smuggling can be inferred through a combination of case studies drawing on interviews and local press reports and inferences from official trade data. Qualitative and quantitative analysis are complementary for understanding ICBT where the 'complexity is best addressed by a multifaceted approach. (Ellis and MacGaffey, 1997 .p.25)

Based on objectives, the study designed to find both qualitative and quantitative data. Secondary data supported by Primary data findings used with a view to provide insights into causes and consequences of informal trade.

### **Secondary data Sources:**

Research organizations who conducted significant research work on informal cross border trade such as CPD, BIDS and Indian Observer research foundation(ORF). Study also used data base of Export promotion bureau, TCB, FBCCI Bangladesh Institute of foreign trade (BIFT), Bangladesh Enterprise Development Institute and Bangladesh Bank publications for formal trade records.

### **Primary data sources:**

Market survey

Questionnaire

Key Informants interview

Depth interview

**Mirror Data:**  $\text{Unofficial trade} = \text{Recorded imports} + \text{Domestic production} - \text{Domestic Consumption}$ .

### **Research Findings:**

Findings show that magnitude of cross border informal trade is significantly high. Two items i.e cattle and textile dominates informal trade between Bangladesh and India. Trade barrier, demand supply gap, quality and price variance bureaucratic formal trade procedure and documentation, tax avoidance is responsible for informal trade practices.

Study found that significant value and volume of informal trade influencing macro economic factors of the country, such as employment, food inflation, balance of

trade, balancing demand supply gap of essential commodities. In addition to economic problems the informal trade initiates inflow and out flow of black money.

**Discussions and Conclusion:**

Informal tradewithIndia has signifiant impact on the economy of Bangladesh. Informal trade practices yieldboth positive as well as négative impact on the economy. But in the long runnégative impacts outweigh the positive impacts. Concernedauthoritiesneed to focus vigorously on the issue. But as the tradegoes on avoiding the formalchannels, the authoritesfail to asses the intensity and as a result, actions to minimize the magnitude of informaltrade has becomedifficult.

## **Executive Summary**

India is an important trading partner of Bangladesh. Moreover Bangladesh has got a long land border territory with India. Almost all of the country is surrounded by India except only a few land border with Myanmar at the south east corner of the country. Among other countries Bangladesh is having trade relationship by land with Nepal, Bhutan and Myanmar. But other countries are not so significant in this regard in comparison to India.

Bangladesh and India both has got a number of land ports through which trading activities goes on. Most significant among these ports are Benapole, SonamasjidHiliChangrabandha, Tripura, BurimariTamabil. In addition to trade of goods a large number of tourists also cross these borders every year. Tourism is also significant between India and Bangladesh than any other country because of having a long land border and geographic proximity of the two countries. At present Bangladesh is having a huge trade gap with India. Balance of trade is in favour of India and the gap is widening day by day. Bangladesh is importing a large number of goods from India on the other hand exporting much less amount of goods in consideration to value and volume of goods to India.

These are a brief statement of formal trade relationship between the two countries. Other side of the Indo Bangladesh trade is the huge trade activities taking place informally which is the main centre of focus of this study. Informal cross border trading is seen in other parts of the world especially between neighbouring countries of East Africa, Central Asian countries US Mexico and the countries having common land boundary. Informal cross border trade takes place basically due to trade restrictions between the countries. For example during socialist era Russia with its bordering countries were having informal trade relations. Lot of such examples are there throughout the world. There are two important things to notice in case of informal trade. One is trade of legal products which try to avoid formal channels of trade and another one is trade of illegal goods especially narcotics and drugs.

The study tries to asses the legal goods being traded illegally by avoiding legal authorities and its impact on the macro economic factors like balance of trade, GDP,tax revenues, inflation, employment and industrial growth.

The main problem of informal trading is getting the exact or accurate data of trading being done between the two counties and as such it becomes difficult for the policy makers to determine its actual impact on the overall economy.

The study focuses to reveal the approximate amount of informal trade between India and Bangladesh, as well as the products dominating value and volume of total trade and its impact on the economy of Bangladesh.

For so many reasons the status or information related to informal trade is important for Bangladesh. This will allow the policy makers to design policies to minimize ever widening trade gap between the two countries, boost more formal trade opportunities, find out problems of formal trade and encourage more formal trade to take place as a result enhance Govt. tax income, more economic growth and overall allow healthy economic and fair trade practices for betterment and welfare of the people of the country.

“And as with most shadow economies, exact numbers are difficult to discern. In 2009, Bangladesh’s high commissioner to India estimated that informal exports from India were about as large as formal exports at \$4 billion. A few years earlier, the World Bank reported that “Bangladesh’s smuggled imports from India during 2002/03 were approximately \$500 million, or about 40% of recorded imports from India, and approximately 30% of total imports (recorded plus smuggled) from India. Since then, formal trade between the two countries has exploded, and Bangladesh is now India’s largest trading partner in south Asia. It seems informal exchanges have moved in the same direction. Ref” The smuggling business between India and Bangladesh is worth as much as their “official” trade Devjyot Ghoshal June 26, 2014 Quartzindia

Most of the smuggled imports came by the land border, and the total estimated value of “technical” smuggling was slightly higher than the value of “bootleg” smuggling. However, this estimate is based on interviews with “knowledgeable persons” in various regions on the Bangladesh side of the border only, and the estimated values of smuggling in some key products (notably cattle and sugar) are much lower than estimates from the Indian side. These discrepancies suggest that the total smuggling could be as high as \$900 million, equivalent to about three quarters of the total recorded trade, or about 42% of total Bangladesh imports (recorded plus smuggled). Ref.” The smuggling business between India and Bangladesh is worth as much as their “official” trade Devjyot Ghoshal June 26, 2014 Quartzindia.

These statistics shows that informal trade with India is very significant for the economy of Bangladesh. Study suggests that it is difficult to reduce the informal trade to the level of zero. All over the world the countries sharing common border experience some degree of informal trade. Not



necessarily except demerit goods, informal trade yield negative consequences. Similarly things are applicable in case of Bangladesh. Especially cattle trade has got some positive impact for both the countries. The study focuses some positive impacts of informal cattle trade such as food inflation, Supply of exportable leather and leather goods, dairy products and balancing huge demand supply gap of cattle. On the other hand India enjoys ready market for her surplus cattle stock. Still it is not expected to have a large volume of trade through informal channels. The study focuses on causes and consequences of informal trade on the economy of Bangladesh.

## **1.1 Introduction**

India is an important trade partner of Bangladesh, a country surrounded by India along almost the entire border except the south touched by Bay of Bengal and also some part in the southeast having a strip of land border with Myanmar. India is the largest partner of Bangladesh in its trade by land in the Southeast Asia. Bangladesh also has some trade relationship by land with Nepal Bhutan and Myanmar.

Both Bangladesh and India have a number of land ports through which they conduct trading activities. Most significant among such Bangladeshi ports are Benapole, Sonamasjid, Hilli, Changrabandha, and Tamabil. According to statistics

As per statistical records official import from India accounts for more than 15% of the total imports of Bangladesh. The deficit with India is being adjusted through the trade surplus with other countries. On the other hand official export from Bangladesh to India accounts for only 1 to 3 percent. Most important issue of Bangladesh India bilateral trade is informal trade which accounts approximately 3/4 of regular trade. While defining the cross border informal trade which is, negatively characterized not only by the lack of a universal definition of the sector, but also by the various adjectives used to describe it such as: unofficial, underground, hidden, invisible, shadow, parallel, second, unregulated, unrecorded, black-market, moonlighting, unmeasured and unobserved economy. The study considered the legal goods which are being traded bypassing the formal trade channels and avoids paying tariff to the respective Governments is determined as informal trade.

There has been a huge informal unrecorded trade across the India-Bangladesh land borders, and a number of studies both in Bangladesh and in India have dealt with different aspects of it. Much of this trade is quasi legal and is best characterized as “informal” rather than illegal, because there is wide participation by local people in the border areas, the trade generally bypasses Customs posts, and because –as S.K. Chaudhuri’s classic study noted-“the field operators generally operate in liaison with the anti-smuggling enforcement agencies”.

“Informal trade of this kind usually involving large numbers of local people individually transporting small quantities-often just as head loads or by bicycle rickshaw-and in Bangladesh is sometimes

called “bootleg” smuggling. At the other extreme there is trade which goes in larger quantities- mostly by truck-through the formal legal Customs and other channels, but which involves explicitly illegal practices such as under invoicing, misclassification and bribery of Customs and other officials, and which in Bangladesh is sometimes called “technical” smuggling”.

Among the list of goods informally being imported from India cattle trade consists a significant portion. According to a study report of Indian observer research foundation Indian cattle export especially Cow amounts approximately 3 Thousand 9 hundred crores of Taka each year. Interestingly while beef is a delicacy for Muslims, its consumption is restricted for Hindus due to religious beliefs cow is a sacred animal. Due to this cows are surplus in India but because of huge demand for meat there is shortage of cows in Bangladesh. And that is the reason; a huge number of cows being imported from India informally and to a great extent Bangladesh is dependent on informally imported cattle on India.

A number of studies conducted on different aspects of informal trade between India and Bangladesh. Most of the studies were focused on magnitude and causes of trade imbalance but not discussed the impact on macroeconomic aspects of Bangladesh. It has become important to assess the magnitude of trade gap between India and Bangladesh for a number of reasons. First of all actual trade gap between Bangladesh and India is not being taken into consideration. If the informal trade is not measured properly policy makers will fail to address the issue and adjust the ever increasing trade gap.

Both India and Bangladesh is negotiating for trade liberalization, permitting a significant portion of trade in informal way will not allow the countries to formulate any long lasting and dependable policy towards narrowing the trade gap which is one of the most important macroeconomic policy matter. Though it is not necessary to enjoy trade surplus with each and every trading partner but as a significant trade partner Bangladesh needs to keep the trade as low as possible and In addition to that due to informal trade Govt. of Bangladesh is being deprived off huge revenue earning and informal trade ultimately expands the scope for accumulation black money in the economy and create other social problems to black money circulation.

According to trade theory of comparative advantage a country engage in trading with each other in particular products where they have some advantages in consideration to opportunity cost. India enjoys advantage in many products which are highly demanded in Bangladesh. Two items among them are dominating the informal trade activities they are cattle and Textile. Both the items are in

high demand in Bangladesh. Especially Bangladesh cattle market is dependent on import of Indian cattle. Beef is a delicacy for Muslims and as well as main source of protein and as such created high demand for cattle in Bangladesh. On the other hand beef consumption is prohibited in Hindu religion turned India a cattle surplus nation. Though 80% Hindu population is in favour of the beef ban but interestingly India at present is one of major beef exporter of the world.

According to an Article Titled India,s cattle ban could 'halt' beef exports. By Oscar Rousseau dated 31<sup>st</sup> May 2017

"India is second largest volume based global beef exporter, behind Brazil and slightly ahead of Australia. Should the giant exit the global export market it would mean that nations consuming Indian beef would have to source product from elsewhere, shaking up global trade routes. Vietnam and by proxy, China are the largest buyers of Indian beef exports, accounts for 20% of the beef on the international market, so an Indian exit would create a "significant drop in supply". But unfortunately official cattle export to Bangladesh remains unchanged and as such both the countries are deprived off enjoying such opportunity of comparative advantage. Though there is no restriction from Bangladesh side but as a part of showing respect to their religious beliefs Indian Government has restricted cattle trade officially. So the ultimate way to trade is by using the informal channels. Positive side of this ban for Bangladesh is gradual growth of cattle farming leads to less dependency on informal cattle import from India.

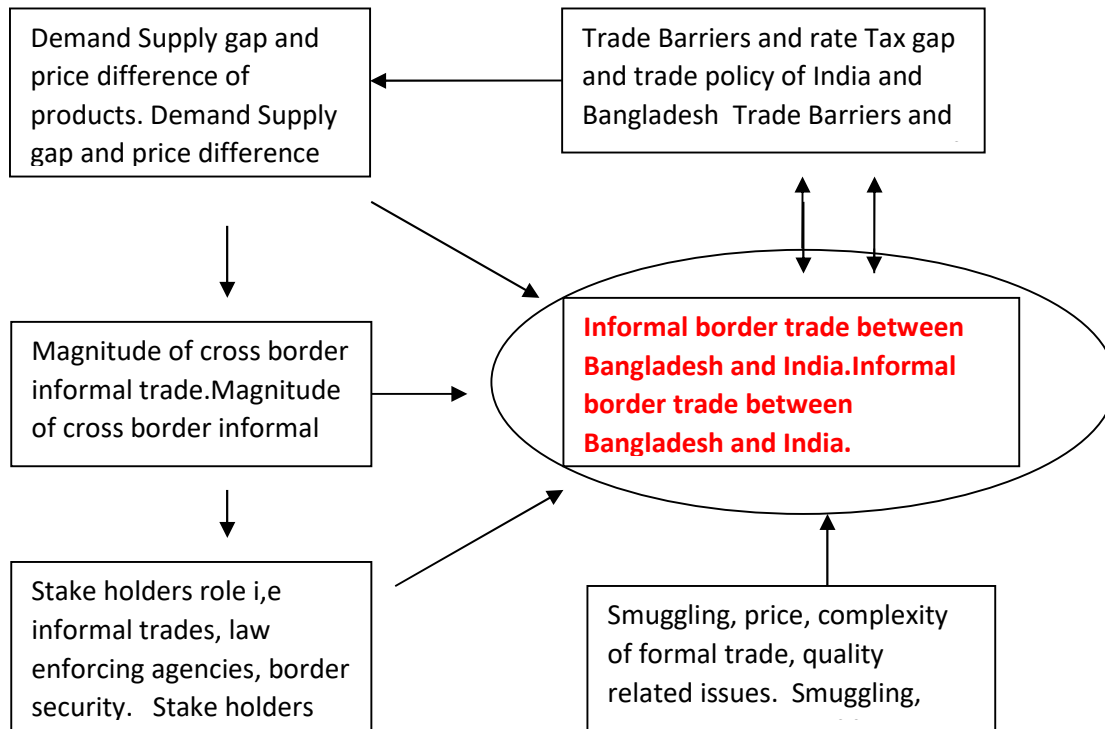
The impact of informal trade has got both positive as well as negative impact on the macro economic factors of both the countries. To a great extent the macro economic factors such as employment inflation and balance of trade is being influenced by informal trade between the two countries. At present Bangladesh is greatly dependant on informal cattle trade. It is assumed that shortage of cattle stock would result in beef prices up which is one of the most important source of protein diet for the people of the country. Alternatively country could try to import the product from other countries such as Australia or South America which is going to be more expensive due to transport cost, product cost, tariff and other related costs. The higher prices for beef is going to create food inflation because higher price of one of the major food item would create demand for other substitute items and as a result the prices of those items will inflate automatically. Study shows that people living in border areas has become dependent on informal border trade. A section of them engaged in providing support services to facilitate informal trade. Number of people only serves as carriers of the said products. They hand carry products as individual visitors on regular basis and deliver **the** products to certain quarter of people from whom they get payment regularly. A large number of small traders in the border areas are engaged in selling the items of Indian origin.

As discussed earlier the trade gap between Bangladesh is widening. Officially over 15% of Bangladeshi imports come from India. Bangladesh has a large trade deficit with India. But the real picture is far greater because of illegal cross border trade. Illegal trade between the two countries amounts to 3/4 of regular trade. Though it is difficult to assess the exact figure, but there is no one disagreement that informal trade amount is significantly high. Two problems are associated due to this, first of all Government of Bangladesh is being deprived off from earning huge revenue and another one is Bangladesh is trying to narrow the trade gap. But as the official figure shows much lower figure policy makers will fail to design proper measures to negotiate and narrow the trade gap.

Informal trade also initiates inflow of illegal money to the country. Huge influx of black money creates problem in the economy. Illegally earned money tends to be used in anti social activities. To avoid legal offence money laundering practices allow national wealth to be shifted to other countries. Ultimately the third country becomes the beneficiary. Some time the money is used in Gold smuggling and currency smuggling involving international smuggling network.

## **Figure 1**

### **1.2 Conceptual frame work**



### 1.3 Research Question and objective of the research

## **“Causes and Consequences of Informal border trade between Bangladesh and India?”**

### **Objective of the Research**

#### **The General objective:**

General objective of the research is to assess the Magnitude of Cross border trade and its causes and impact on macroeconomic factors of Bangladesh, i.e Employment, Balance of payment, Minimizing demand supply gap of essential Commodities and inflation.

#### **The Specific objectives:**

6. Trends in cross border trade especially the size and composition.
7. Multiple effects of Textile and Cattle trade on the macro-economic factors of Bangladesh.
8. Evaluate Potential growth of cattle and textile industry through restricting informal cross border trade.
9. Identify magnitude of unofficial trade gap due to informal trade.
10. Evaluate the possible ways that could reduce the cross border trade between Bangladesh and India.

### **1.4 Scope of the Work**

Bangladesh is sharing a long border territory with India and there are more than sixteen land borders in operation and among them few borders are significant in consideration to value and volume of trading activities and so the study selected five borders for conducting survey. They are

Benapole, Sonamasjid, HiliChangrabandha and Tamabil land port. Normally informal trade activities goes on along the land ports where formal trade takes place, this is because of using infrastructural facilities, local demand and easy communications. They rarely choose remote border areas where transport is difficult and the areas are less populated.

Large number of products is being traded informally between India and Bangladesh. Interestingly the products which were being imported informally from India ten years back is now being exported to India such as Toiletries Soap Melamine low cost tobacco products. But trading of two items seems to be static and expected to be dominating the informal cross border trade in terms of both value and volume, they are Cattle and textile. The study will focus mostly on these two products because they consists major portion of informal trade between India and Bangladesh.



## **Chapter 2**

# **Literature Review**

### **2.1 Literature review**

Good number of studies carried out on the issue of Informal cross border trade (ICBT). ICBT is nothing new; rather it is a global economic activity going on for centuries. It varies with value volume product line and distribution channels from time to time or from one region to other. Studies based on their findings explained and discussed different aspects of cross border informal trade. Some of

the studies discussed mainly impact of ICBT on the economy of the particular countries or regions, others discussed the reasons behind such trade practices and nature of such trade practices, and few explained the involvement of women in ICBT and their

impact on income generation and survival of woman folk. A number of studies from both the countries of Bangladesh and India is also there one important one among them is the cattle trade between two countries conducted by CPD and other one by observer foundation of India. Both the studies are very close to this study. But the studies mainly focused the problems of cross border informal cattle trade and their causes and consequences other products like textile food items Agricultural products were not purview of their studies.

### **The Economics of Informal Cattle Trade between Bangladesh and India**

A Bangladesh Perspective on Changing Scenario. Dr. Khondaker G Moazzem & Farzana Sehrin, Additional Research Director & Research Associate, Centre for Policy Dialogue (CPD)

This is a significant study which revealed and identified some important issues regarding cattle trade between India and Bangladesh. The study categorically showed the profit margin of informal cattle trade. The high margin encourages the traders to engage in such trade. The cattle which costs only 500 to 3000 take is being sold finally in Bangladesh at a cost of 20,000 to 40,000 taka.

### **India-Bangladesh Border Management:-The Challenge of Cattle Smuggling Special Report of Indian Observer research foundation by Joyeeta Bhattacharjee July 2013**

The study discussed most important issue of informal cattle trade between India and Bangladesh. There is a huge demand for cattle in Bangladesh. According to the study the cattle trade on the India-Bangladesh border is worth \$500 million annually. Main reason behind indo Bangladesh cattle informal cattle trade is a strict ban on cattle trade from the Indian side. On the other hand domestic cattle supply is limited in Bangladesh.

### **THE INFORMAL CROSS BORDER TRADE SURVEY REPORT -2011**

The study conducted by Bank of Uganda and Ugandan Bureau of Statistics on informal trade practices with neighboring countries. Study focused on approximate value and volume of informal trade. The significance of this study is the methodology used which enabled the study to reveal a closed picture of actual trade. The study monitored the trade practices and collected data on monthly basis.

**THE INFORMAL CROSS BORDER TRADE SURVEY REPORT- 2013** report presents the estimates of the ICBT survey for 2013; it shows the volume of informal trade, major commodities traded and the direction of trade among others. Study revealed the changes in volume and value of trade for the year 2013 with neighboring states. Informal Cross Border Trade in EAC Implications for Regional Integration and Development- 2010 Informal trade practices Thomas Cantens WCO Research paper No-22 May 2012. [www.wcoomd.org](http://www.wcoomd.org).

The papers focused that informal border trade between East African countries plays a significant role. The informal border trade is influencing the balance of trade between the countries. Though official statistics shows a negative trade balance but unofficially due to informal trade Uganda is enjoying a positive balance of trade. Huge value and volume of informal trade activities go on between East African countries. Perhaps the absence of proper Government control on economy and poor economic structure is responsible for this.

**THE IMPACT OF INFORMAL CROSS BORDER TRADE ON REGIONAL INTEGRATION IN SADC AND IMPLICATIONS FOR WEALTH CREATION.** By: John Mwaniki – IRED-ESA (The CORN Thematic Coordinator for Cross Border Trade)

The study discussed the causes and consequences of informal trade in African nations. The debt crisis has created an economic crisis for African Nations instead of solving. The economic crisis forced the people to look for more income for their living. One option for them is to earn extra through informal trading activities. The people of these areas travel to another country, sell some specific items, and on their return trip they carry goods which they sell at higher prices and earn their living. A large number of people are continually shifting to informal trading activities.

**Informal Cross Border Trade in Africa: Implications and Policy Recommendations** Volume 3 • Issue 10 November 2012 Jean-Guy K. Afrika and Gerald Ajumbo

The study focused on key issues like poverty alleviation and increasing food security for African nations. The study also suggested that it is better not to criminalize the informal border trade activities. In addition, the study supported the view of strengthening the authentic and systematic data collection process which would allow policy makers to restrict informal trade and develop better options for the economy and Government.

**Legal Cross-Border Trade vs. Illegal Cross-Border Trade: Promoting Sustainable Regional Cooperation in South Asia through Transnational Trade.**

MuthukudaArachchige Dona ShiromaJeevaShirajanieNiriella Senior Attorney –at- Law & Head of the Department Department of Public and International Law, Faculty of Law, University of Colombo, Sri Lanka Email: jeevaniriella[at]yahoo.com, jeeva[at]law.cmb.ac.lk, jeevaniriella[at]gmail.com *Asian Journal of Humanities and Social Sciences (AJHSS) Volume 2, Issue—4, November, 2014 ISSN: 2320-9720 [www.ajhss.org](http://www.ajhss.org)*

This paper intends to explore the issues relating to informal trade in the SAARC region and to find the possibilities to convert the informal business into formal business aiming at the economic development of the region. To achieve this goal, the paper focuses on the prevalence and composition of informal trade in the region and its relationship with formal trade. Further, this study spells out the reasons underpinning illegal trade in the South Asian region.

**Survival in a Collapsing Economy: A Case Study of Informal Trading at a Zimbabwean Flea Market.**

Phd Thesis By Hamadziripi Tamukamoyo A thesis submitted in fulfillment of the requirements for the degree of Doctor of Philosophy (Sociology) to the Faculty of Humanities, University of the Witwatersrand Johannesburg, 2009.

The paper focused on an important issue that how people in least developed countries like Zimbabwe try to survive through informal trading practices. In fact a large number of peoples living is directly dependant on informal trade. Where formal economy fail to provide adequate support for living, informal trade become only source on living for a large number of people.

**INDIA'S INFORMAL TRADE WITH BANGLADESH AND NEPAL: A QUALITATIVE ASSESSMENT**

SANJIB POHIT AND NISHA TANEJA JULY, 2000 INDIAN COUNCIL FOR RESEARCH ON INTERNATIONAL ECONOMIC RELATIONS. Core-6A, 4th Floor, India Habitat Centre, Lodi Road, New Dlehi-110 003.

Main focus of this study is bottlenecks of formal trade facilities and inefficiency that lead to informal trade practices. The informal trade sector has developed its own system of smooth transaction facilities including the mode of payment. On the other hand bureaucratic administration and inefficient facilities make formal trade more complex and time consuming and as such less profitable to the traders. Due to this the traders are being encouraged to involve in informal trade practices.

**Informal Trans border Recycling on the U.S.-Mexico Border**

The cartoneros of Nuevo Laredo"Prepared for delivery at the 1998 meeting of the Latin AmericanStudies Association, The Palmer House,Chicago, IL, September 22, 1998"

The study discussed how simple act of collecting cardboard from USA for recycling in Mexico is helping a large number of people in earning higher income than other peoples. The study observed that how an informal economic activity is helping the people as the waste management.

### **Methodologies for Estimating InformalCross border Trade in Eastern and Southern Africa.**

*Kenya/Uganda BorderTanzania and its NeighborsMalawi and its Neighbors Mozambique and its Neighbors\** A Joint Publication of AFR/SD and REDSO/ESACChrisAckello-OgutuTechnoserve Inc. and University of Nairobi Nairobi, Kenya.

In case of informal trade research assessing exact value and volume is always difficult. Determining Population size is another complex issue. The population size in case of informal trade is unknown. The paper discussed how to solve these problems. The paper has focused on how to measure the value of volume of informal trade. The study selected some important parts of African continent where informal trade exceeds the level of formal trade to a greater extent.

### **India-Bangladesh Bilateral Trade: Problems and Prospects.**

Zahoor Ahmad Rather, Dr. Deepika Gupta.Department of Political Science, Vikram University, Ujjain, MP, 456010, INDIA. E-mail: International Affairs and Global Strategy [www.iiste.org](http://www.iiste.org)ISSN 2224-574X (Paper) ISSN 2224-8951 (Online) Vol.22, 2014- ratherzahoor1@gmail.com

The paper focused on different aspects of bilateral trade between Bangladesh and India. Study discussed the obstacles such as Government regulations, infrastructural problems, tariff and non tariff barriers and ways to remove these problems. The study also suggested ways to increase trade between the two countries and prospects of trade and economic development which still remains unexplored.

### **Informal trade practicesWCO Research paper No 22 May 2012,**

Written by Thomas Cantens The paper was originally presented in to the WCO's integrity subcommittee in March 2012. [www.wcoomd.org](http://www.wcoomd.org)

The paper revealed, especially the least developed countries informal trade is some times far greater than formal trade. According to the paper standardize customs regulations are responsible for this. Customs regulations and tax barriers encourages informal trade. Paper tried to find the relationship between customs regulations and informal trade practices.

**Legal Cross-Border Trade vs. Illegal Cross-Border Trade: Promoting Sustainable Regional Cooperation in South Asia through Transnational Trade** *Asian Journal of Humanities and Social Sciences (AJHSS) Volume 2, Issue—4, November, 2014 ISSN: 2320-9720 www.ajhss.org 125*

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The study discussed the need for regional cooperation. The paper suggested that regional cooperation will reduce informal trade practices between the South Asian countries. Though informal trade generate positive economic outcome and benefits for the countries The study tried to explain that meaningful cooperation will definitely reduce the informal trade practices because there will be no incentive for the trades to do so.

## 2.2 Research Hypothesis

**Hypothesis 1.** Informal trade has significant impact on the economy of Bangladesh.

**Hypothesis 2.** The value and volume of informal cross trade between India and Bangladesh is not stable perhaps changes time to time in terms of value and volume and product line.

## 2.3 Definition and Typology of informal trade

### Definition

In different studies Informal border trade is characterized negatively using different adjectives such as, unofficial, underground, hidden, invisible, shadow, parallel, second, unregulated, unrecorded, black-market, moonlighting unmeasured and unobserved economy. This study considered informal trade between India and Bangladesh, as the trade of legal goods which avoids formal trade channels and without paying Government tax and tariff as applicable.

### Typology of Informal Trade

- ) Smuggling of objects Contraband of legal goods.
- ) Shuttle trade
- ) Trade of illegal goods.

#### **2.4 Research gap and Rationale of the research:**

Most of the studies related to cross border trade focused on single effect of informal trade but this research focused on the multiple impacts of cattle and textile trade on the macro- economic factors of Bangladesh. Without such research it is difficult for the policy makers to realize the depth of complexity. Though there are some positive sides of informal trade but in the long run the demerits outweigh the benefits. Turning informal trade into formal sector, country could enjoy multiple benefits. The study through revealing the root causes of informal trade allows the policy makers to design trade policies that could reduce the magnitude of informal trade significantly.

India is one of the significant trade partners of Bangladesh. Economic activities of a large number of people living in the border areas are dependent on **informal trading activities**. Interestingly a greater portion of this trade between India and Bangladesh is conducted informally, that is avoiding the formal trade channels and not paying taxes to the government. Though it is officially not recorded anywhere but it is an open secret. The most important cross border trade issue is cattle trade between India and Bangladesh. Due to huge demand Bangladesh has to some extent become dependent on cattle import from India. Because of religious obligations beef consumption is



forbidden in Hindu religion, as such India can't endorse exporting cattle head directly to Bangladesh. The only way is to do the trade informally. In-addition to cattle trade both the countries are also engaged in trading a large number of goods to and from the country. Ranging from textile, spices cosmetics Hilsha fish, leather, food items readymade ladies wear and such other products. Value, volume and product lines changes from time to time and from border to border.

This informal trade practices has got both positive as well as negative impact on macro economic factors of the country. Policy makers are less focused on the issue and some cases as there is no official record they underestimate the negative impacts. For example Government is being deprived off a huge amount of potential tax income. Another negative factor is the presence of black money and its influence in the economy. Regarding the positive side especially in case of cattle trade, this is beneficial for Bangladesh. The informal cattle trade helping to stable price level of main protein diet beef. Cows are used in agriculture, adequate supply of cattle is import for our rural economy and livelihood of rural people. Second most important export item of Bangladesh is raw leather and leather goods. The shortage of cattle results in reducing supply of leather and eventually the export earnings. So in many considerations the impact of cross border trade is very significant for the economy of Bangladesh.

Statistics shows that even high profile business houses of Bangladesh are involved in informal trade practices. Informal trade allows business concerns to earn quick and easy return on investment compared to formal trade. Law enforcing agencies customs authority as well as security forces of both the countries co-operate the informal traders to continue their activities. The products which are in high demand in Bangladesh is restricted to import officially from India. In many considerations these products are facing import restrictions such as protecting the local manufacturers, outflow of currency, creating uneven competition. For example especially Indian textile products are cheaper as well as very popular to the consumers of Bangladesh. But due the above mentioned grounds, Bangladesh **restricts** Indian textile products to enter the country, so the only way is importing the said products through informal trade channels.

Economic activities and demand for product of Both Bangladesh and India is interdependent in so many areas. In India stock of cattle is surplus on the other hand beef is a delicacy for **the** people of Bangladesh, but due to religious obligations beef consumption is forbidden for them and officially it

is not allowed from the Indian side to export cattle head to Bangladesh for beef consumption. Interestingly there is a strong demand for raw hides and skins in India. But raw leather export is restricted from Bangladesh for the sake of securing the supply of such raw materials for tannery industries, which is one of the most important and significant foreign exchange earner of Bangladesh.

Due to crop failure some important agricultural commodities smuggled in and out of Bangladesh. Such as onion, spices pulse. Bangladesh is famous for hilsha fish production which is a delicacy for the peoples of west Bengal but due to local demand Export is restricted. In addition to these items both the countries are dependent on each other for a large number of products time to time which are not static. Exchanging products in both ways is through informal channels are of great economic and social impact which is being ignored. So it is very important for Bangladesh to identify and monitor the magnitude and impact of informal trade activities being carried out between the two countries.

To identify the impact and causes and consequences of cross border informal trade between Bangladesh and India could allow policy makers to design the policies accordingly and ensure economic welfare as a whole. Research work allows getting hidden information and in-depth analysis of the facts behind the causes and consequences of cross border trade.

Through WTO initiative worldwide trade restrictions are declining day by day allowing more trade and investment scope between the countries through formal channels. Bangladesh is no exception to that. Every year Government of Bangladesh is losing a huge amount of revenue due to informal trade. If the country can divert the multibillion dollar trade from informal to formal channel in addition to revenue collection country could be benefited from other macroeconomic aspects like employment generation economic growth and balance of trade.

To determine the exact situation there is no authentic data base. The value and volume of informal trade changes time to time. Range of Product lines also changes, the products which were being smuggled inside the country is going outside the country now a days. List consist large number of agricultural commodities and consumer items which changes with the change of demand and supply

related issues. But there is no monitoring system or organized data collection efforts to assess the situation and the impact as well the causes for such trading activities. It is alleged that border security forces and a section of customs officials of both the countries also facilitate such trade taking financial benefit from the involved parties in return.

There is need for research to assess the whole situation for the policy makers. Accordingly, they can design appropriate policies and actions to utilize the prospects lying in this area and also **causes** and consequences of informal trade.

## **Chapter 3**

### **Methodology**

### **3.1 Methodology**

The study on any informal trade issue is complex in many considerations, such as absence of official records, respondent's non cooperation in providing real information because it is subject to legal action against them, determining the sample size. But assessment of magnitude of trade and analyzing their impact is possible through traditional methods. Both primary and secondary source of data utilized for the research. The study is an exploratory research (its focus is on the discovery of ideas and insights as opposed to collecting statistically accurate data. Qualitative research is primarily exploratory research. The study basically provides insights into the problems and helps to develop ideas for potential quantitative research. Primary data collection from the border areas allowed the study to determine the nature and causes of informal trade, incentives for the traders, obstacles faced by trade and distribution network of such trade practices. A large number of products are being traded informally between the two countries, starts from spices to digel oil and from textile to cattle. Study observed that change of routes volume and product range change frequently in case of other products, but informal trade of two products are more stable than other products, and they are cattle and textiles. The study focused on these two products and analyzed their impact on macro economic factors of Bangladesh. .Bangladesh is experiencing a huge negative trade balance with India. As a policymatter Bangladesh is trying to narrow the trade gap, but due informal trade practices real picture of trade imbalance becomes difficult to assess and negotiation or bargaining to narrow actual trade gap becomes complex.

### **3.2 Research design:**

**Type of research and research design:**

The study is exploratory research (its focus is on the discovery of ideas and insights as opposed to collecting statistically accurate data. Exploratory research is primarily qualitative research. It is used to gain an understanding of underlying reasons, opinions and motivations. It provides insights into the problems or helps to develop ideas or hypothesis for potential quantitative research). The research is a qualitative research but the study used both quantitative and qualitative. For in-depth analysis and assessing magnitude of trade volume some quantitative data base is required for the study.

### **3.3 Secondary Data**

In addition to primary data Secondary data sources utilized for the study. Research organizations who conducted significant research work on informal cross border trade such as CPD, BIDS and Indian Observer research foundation (ORF). Research also used data base of Export promotion bureau, TCB, FBCCI Bangladesh Institute of foreign trade BIFT and Bangladesh Enterprise Institute for formal trade records. Secondary data sources allowed the study to find the formal trade figures and compare the informal trade figures. Change of volume of and value over time and the factors that allow informal trade such as legal barriers, tax variance demand supply gap, complex official formalities etc.

Methodology is focused on finding answers of the questions based on objectives of the study. The primary as well as secondary data analysis allowed the study to answer the questions. Magnitude of cross border trade is higher than normally estimated. Market survey of cattle markets from the border areas and Key Informants interview allowed the study to get a much closer picture about the magnitude of cross border trade.

Secondary data derived from government publications especially from Bureau of statistics, Ministry of Commerce, Central Bank (BB), customs authority (Land Ports) on such issues as Govt. tax structure, Complexities in trade documentation, mismanagement in land ports in case of clearing and forwarding procedures of Import and export and trade restrictions allowed the study to determine the reasons that initiate cross border informal trade.

### **3.4 Primary data**

Collected from five land border ports and adjacent areas within five kilometers of the land borders with questionnaire. 200 traders interviewed with open ended questionnaire. The problem of

informal trade research is that the as the population size remains unknown, so representative sample size determination through using mathematical formula become complex. The study interviewed 35 traders purposively selected from each border and in total 200 traders considering the homogenous characteristics of the traders. Cattle markets in the adjacent border areas surveyed to assess the magnitude of cattle being traded on regular basis. In addition to that Key Informants Interview allowed the study to gather information about the nature reasons and magnitude of informal cattle trade.

### **3.5 Coverage of Geographic area**

Bangladesh is sharing a large land border area with India. In fact except one land border with Myanmar entire Bangladesh is surrounded by India except the south touched by Bay of Bengal and also some part in the southeast having a strip of land border with Myanmar. There are more than sixteen land borders in operation and among them few borders are significant in consideration to value and volume of trading activities and so the study selected five borders for conducting survey. They are Benapole, Sonamasjid, HiliChangrabandha and Tamabil land port

### **3.6 Criteria for selection of sample**

#### **A. Inclusion criteria:**

1. Traders trading Indian products especially textile items within five kilometers of border. .
2. Traders engage in cattle trade in border area.

#### **B. Exclusion Criteria**

1. Traders not dealing with Indian products.
2. Not willing to provide time and information about their trading activities.

### **3.7 Interview of Key Informants**

In addition to data collection from individual traders, the study used the Key informant's interview (KII) through check list to identify some key issues which are difficult to find through questionnaire because traders are not expected to be aware of all the facts related to informal trade. In this connection the study interviewed key persons of the study areas especially the high profile Border Security Forces (BGB) officials, Customs officials, Clearing and Forwarding agents and local

administration logic behind selecting formal land border port areas for collecting primary data is, informal cross border trade goes on along the areas of formal border ports. The reason behind this trend is, the informal traders need to use infrastructural facilities, transport facilities communication and some cases demand of the locality and in other cases store it and then distribute the commodities to other parts of the country through their agents for example cattle trade. And statistics shows that informal trade activities are rare in remote or hilly places or areas which are less populated and communication and transport facilities are very poor like places of Chittagong hill tracts and Sylhet.

### **3.8 Cattle Market Survey**

Adjacent cattle markets in the border areas surveyed to determine the nature of the informal trade as well as the magnitude of such trade in consideration to value and volume. Forty traders from each border area markets and in total 200 traders interviewed in this connection. The traders were selected purposively and identified through using snowball method. The traders who are involved in business for more than five years interviewed. Especially the trader's deal with Indian origin cattle stocks in bulk, locally known as Beparies interviewed.

**3.9 Mirror Data** that is, matching importer and exporter reported a bilateral trade flows. If the country's export exceeds the destination country's imports, smuggling can be inferred. Base of the method is to find the gap between expenditure and consumption. Expenditure could be concealed but is difficult to conceal the consumption. In Bangladesh total requirements for cattle is more than three million out of which local supply is more or less one million. naturally the gap indicates informal sources. In case of informal trade finding the accurate data is difficult. The trades try to conceal the actual information as it is a punishable offence. Use of mirror data is being used as an authentic approach in informal trade research. The study applied the method in assessing the magnitude of cattle trade.

### **3.10 Sampling Frame**

As the determination of population is difficult i.e how many traders are involved in informal trading activities are unknown, so drawing a sample size based on mathematical formula is difficult. To some extent most traders in the border areas bear homogenous characteristics, thirty five traders from most active land borders were selected purposively for interview. In total 200 traders from five land border ports who are permanent residents of the area and shops are within border area markets were determined as inclusion criteria for respondents. Accordingly questionnaire prepared which were pre tested in two border points before final field data collection. Key Informants Interview (KII), played very important role for this study. Key informants are permanent residents of the locality and knowledgeable personality, may be holding representative position of the said locality such as Principals of educational institutions, Upa-Zilla Chairman, BGB commanders Customs officials.



**3.11 Limitation and complexity of Primary data collection:**

Difficult to verify the authenticity of primary data as respondents try to conceal some important information and involvement in informal trade is subject to legal offence. Maintenance of strict confidentiality will motivate respondents to provide authentic data regarding informal trade. Cross check of data collected from different sources will allow the study to determine authenticity and acceptability of the data base.

Collection of primary data from border areas is risky, assistance of concerned Govt. agencies such as law enforcing agencies and border security forces could minimize risks.

# **Chapter 4**

## **Findings and Discussion**

#### 4.1 Global scenario of informal trade practices.

Informal trade practices are global phenomenon. The magnitude of trade varies from country to country and from region to region. In Asian African and Central American countries the magnitude is much higher than developed nations like western European countries. One reason behind this varying magnitude of informal trade is inefficiencies tariff and non tariff barriers along with bureaucratic administration of formal trade sector. In this issue an interesting statement reminds the weakness of Government administration “ The books of administrators are never of any use to the state, because when they talk about a remedy they never go right to the heart of the problem. The actions of individuals, heads of organized bands, vagabonds and others, who attract public odium are more reliable, because they reveal, usually to sovereigns, weak points in the government.” *Political testament written in prison by the smugglers’ leader Louis Mandrin’—AngeGoudar,1756.*

Perhaps that is the reason the informal trade practices are gaining momentum in countries around the world. According to the study of the 162 countries conducted by Scheider et al. (2010) in the period 1999-2007, 107 have in informal economy representing 30% of Gross Domestic Product(GDP) or more, and in 18 of these the figure is over 50%. These informal national economies are based partly on formal and informal international goods trade, whether cross border or covering a wider geographical area (Dongala 1993), coupled with financial flows not declared to the supervising authorities.

“When the results are related to WCO countries by regions, the percentage of GDP represented by the informal economy varies, 18% to 39.6% in the North of Africa, Near Middle East 33.5% to 59.7% in West and Central Africa,24% to 63% in East and Southern Africa, 8.8% to 68.1% South America, North America, Central America and Caribbean, 8,7% to 68.8% in Europe and 12.1% to 57.2% in the far East, South and South east Asia, Australia and the pacific Islands. (Ref WCO paper No 22 By Thomas Cantens Informal Trade practices 2012).

The informal trade practices influencing macro economic factors like employment generation, price level control and managing demand supply gap of essential commodities. Many African and Asian countries women are involved in informal trade. Most of the under developed countries where unemployment rate is high women need to support families through earning some extra income from different sources. Informal trade opens the avenue for the low skilled and low educated womenfolk to such income opportunities.

Most cases women are used for carrying the smuggled item in their hand luggage which follows less surveillance and checking by the border check posts. Sometimes they purchase the products where is it less costly and sell it crossing the border in nearby markets at a higher amount. Large number of them runs their family through this.

Global scenario of informal trade bears identical pattern and characteristics. Only difference is value and volume of trade between countries or regions. Normally loopholes of formal trade such as, poor facilities irrational tariff and non barrier along with bureaucratic administration and documentation process allows people to engage in such trade.

Due to tax avoidance involve party's profit margin increases than commencing business through normal channels. On the other hand Governments and customs and trade officials are not in favour of rigorous application of restrictions on informal trade. It has been observed that in most of countries a section of customs official, border security forces and trade administration facilitate such practices in return they get certain amount of money from traders. Their support and cooperation proved to be very important for smooth functioning of the informal trade sector.

According to statistics along with total GDP contribution of informal trade macro economic factors are also being influenced greatly by the informal trade. That is the reason

governments throughout the globe are not so interested to restrict informal trade. The trade of legal goods through informal channel is supporting countries in many ways.

Global trend shows that vulnerable people who are less fortunate to get jobs in formal sector try to find their living through informal trading activities. That is the reason; magnitude of such activities is greater in developing countries than developed countries. Policy makers predict that if restricted the involved parties would shift the trade to demerit goods like drugs and narcotics. Solution remains with sustained development and expansion of formal sector along with economic growth. Unless and until efficiency of formal trade sector improves, it is expected the global scenario of informal trade will remain unchanged.

#### **4.2 Global and Regional Economic Integration and their Impact on Informal border trade.**

At present trend shows that countries are trying to reduce trade barrier and more committed to abolish trade barriers among the participating countries. In addition to globalization and encouraged by EU success in regional cooperation, the countries are more interested to develop regional economic cooperation to boost and exploit economic

potential of their respective regions. As a part of that countries are continuously engaged in forming free trade areas to increase economic and trade cooperation among them.

Bangladesh initiated and helped in forming two such regional cooperation blocs known as SAARC and BIMSTEC. No doubt successful implementation of such integration will allow the people of the region to improve their living standard and pace of economic development will be faster. But at the same time there is a growing concern that this could allow traders to engage them in informal trade along with formal trade. Trends show that formal and informal trade goes on with parallel line. Reason behind this is inefficiency and inadequacy of formal trade facilities. It is difficult to improve the systems and facilities of formal trade to keep pace with fast growing trading activities due to such cooperation among the countries. Especially the speculation developed from the experience of Bangladesh India bilateral trade. Where value of formal and informal trade is approximately equal till now i.e growth of informal trade follows formal trade closely.

At present Bangladesh India bilateral trade is increasing as well as regional trade. Significant progress is visible in trade and economic cooperation between the two countries. Another remarkable development in this regard is transit agreement between Bangladesh and India.

Under the umbrella of number of agreements India is allowed to transport their commodities through Bangladesh to other parts of India especially to eastern states. Rail Road and water ways are being used for this purpose. Naturally volume of trade is increasing day by day.

Indian eastern states are land locked and transporting commodities by passing Bangladesh involves higher cost and time. But transit facility has enabled them to transport products at a much lower cost and shortest possible time

Formation of BIMSTEC is another step forward for regional countries to enhance trade relation between them. Bangladesh will be connected to south China through Myanmar by road. The proposed connectivity is expected to increase the trade and economic cooperation between the countries in many folds. Many unexplored economic opportunities will benefit the peoples of this region. To turn these opportunities into reality concerned countries need to improve efficiency, easier and simple trade documentation as well as infrastructural and transport facilities of these countries. Failing to which will

increase the possibility of informal trade. The study observed that cases informal channel is being used just to avoid complex documentation and longer time needed for clearing the products from land ports. This naturally increases cost and damages to perishable commodities.

Important aspect identified in different studies, that volume of formal and informal trade is approximately equal or at least more than one third of total trade volume. That means equal amount of informal trade is dominating the bilateral trade.

It is noticeable to policy makers that increase in formal trade increases the volume of informal trade. Eight to ten years back the ratio of formal and informal trade ratio remains same to-days ratio (2008-09 Trade Ratio Export import 1:10 and 2015-16 ratio export import was 1:8). Informal trade ratio is approximately equal. That means informal and formal trade increase in parallel line. So it is predictable that more regional trade will increase the possibility of informal trade at the same time. The policy makers are suggested to take and deal the issue carefully. To reduce involvement of informal trade the root causes should be addressed properly.

**Study report by sanjibprohit and nishataneja clarifies the speculation more clearly Ref: First published: 09 September 2003 <https://doi.org/10.1111/1467-9701.00568>** *"The large and vibrant informal trade between India, and Bangladesh continues to thrive despite unilateral/regional/multilateral trade liberalisation in these two countries. This calls for an in-depth analysis of India's informal trade with Bangladesh. Using insights from the New Institutional Economics informal and formal institutions engaged in cross-border trade are contrasted to examine whether informal trading arrangements provide better institutional solutions. The analysis, carried out on the basis of an extensive survey conducted in India and Bangladesh reveals that informal traders in India and Bangladesh have developed efficient mechanisms for contract enforcement, information flows, risk sharing and risk mitigation. Further, informal traders prefer to trade through the informal channel because the transaction costs of trading in the informal channel are significantly lower than the formal channel implying that informal trade takes place due to the inefficient institutional set up in the formal channel. The principal policy implication from the study is that unless the transacting environment of formal traders improves, informal trade will continue to coexist with formal trade, even if free trade is established in the SAARC region".*

#### **4.3 World Trade Organization and impact on reducing informal trade.**

WTO is major initiator for trade liberalization. The process of reducing Worldwide trade restriction is being endorsed by WTO. Although trade restrictions got some advantages like protecting domestic market from foreign competition, securing job opportunities, enhancing economic growth and reducing trade gap. But in the long run countries fail to cash benefits of trade restrictions. The reason most of the cases the domestic firms become less competitive and less productive. The open door policy forces local firms to be more competitive to survive international competition firms try to become more productive and try to produce goods and services at a lowest possible cost. Abolition of trade barrier benefits consumer. Consumers get their products at lower price and create scope of wider choice of consumer products.



But most of the countries impose trade barriers to protect their industries from foreign competition. In case of bordering countries sharing common land border allows traders of both sides to exchange goods due to less costly and easier way of trading goods. In some cases comparatively products of neighboring countries become cheaper than importing from other countries due to transport cost and transaction time.

In spite of all the benefits discussed, countries impose trade restrictions to protect their industries and do not allow other countries products to be imported freely and frequently. Number of tariff and non tariff barriers are imposed to restrict entry of foreign goods. Sometimes political pressure created by the other political and interest groups force the ruling party in power to impose trade restriction ignoring the long run consequences. .

Trade restrictions are considered as prime factor that initiate informal trade or smuggling. Trade restrictions created through tariff barriers increase the price of a product in that case smuggling allows the product to be available at a lower cost due to tax avoidance. Similarly if quota imposed a demand supply gap is created which also initiate informal trade practices.

In some cases to protect local industries trade barriers are imposed as total ban on foreign products. But as those products are cheaper and better quality traders use informal ways to meet the local demand and also allow them to earn higher profit margin. Except product category of drugs and narcotics the law enforcing agencies and border security forces take liberal stance in dealing with the different categories of consumer products. In some cases they also help the informal traders to exchange the goods. So where formal trade becomes restricted by law the only way remains open is the informal way. Informal trade is a common phenomenon throughout the world not restricted one specific area or country.

Especially the countries sharing common land border traders engage in informal trade. Actually normal trading practices become illegal or informal due to restrictions and regulations. We can see informal trade practices with USA and Mexico. Between eastern western European as well as Asian and African countries.

The magnitude of informal trade practices in Asian and African countries are greater compared to Western European countries and USA Informal trade practices also depend on the countries size of informal economy. Anyway it is difficult to totally avoid the informal

cross border trade. Except cross border trade of demerit goods both formal and informal trade of legal goods to some extent yield benefits for the countries.

But in case of informal trade Governments deprived off tax income, and the income generated through informal trade normally treated as black money. The presence of black money creates some problem. Being illegal it becomes difficult the owners cannot invest the money in the economy. Usually they send the money out of the country through informal channels. The process deprives the country of potential investment opportunities and economic growth. But formal trade allows the money to be invested and retained in the country and utilized for growth and prosperity.

The WTO initiative to trade liberalization would allow the countries to engage more trade through formal channel. WTO encouraging countries to abolish all types of trade barriers. The trade barriers shrink the possibilities of greater trade between the countries. The less trade and exchange means lower growth lower employment generation and lower trade flows between the countries.

The main reason behind the informal trade practices between Bangladesh and India is the formal and informal trade restrictions between the two nations. In addition to trade barriers formal trade also requires lengthy documentation and bureaucratic formalities that encourage traders to follow informal ways. Interestingly some religious matters are also restricting formal trade between Bangladesh and India. In case of cattle trade religious restriction is the main cause of informal trade. Beef consumption is forbidden in Hindu religion, but on the other hand a delicacy for Muslims. Indian considering the matter as a religious responsibility imposed restriction on cattle trade with Bangladesh.

To satisfy huge demand and dependency on Indian cattle stock large volume of informal cattle trade is going on. Though in India cattle stock is surplus and they can be benefited through the trade but due to religious reason have no other choice but to restrict the trade officially. In case of other items textile products are important. India has earned reputation in textile manufacturing and also dominating regional as well as international markets for quite a long time.

Textile products especially muslin a special type of textile earned world-wide appreciation and reputation. After British rule Indian subcontinent has lost the glory in textile

manufacturing but still holds a respectable position in textile manufacturing. The Indian textile products are of great demand in Bangladesh. Especially saris, different types of women's wear and also some categories of gent's garments Kashmiri shawls and such other items from India considered as very lucrative to the local customers.

But as a part of protectionism the Government of Bangladesh has posed restrictions for Indian textile items. So the items are entering Bangladesh through different land borders inside Bangladesh and openly being sold to the local customers. These products are easily available in border areas. During festival large number of shop keeper travel India for the purpose of purchasing textile items of India. During national festivals there is a grate demand for Indian textile items. Traders earn significant amount of profit through the profit. On the other hand some Bangladesh textile products also gained popularity in India. Such as JamdaniSaree, TangailSaree and among the food items the hilsha fish is undoubtedly popular to peoples of west Bengal. But due to trade restrictions the said products are not allowed to be traded freely.

If WTO become successful in reducing all types of trade barriers world wide than traders will naturally inclined to make informal trade practices. If formal trade become more easier safer and profitable than there no rational cause of doing it informally. Avoiding formal channels involves lot of risk factors uncertainty legal action and treated as criminal offence. But being profitable business and no way to mange it through formal channels they use informal channels. It is expected that if WTO frame work successfully implemented and applied than magnitude of informal trade practices between Bangladesh and India will also come down to significantly.

#### 4.4 Policy Analysis of Neighboring Countries: Tax policy and trade barriers.

Geographically Bangladesh is almost surrounded by India and sharing few land borders with Myanmar. Geographic proximity, common land border large economy has naturally turned India as one of the most important trade partner of Bangladesh. The economy of Bangladesh especially trade is greatly dependant on India. But trade relation with Bangladesh is not so important for India.

Only a small percentage of imports come from Bangladesh but on the other hand almost ten times greater amount in consideration to value and volume is coming from India to Bangladesh. Once again need to mention here that it is very insignificant for India in consideration to its total export. Bangladesh and India both sides negotiating to reduce trade gap and at the same time trying to find ways which could increase and facilitate greater trade and economic cooperation. Step by step through negotiations both the countries started withdrawing trade barriers. Bangladesh Government has already allowed India to use transit facilities. In near future trade with India will grow further.

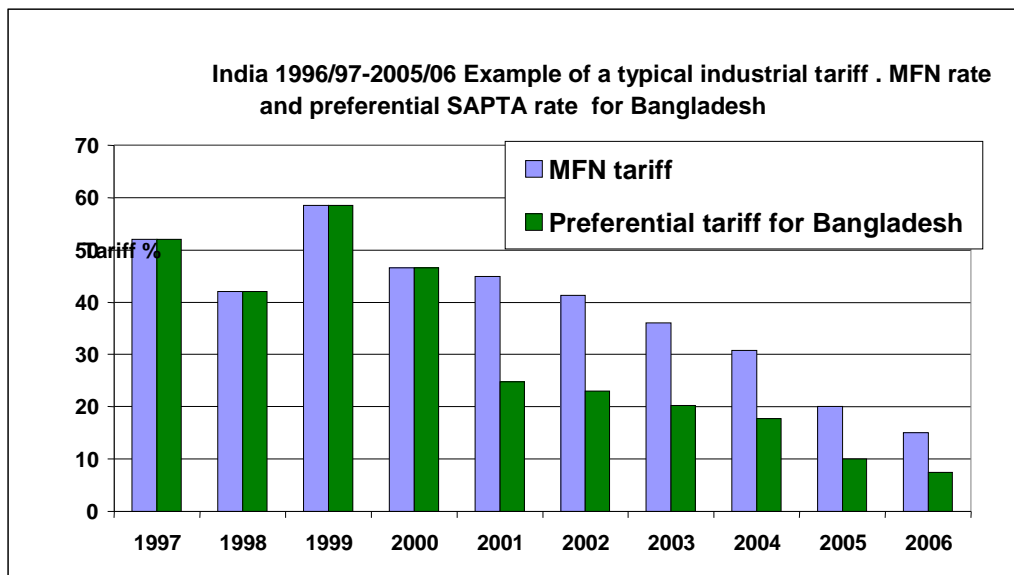
But most important issue of bilateral trade is informal trade between India and Bangladesh. According to various studies the informal trade volume is almost equal to formal trade. Large numbers of products are being traded between Bangladesh and India. Reasons behind informal trade of these items are primarily due to price variance. Imposition of different tax rates and subsidy creates price variance. And price variance initiates informal trade between the two countries. Some products are traded occasionally.

In certain situations Government need to provide subsidies to products. For example when oil prices in the world market were too high the Government of Bangladesh provided subsidies to oil and diesel. The price of oil and especially diesel became low in Bangladesh but Indian price was comparatively high and that initiated smuggling of diesel from Bangladesh to India. Afterwards Government forced to adjust price of Diesel for restricting smuggling. In many other cases tax variance between two countries initiate informal trade practices. Along with the tariff rate\***para tariff** imposed on Indian products being imported from India increases the price level of Indian products. This protective tariff barrier failed to

restrict Indian products from entering Bangladesh because of their productivity. The productivity allowed Indian products enjoy greater competitive edge over Bangladeshi products.

On the other hand most Bangladeshi industrial products face 7.5% tariff under the agreement of SAPTA. Indian industrial tariff stands at 15%. Main export item of Bangladesh to India is (RMG) which faces specific higher rate of tariff. The tariff has grossly restricted export opportunity of Bangladesh to India. In other cases though Bangladesh enjoys preferential tariff under SAPTA but fail to enter because lagging behind India's productivity and Competitiveness.

Figure 2



Source: **STUDIES ON INDIA-BANGLADESH TRADE, TRADE POLICIES AND POTENTIAL FTA ( Research Report)**

Note \* (Para Tariff An extrafee or tax imposed on a good in addition to thetariffstated on thecountry'stariffschedule)

Both India and Bangladesh is very much concerned about protecting their domestic industry. Among the products traded between the two countries textile fabrics are competitive in nature. But ample opportunities created in the Indian market for readymade garments of Bangladesh is being restricted by India through tariff and non tariff barriers. On the other hand Bangladesh imposed restriction on Imports of Indian textile for use in the domestic market. Both the countries are concerned with protecting their own industries and employment.

Basically the restriction on import of textile products has initiated traders to engage in informal trade. Huge quantities of textile products are being smuggled in Bangladesh through different land borders. Especially during religious festivals of Eid and Puja border markets even the metropolitan city markets such as Dhaka ChittgongSylhetRajshahi enjoy brisk business of Indian Textile items of different categories.

But from the Indian side cattle trade is strictly restricted. India erected barbed wire along the sensitive border areas with a view to control cattle trade. Interestingly Indian Law does not prohibit cattle transport from one place to another place. The Indian cattle traders take the full advantage of this legal loophole. They collect cattle from different places of India Even as far as from Uttar Pradesh to Chennai and finally they reach West Bengal or adjacent border areas of Bangladesh. Eventually the cattle stocks cross the border for entering Bangladesh. The process is very risky for the people who take part in transporting cattle from India to Bangladesh. Incidence of casualties and injury occur while crossing the border. Indian border security forces open fire on the traders who cross the border with those cattle head. Main reason for informal cattle trade is non tariff barrier.

A large number of items are also being traded between India and Bangladesh through informal channels. Some of these items are occasionally being traded inconsideration to value and volume they are negligible. Main reason behind such trade through informal channel is to avoid the Government tax. Avoiding the tax profit margin increases and as such traders try to do the business through informal way instead of official channels. Study found that some of the products are traded occasionally. Product like spices, chocolates biscuits are traded only in border areas. Group of people carry these products by hand and sell the items in shops and markets closer to the border area.

For Bangladesh India is the most important trade partner. Being close neighbor trade and economic relation between the two countries has got tremendous potential. India is huge market for Bangladesh on the other hand eastern states of India known as seven sisters could be hugely benefited if both countries remove all types of trade barriers.

Recently Bangladesh has allowed transit facilities to India which will reduce India's transport cost significantly. It is expected that both the countries will try to increase official trade. In other cases both the countries are cooperating each other and trying to increase infrastructural facilities to increase economic relation. New train and road transport services are gradually being established which will enable both the countries to increase trade between the two countries.

High value and volume of informal trade indicates the weakness of administrative and bureaucratic system and irrational tariff policy. The study found in many cases just to avoid complex documentation and administrative problem the traders use informal channels. In case of tariff both the countries impose tariff which creates price variance of competitive products. The customers tend to choose products which are lower in price but better in quality. The tariff imposed by both the countries create that situation and obvious outcome of that action is doing trade through informal channel

The study observed that price variance is another reason behind informal trade practices. Tax policy is designed by policy makers of individual countries. They normally focus on local interest they don't take into consideration how it is going to affect regional trade. Tax policy is directly responsible for price variance. Imposition of tax increases the price of products. According to market functions low price products try to enter high price market. Tax variance between the two countries in case of same products follows the same rule. In addition to non tariff restrictions tax imposed by one country increases the price of the product and if tax rate in another country is much lower than there will be a tendency of exchanging the goods in informal way.

Rate of tax variance in same products between countries results in significant price difference. Naturally products tend to move from high price area to low price area for greater profitability. The countries sharing common land border where transport cost is insignificant for trading goods informally experiencing such activities more frequently. Both

Bangladesh and India fix tax rate based on their individual policy and requirements ignoring the possibility of informal trade with neighboring countries. Once Indian low quality tobacco products enjoyed popularity in Bangladesh, especially among the low income group of people. But now scenario is just opposite i.e Bangladeshi tobacco products are more popular in Indian markets. The reason is Indian tax rate on tobacco products increased significantly. That resulted price increase of Indian tobacco products compared to Bangladeshi products. Not only the tobacco products, number of products being traded informally due to price difference.

Policy of neighbouring countries in relation to tax tariff and non tariff barriers greatly influence and initiate informal trade between the countries.

#### **4.5 Routes of smuggling.**

Most important routes of cattle trade is beanpole, Sonamasjid, Hili and Changrabandha. Informally Cattle also traded through other northern borders such as Burimari, patgram and chilmari. The traders try to use the infrastructural facilities of formal borders and as such occasionally use remote areas for transporting cattle. It becomes costlier and difficult to exchange and transport cattle.



But sometimes they are forced to use other inconvenient transport routes when law enforcing agencies increase surveillance in particular trade points. Supply of cattle from India is based in west Bengal and Assam.

Though smuggled cattle are collected from different parts of India, Even as far as from Haryana state which is a remote north western state of India. Most of these are sold in west Bengal and eventually transported to Bangladesh through different land borders of Bangladesh. Beef consumption is restricted in some parts of India and mainly those areas are experiencing surplus in cattle and due to high demand of Bangladesh informally selling those cattle to Bangladeshi traders.

The Tamabil border statistics shows that normally cattle trade is very insignificant. Perhaps the area is remote hilly and transporting cattle is difficult and on the other hand supply of cattle in Meghalaya state is comparatively lower.

In fact there are no fixed routes for informal trade. Informal traders frequently change routes of smuggling. Law enforcing agencies and border security forces sometimes increase surveillance on specific orders based on information. The informal traders accordingly change their routes of smuggling.

Informal traders use different routes for different types of products. But normally whatever route they use they are close to official land ports. The informal traders use the transport facilities for convenience. In this connection the study observed the Benapole, ChapainawabgongChangrabandha border areas are being used for cattle trade. On the other hand main route of textile trade is through Darshana, Rajshahi and beanpole. Train transport is being used for informal textile trade. The eastern borders like Tamabil,Bilonia Tripura is not being used for such trading activities. Being selected for routes like formal trade, informal traders also take into consideration of convenience, security, distribution network and proximity of market places. So change of facilities force them to change the routes of informal trade.

Map of Bangladesh.



**Informal trade routes**      

#### 4.6 Nature of Cross Border informal trade through land borders.

As the country is sharing a common border with India it has become an important trading partner of India. Wide range of commodities is being traded between the two countries on regular basis. Interestingly a significant part of which is through informal channels. The nature of cross border trade between India and Bangladesh is dynamic. The products being imported from India ten to fifteen years back is being exported to India. Some food items which were being imported informally from India is no more in the list because Bangladesh has become self sufficient in those items. Two items remain constant that is textile and Cattle between India and Bangladesh. Other items like agricultural products food items fish raw hides and skins different types of spices being informally traded between the two countries but not on regular basis. Demand for the said products varies time to time because of different reasons. Among them occasional Government restrictive measures in the border areas, imposition of tax creates price difference seasonal demand of certain products etc. Demand for certain products is very high but not available in one country, but on the other hand the products are available in abundance in another country. So according to trade theory exchange of such goods are quite prospective. But due to trade barriers both tariff and non tariff barriers it becomes difficult to cross the border legally. Only option for the traders is to use informal channels. And that is what happening frequently between the two countries. Statistics shows that informal trade captures significant part of total trade in consideration to value or volume of total trade. According to the statistics 15 percent of total requirements of the country is imported from India. This is official record which is available and recorded by customs officials. But a much higher figure is missing that is being done by informal channels.

According to available information from research statistics and observation the main route of informal trade is the land borders and adjacent areas of land border points. The informal traders try to use the infrastructure facilities of border posts. Such as roads railways local markets and transport facilities. Sometimes they use other areas where security surveillance and checking is lower than border check posts. Smugglers conceal the smuggled goods in their clothing, luggage or inside body cavity to avoid border checks. In Bangladesh the smugglers especially the women engage in smuggling wrap the smuggled goods especially saris in their body and pass the border posts. Other items like spices food biscuits tobacco products carried by personal hand bags. The smuggling practices are so well established and widespread that it is a norm.

It is difficult for the border security agencies of both the countries to check the movement of the citizens. Every day thousands of people crossing borders for different purposes. Most of the border areas are fairly populated and large portion of the people are poverty stricken. Most cases these segment of people are utilized for smuggling purposes. They regularly visit other

side of the border carry small quantities of goods in their hand and sell those items to the shops and markets in the border area. Type of goods they carry changes with time and demand. But textile products spices and food items dominate the trading most of the time. A good number of women are engage in smuggling Indian sharees and other ladies wear on a regular basis. They just help to cross the products through the border and deliver it to their agents.

Major item that is being traded between India and Bangladesh is informal cattle trade cattle. The demand supply gap has created huge requirement of cattle head specially the cows which are abundance in India. But due religious beliefs and Government restriction from Indian side cattle trade is officially restricted. The situation created scope for illegal cattle trade between India and Bangladesh. Basically cattle trade is done through land borders but all the land borders are not equally used for the purpose. JessoreBenapole is most important for informal cattle trade. Transporting cattle from this area to other areas of the country is easier and less costly. So a significant part of trade takes place through this border. Among other land borders being used for cattle trade is MohadevpurChangrabandaDarhsna In cases situation does not allow traders to trade smoothly they try to use another station. Some times the border security force law enforcing agencies and local administration become vigilant due to government pressure and trading informally turn to difficulties. For informal trade of cattle the traders also take help of different government agencies and they refuse to cooperate occasionally the task become harder. Most cases the traders find night time suitable for trading as the border stretches a long area which is difficult for the security personnel to cover moreover the low visibility in the night time providesan added advantage for the traders. Even some times they use rivers divided two counties, usually river areas are more difficult for the security forces to maintain night time vigilance.

Among other product categories textile and ready made garments especially ladies wear dominate the list of smuggled goods. Indian textile is also cheaper compared to local products and in some cases they offer better quality and uniqueness in design. For this reason Indian textile products gained popularity in Bangladesh. Burt as a policy matter the Government of Bangladesh don't allow Indian textile products to be imported directly through formal channel. The objective behind the decision is to secure and supports the local manufacturers from foreign competition. Though the scenario is changing Bangladeshi textile is some cases started gaining market share in India but still informal trade of textile products continues.

Cross border informal trade consists a major part of Bangladesh India trade. In addition to two major items of Cattle and textile a large number of products traded informally between the two countries every year. But those items traded vary from time to time and in consideration to volume of trade are not so consistent like those two products mentioned earlier.

Due to demand fluctuations and price variations due to tax policy informal trade becomes only solution to meet the demand of customers. Some essential commodities like onion, sugar, salt flour and spices faces short of supply so these products starts entering the country avoiding the formal channel. But once the situation changes automatically the products tend to be smuggled in the country.

Price variance is perhaps most important reason behind the informal cross border trade. Not only in Bangladesh is the theory equally applicable to any other parts of the world. The price difference especially the products which are price elastic initiate moving from low price area to high price area. There is no exception in case of Bangladesh. So far there is no uniformity in tax policy of both the countries and tax rate change is frequent issue the said changes results in price variance. The obvious occurrence of the price variance is cross border trade. The products from low price area try to move to the high price area. Round the year in different occasions prices of some commodities goes up and that becomes an opportunity of cross suppliers to sell the product. For example during the month of Ramzan and Eid festival prices of onion sugar edible oil increases due to demand extension that allows this products to be smuggled in the country avoiding formal channel. Though Government try to control the market through importing these commodities even at zero tariff facility but still certain amount of products enter the markets during that particular season.

Festivals of Eid and Puja create demand for ready made garments and shoes. Different types of branded products of Indian origin enjoy popularity among different segments of customers in Bangladesh. Shop kippers try to present those items in their shelf as far as possible. So the extra demand is fulfilled by the informal traders. These products enter Bangladesh territory through different land borders. Interestingly the women are used for this trafficking. They wrap the textile products in their body and cross the border and afterward the deliver the products to the agent who employed them for the purpose. Eventually the products through using their supply channels reach the city markets.

Over the time informal cross border trade between India and Bangladesh turned to be a inseparable part of economy. The informal trade practices got both negative as well as positive impact on the economy and livelihood of the peoples of Bangladesh. Especially a large number of people living around the land border posts is significantly dependant on informal trade.

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#### **4.7 Non Tariff Barriers and Informal Trade between Bangladesh and India.**

In addition to tariff barriers Bangladeshi exporters faces a number of Non Tariff barriers. Due to non tariff barriers Bangladeshi products fail to enter Indian Market. Along with agricultural and Textile products India,s sensitive list includes 480 items and negative items consists 744 item in total. Bangladesh is negotiating for removal of these barriers for quite al long time. Despite assurances and commitments from highest level of policy makers no progress is yet visible. In total negative list of Bangladesh stands an upto 1249 item. Accesses to Indian market for Bangladeshi products are still restricted. Even under the WTO rule RoO (Rules of origin) India cannot impose such restrictions.

Bangladesh is still negotiating to remove some items to drop from the negative list but little or no progress is visible.

Compliance factors are also being used as a trade barrier for Bangladeshi exporters. Sanitary and Phyto-sanitary standards posed a non tariff barrier which is being applied by Indian customs authority. It becomes difficult for local producers to meet the standard set by Indian authorities and failing to meet the compliance factors they fail to export. Though there is a potential market in India for their products.

Under SAPTA and other bilateral agreements Between India and Bangladesh, country deserves preferential treatment or 'national treatment' from Indian side. According to the status Bangladeshi products are not suppose face any kind of barriers. In other words free accesses of Bangladeshi products are expected in Indian market. But reality is different. In so many cases Bangladeshi exporters get confused about the rule related to labeling or they change rule frequently. To adjust with the new rules the cost increases and exporters incur financial losses. If there is standard rule than it becomes easier to follow but frequently changing rules creates lot of problems for Bangladesh.

Number of problems and port facilities are also come as a barrier to smooth trade. Among them manual operation, complex documentation, Unnecessary inspection which delays and increases cost of transaction, In addition disparity of standards poor land facilities along with inadequate warehouse facilities and lack of testing facilities of land ports poses immense complexity for Bangladeshi exporters.

Bangladeshi exporters face difficulties in quality standard issues. For example Indian customs authority don't accept (BSTI) Bangladesh standard and testing Institute certification. Processed food item like fruit juice faces such obstacles. Indian authorities sent Bangladesh products to their testing laboratories for quality certificate which is time consuming

Rules to store products in bonded ware house instead of importers warehouse is another obstacle for Bangladeshi exporters. In case of food items new rule of coding and recipe require ments is another hassle for exporters. Until and unless they get the clearance the products are needed to be stored in bonded warehouse which increases cost and time of shipment. Sometimes it takes one or two months time to get the clearance certificate from Indian authorities. The whole process of testing and clearance is very lengthy.

Regarding rules and regulations related to trade in addition to Director General of Foreign Trade individual states impose trade restriction on products ignoring DGFI and bilateral agreements between two countries. The eastern states and west Bengal where Bangladeshi products are popular the state authorities tend to impose restriction on entry of products they find competitive for their local producers. Ignoring the central administration for foreign trade and DGFI they take individual decisions to restrict certain products.

Bangladeshi traders also face trouble from local insurgent groups who are active in eastern states. The traders need some favour or support from local authority. But traders rarely get any support from Indian side, rather they are afraid that if supported it will come as an economic aggression of Bangladeshi traders.

Eastern states are most prospective market for Bangladeshi exporters. Other western and southern states due to communication and transport problem Bangladeshi exporters are less interested to establish trade relations. Perhaps Bangladeshi export market is confined to west Bengal and eastern states. though these restriction are not officially declared, but restricting trade to great extent and widening the trade gap between India and Bangladesh.

Road communication from Indian border is another obstacle for Bangladeshi exporters. Roads are narrow and not upto the standard for transporting loaded containers and bulk carriers. But comparatively Bangladeshi connecting roads of land border ports are much better than Indian side. Naturally the road condition appears to be an obstacle for Bangladeshi exporters.

Another noticeable barrier for Bangladeshi exporters is opening of bank account in the eastern states. They need to do it in Calcutta and get the import export number form there. The process is very stressful and time consuming. The documentation process delays export and as such exporters think better not to proceed for exporting goods to eastern states. Though there is huge demand for Bangladeshi products and due to lower transport cost the products become price competitive.

In case of Bangladesh India trade officially the tariff and non tariff barriers are being removed gradually but still lots of non tariff barriers are posing threat for healthy growth of bilateral growth. Statistics shows that Indian exports are increasing at a sustained level but Bangladeshi export growth has become static for a long time. The complex documentation, transport facilities visa processing for exporters banking facilities quality certificate issuance and lot more obstacles from the Indian side is allowing the trade gap to widen.

It is not difficult to understand that in addition to tariff barriers non tariff barriers are equally responsible for restricting trade from both sides. May be comparatively lower but Bangladesh has also



restrict Indian import to protect local industries or simply to retaliate Indian steps. But any way it is clear that due to trade restrictions scope for normal trade has become limited. Study shows that the ratio of official and informal trade is almost equal.

Bangladesh is experiencing huge and sustained trade gap. Even the official figure does not include the informal trade figure the volume is almost equal. Like official trade balance the informal trade balance is also in favour of India. That greater value and volume of products are informally being imported from India.

The barriers no matter tariff or non tariff create shortage of commodities. Especially in case of essential commodities situation becomes worse. To fill demand supply gap traders look for informal ways i.e avoiding official channels import the said commodities. The informal ways allow them to inflate their profit margin. Though they need to pay some charges unofficially to the customs officials and border security forces for facilitating such trade practices but are much lower than official tax imposed on trade.

#### **4.8 Demand supply gap and informal trade**

The countries around the globe are to some extent dependant on each other. They tend to rely on essential commodities even for luxury goods on each other. Especially the countries sharing land border tend to avail goods from neighbouring countries which allows reducing transport cost and time. People living in the border areas become more dependent for essential commodities from other side of the border.

According to the theory of comparative advantage the countries will produce goods in which their opportunity cost is comparatively lower than other countries. As such countries don,t go for producing ever thing they need. In other cases the countries don,tposses natural resources which they need to acquire from other countries.

Due to this there is a demand supply gap within the countries. To adjust the demand supply gap countries depend on other countries. But to protect the macro economic objectives of the countries the

trade barriers are imposed. Being restrict to commence trade through normal channels the traders use informal channels to trade such commodities. Bangladesh is no exception to that.

Bangladesh is sharing a long porous border with India. Being a large economy India is producing wide range of products. But due to trade restrictions imposed by both countries formal trade confined to a certain level. There is huge demand for certain categories of products from both sides especially from India.

Along with other items Bangladesh heavily rely on Indian cattle supply. As beef consumption is forbidden in Hindu religion cattle stock is high in India on the other hand beef is delicacy for Muslims and there is huge demand for beef. The only way for Bangladesh is to avail the Indian cattle stock through informal way. Huge number of cattle is being imported informally from India every year.

Textile is another item which enters Bangladesh informally in huge quantities. There is demand for Indian textile but Indian textile import is restricted by Bangladesh Government. To secure the interest of local textile industry Bangladesh has imposed restrictions but the items are being imported informally. The demand increases many fold during different religious or cultural festivals such as Eid Puja Christmas and Bengali New Year.

Due to crop failure in different times the country faces scarcity of commodities like sugar, lentils, onion garlic spices and the gap is adjusted through informal import from India. Official import is time consuming and tariff rates increases price of the commodities. But to meet urgent demand and avoiding tax allows consumers to get the products more conveniently and economically. Traders also enjoys higher profit margin.

The demand supply gap along with Governments restrictions on trade forces traders to trade through informal channels. Demand supply gap is a natural phenomenon of markets. Bangladesh due to its geographic location is disaster prone country. Crop failure occurs due to storm and flood resulting shortage of agriculture commodities. India being our neighbor and large producer of such commodities become a prime option as supplier.

The trade is two way not only the products come from India certain times India also faces similar situation where Bangladesh become her main source of supply especially the border states west Bengal and seven other states situated at northern and eastern side of Bangladesh popularly known as seven sisters.

But in consideration to value and volume of trade inflow of commodities from India to Bangladesh is much higher. For different reasons production cost of such commodities are lower in India and Bangladesh faces shortage frequently than India. When ever shortage become severe and price level

starts soaring Government takes initiative to import from other countries. But due to bureaucratic administration it takes time to adjust the gap immediately. The demand supply gap is then adjusted through informal imports from India.

In consideration to value and volume of informal trade, cattle trade holds the highest position for quite a long time. The demand for cattle especially cow is not adequate in Bangladesh. According to statistics approximately one third of demand is met from the local stocks rest of the requirement is being supplied by India. India has a surplus of cattle stock on the other hand Bangladesh faces severe shortage of cattle stock.

This cattle stock is not only for beef production but for Agriculture, milk and dairy products cattle stock plays a very important role. To meet the growing demand Bangladesh can import cattle from countries like Australia, New Zealand and European countries. Bangladesh imports few high breed cows from these countries to breed with local cows for increasing productivity. But it is not possible to import in large quantities of cattle stock from Australia New Zealand and European nations. The cost will be too high, Transport cost is another factor and it is going to be inconvenient to meet the total demand for distant countries.

Due to common land border with India, it has become easier and transport cost has become lower. As in India cattle stock is surplus the prices of cattle is much lower than Bangladesh. On the other hand due to shortage prices are much higher in Bangladesh. The Demand supply gap has turned as a lucrative trading opportunity for both traders of both the countries.

Most cases it is not possible for Government to supply goods needed immediately. The Trading Corporation of Bangladesh the sole government agency imports essential commodities on behalf of government. But they need government approval before importing goods. After importing the goods TCB sell the products through OMS (Open Market Sale). The process most cases proved to be inadequate compared to demand so large quantity of commodities are being traded informally and through informal channels. In one consideration it is beneficial to the customers because they get the commodities timely and price become affordable to general customers.

In course of time the population and income growth is generating demand for commodities at a faster pace than before. Local production is increasing due to that, but managing the faster growth is difficult for local producers. On the other hand irrigation problem, monsoon flood, draught cases crop failure creating demand supply gap of commodities.

Bangladesh is dependent on Indian commodities. But due to complex import formalities, as well as trade barriers both tariff and non tariff, timely action to meet the demand supply gap through official import become difficult. The alternate process to fill the demand supply gap is informal way. Though the Government is being deprived of huge tax income but it has proved to be very effective.

The statistics shows that the ratio of official and informal trade is almost equal. That means the equal value and volume of trade is going on through informal channels. The study observed through the primary research that textile, cattle are spices being traded regularly between the two neighbor is basically due to meet the local demand. The reasons behind other commodities which are occasionally being traded are also demand supply gap.

#### **4.9 Key findings of Informal Cattle Trade.**

- **Magnitude of informal cattle trade is significant in consideration to value and volume.**
- **At present due to restrictions volume of cattle trade has decreased almost 50% (approximately).**
- **One immediate effect of this change is rise in beef price (Price Changed from 300 to 500 per kg in three years).**
- **Cattle trade is influencing other macro economic factors of the country such as employment, balance of trade food inflation etc.**

- **In the long run Leather production will decrease due to shortage of cattle, which is a major export item of the country.**
- **Restriction has encouraged local farmers in farming. As a result local supply of cattle is gradually increasing.**
- **Legalizing cattle trade will benefit both the countries. Government is being deprived of huge tax income.**
- **Inflow and outflow of black money is being utilized for other informal activities like Gold and currency smuggling.**

#### **4.10 Impact of Cattle Trade on Economy of Bangladesh.**

Bangladesh is dependent on Indian cattle stock. Every year a large number of cattle is being imported from India. So far officially India does not allow cattle export to Bangladesh, much of the Indian cattle being imported from India is imported through informal channels. According to available statistics yearly approximately two million heads are being imported from India.

The impact of cattle import from India is important for the economy of Bangladesh. Main reason for cattle import is to meet the demand for beef. Demand for beef in the country is high. The demand for beef is ever increasing as the population and income level of mass population is also shows growing trend. The increase of income level leads to more consumption of protein. Among other protein diet beef is delicacy for Muslim population. Other protein diets are being supplemented by Beef. Shortage of beef supply crates demand for chicken and mutton.

If there is a shortage of supply of beef in the market the demand for other substitute protein diets also increases i.e. As per theory of economics people tend to look for cheaper substitute in such a situation. But ultimately the supply of substitutes is also limited. Increased pressure on demand of these items increases price level. That is the situation the country is facing at present.

Due to restriction of Indian cattle import by Indian Government and strict control and surveillance in the land border posts, cattle import has decreased significantly. According to primary data collected from border area markets the figure dropped as low as 50% (approximately). The result of this change is clear. The beef prices reached taka 500 per kg from 280 taka just three years back.

The rise of beef prices initiated price rise of other substitutes. The price of mutton reached 750 taka per kg which was around 480 to 500 taka few years back. The price of chicken is also in rising trend due to this. So it is easy to come to a conclusion that supply of beef is directly related to other protein diets. Not only that the price rise of protein diet causes food inflation of the country.

The food inflation creates a problem for peoples of limited income or fixed income. They face hardship. In a developing country like Bangladesh, people of low and middle income group spent significant amount of their income on food. So food inflation has got severe consequence on their day to day life.

Demand supply gap of cattle widens if cattle import is restricted from India. Demand supply gap for cattle increase price of beef gradually that affects demand supply of other alternates and increase price of those item. As a result of that over all food inflation of the country become unmanageable. So keeping beef prices to a tolerable level is very important for the country.

Not only supply of beef, cattle has got multiple impact on other economic activities. Economy of Bangladesh is still dependant of manual farming to a great extent. For cultivation, rural food processing especially for processing rice and edible oil, transporting agricultural products where road condition is not fit for mechanized vehicles use of cow plays most important role.

Another issue related to cattle stock is production of milk and dairy products. Like other food items the demand for dairy products is increasing gradually. Every year, Bangladesh is importing milk power from Australia Newzealand and Western European countries andspending huge amount of foreign exchange. Part of this demands for dairy products are being met by local milk producers. For improving the local as well as Indian origin cattle stock Australian and European high breed cattle in a smaller numbers is being imported every year.

But these are only being imported for improving the productivity of local cattle's through cross breeding not for increasing the supply of milk or dairy products. Importing cattle from Australia, New Zealand and Western European countries are proved to be not so cost effective. First of all the cattle stocks of high breed quality are very expensive on the due to long distance high transport cost increases the cost of acquiring such type of cattle stocks.

So Bangladesh is dependent on local stocks rather than importing western origin cattle's. If the supply of Indian cattle decreases than naturally it will create pressure on local stock. Though the local farmers are becoming interested in this sector, but it is difficult to increase supply within a short period of time. So distortion in supply chain will definitely affect dairy industry. The country will become more dependent on imported dairy products.

Country also imports powder milk for Australia, New Zealand and some Western European countries. Milk is considered as a most important baby food. Bangladesh imports milk powder. At the same time local farmers supply a portion of total demand. Shortage of supply of cattle will ultimately reduce milk production. Shortage of baby food is a threat for public health. Less consumption of milk protein will create problem for people of younger age group.

As a result of restriction from Indian cattle import local industry is developing. Local farmers are moving forward to establish farms. The development has reduced dependence on milk and dairy products import to some extent. Some local conglomerates especially PRAN has started contributing significantly in production of milk and dairy products.

But one problem with dairy farming in Bangladesh is high prices of fodder that ultimately increases the cost of production. Bangladesh is a densely populated country and land is absolutely scarce. Lands are being used for Industry, Agriculture and housing. But large areas of grass land for cattle grazing are needed.

In Australia and New Zealand vast areas of such land is available. Vast areas of grass land reduces the cost of feeding the cattle stock. Due to scarcity of land, cost of production of dairy products are also high compeered to other countries. It is easy to realize that to some extent Bangladesh would be dependent on import of cattle. The best possible supply source is India in many considerations. At present the informal way of supply is supporting Bangladesh to meet the gap.

Figure 3

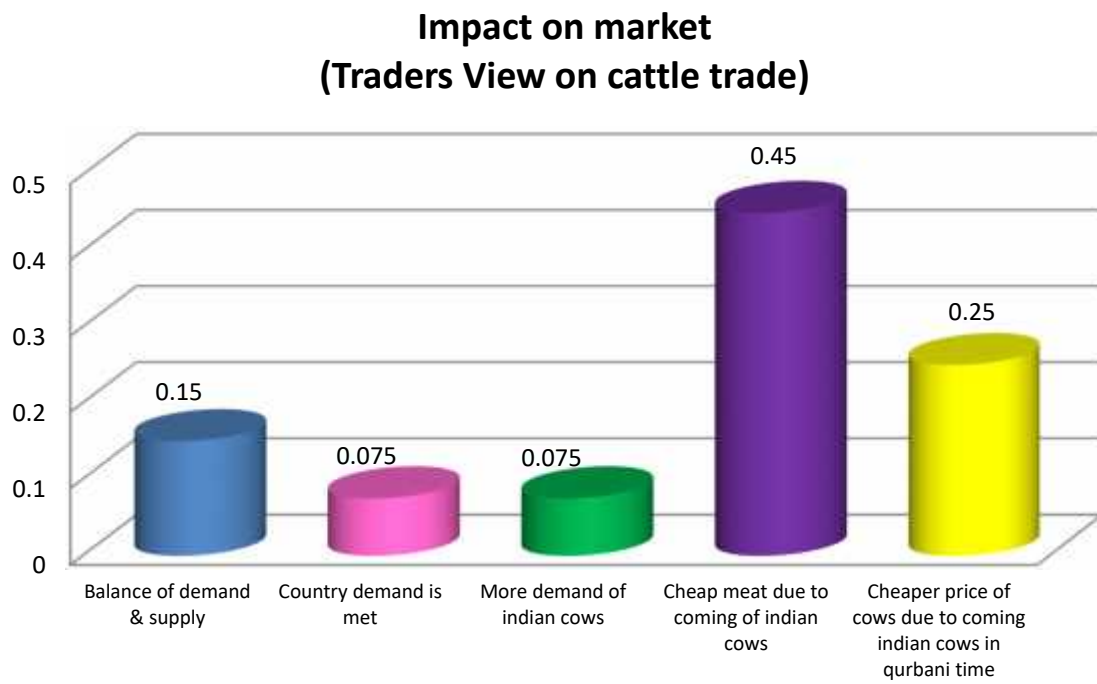
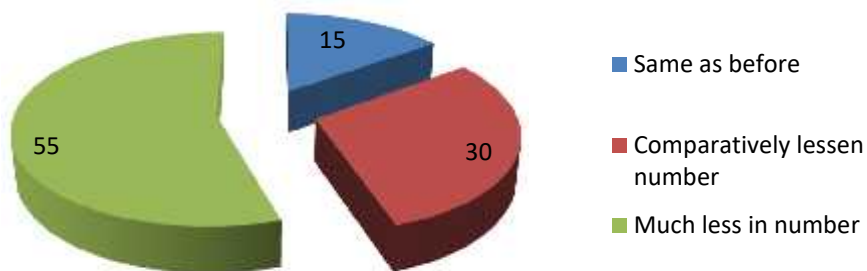




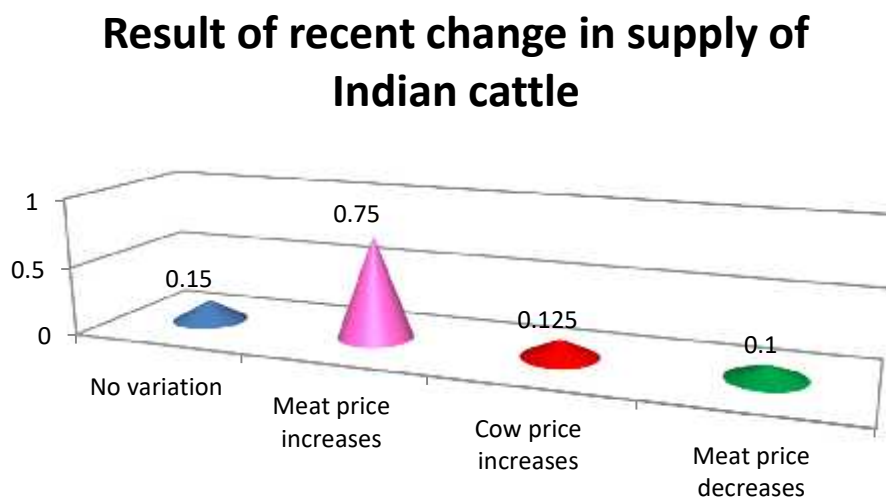
Figure 4

### Current demand of Indian cattle compare to recent past



Regarding the recent changes in cattle supply from India, traders informed that significant changes are there in supply chain due Indian Governments strict action against cattle trade from India. Only 15% responded that the situation is same as before. It is quite natural that lack of surveillance in pockets of transaction. So some areas the traders are enjoying better condition. 30% responded that comparatively supply of cattle dropped. But 55% traders responded that the change is significant. Even it is less than 50% compared to previous situation

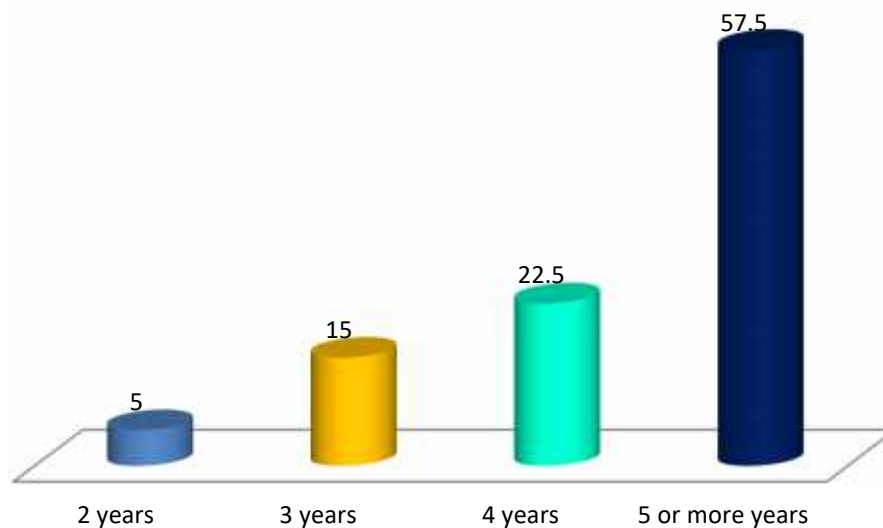
Figure 5



Only 15% trader's view is that the change has little impact on markets of cattle and beef. But 75% traders opinion is recent increase in beef prices is responsible for this. Even prices of local cattle has increased significantly and beef prices reached 500 Taka Per Kg which was 300 to 350 take few years back. One positive outcome of this change is local farmers have become interested in establishing farms. But negative impact is increase in beef prices and in long term if the demand is not met local stocks than beef price will continue to soar up. Even it has influenced other protein diet prices like chicken and mutton. Average people of the country spend greater portion of their income on food. Food inflation creates adverse affect on living standard of the common people. In that consideration maintain stability in beef prices is very important.

Figure 6

### Year of involvement in cattle business



Most of the traders are engaged in cattle business for more than five years. As per data 57.5% of the traders dealing with Indian cattle for more than five years. Only 5% respondents stated doing business for 2 years. 22.5% traders doing business for 4 years. Almost 15% of the traders are doing business for 3 years. The data indicates that doing business of cattle is profitable and consistent demand allowed them to continue their business for such a long period. The data also indicates that the traders face little obstruction in trading. Traders also earn significant profit and as such it has become a lucrative business for them. They ignore all types of risk for doing the business,

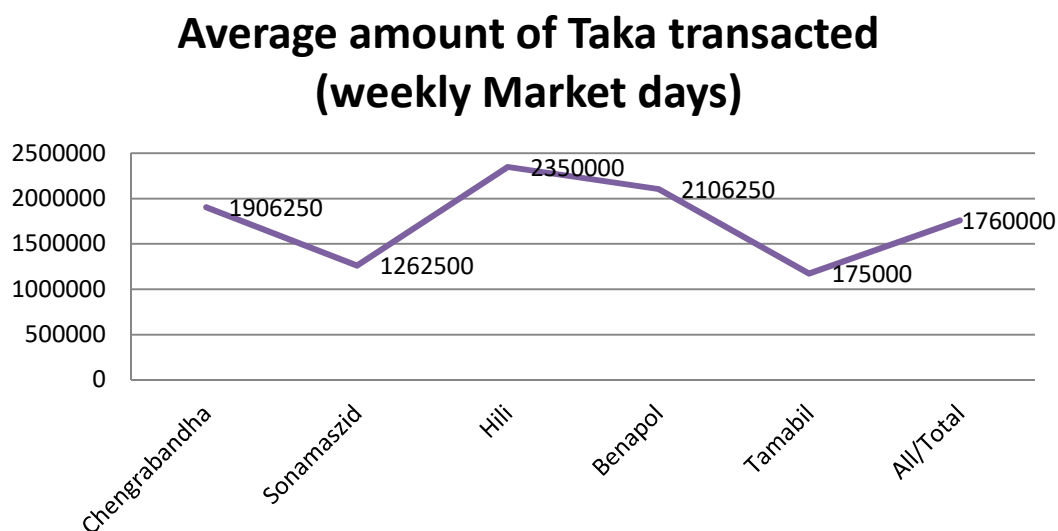
Figure 7



Market survey shows that traders normally on an average deal with 20 to 50 cattle head per market days. 40 traders interviewed for the purpose. Some exceptions are there, the number varies in different occasions. Sometimes Indian border security forces increase surveillance and restrict import of cattle from Indian side.

On the other hand during EidUlAzha a large number of Indian origin cattle demand. This allows traders to trade much larger volume of cattle head to cater the demand. The volume of trade also varies from border to border. Such as BenapoleSonamasjidChangrabandhaboder points are most significant for cattle trade on the hand eastern borders such as Tamabil is much less important for cattle trade. Cattle Markets closer to border areas are main source of Indian origin cattle's. Local cattle's are also traded in these markets but dominated by Indian cattle.

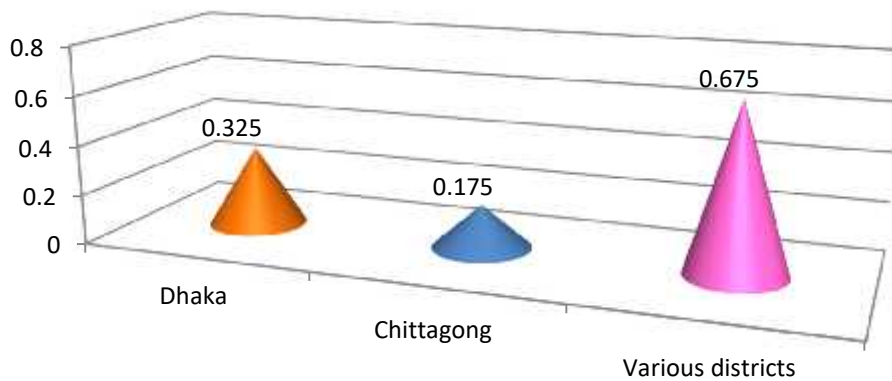
Figure 8



Traders average transaction amount is 17 lacs per trader per market days. The figure also changes on different occasions such as EidUlAzha. The amount varies from market to market, depending on proximity of particular border. A market in benapolehilli and Sonamasjid borders, transaction amount is much larger than markets closer to Tamabil border area. Most cases they deal with local cattle. Few number of Indian origin cattle are available which are supplied from western border areas or from other parts of the country.

Figure 9

## Distribution Network of imported cattle



Survey found that a wide and organized network is active in informal cattle trade. The whole process is accomplished by a large number of organized people. They are engaged in border crossing, transporting, storing and finally distributing to different parts of the country. According to the study almost 33% imported cattle's destination is different markets of Dhaka. Gabtali cattle market the permanent market of Dhaka is the main supply area for imported cattle. But During EidUlAzha number of temporary cattle markets also deal with Indian cattle imported informally. Chittagong is next popular destination for Indian cattle. According to the study more than 17% of the cattle is traded in markets of Chittagong. Rest 67 % is distributed to other districts.

### 4.11 Impact on Leather Industry

Leather industry is playing a significant role in the economy of Bangladesh. In respect to export items in terms of value leather items ranks the fifth position. The contribution is worth US \$ 500 million and it is increasing every year. Naturally to support such a large, strong and growing industry a fairly large livestock population is needed.

At present the footwear industry is gaining momentum in local as well as international market. It is expected the trend will continue and grow. Three categories of leather items are being produced i.e Leather, Footwear and Leather products. One of the oldest industries of Bangladesh the sector has also gained international reputation. Reason behind its worldwide reputation is high qualities of fine grain, uniform fiber structure, smooth feel and natural texture.

At present number of tanneries operating in Bangladesh is more than 220. Tanneries started production of crust and finished leather from 1990. More than 20 units are large 45 units are medium and rest of the tanneries are categorized as small scale. Most of the tanneries are located in Dhaka. Hazaribagh area of Dhaka is the hub for leather industry where 84 percent of the total supply of hides and skins are processed. Considering the environmental pollution especially the river pollution due to dumping of untreated chemical waste the Government has shifted leather processing zone to hemayetpurSavar. In addition to this Government is planning to establish two more leather processing zones one in Chittagong and one in Rajshahi.

#### **Livestock population for leather Industry.**

Table: 1

Sl No	category	Annual Kill (in millions)	Total Annual Production In tonnes
1	Cow/calf	4.00	48000(56%)
2	Goat/Sheep	15.00	26000(30%)
3	Buffalo	0.50	11000(14%)

For leather industry main raw material supply source is cow. Almost 56% supply is being provided by cow hides. According to statistics out of 4 million requirements 2 to 3 million are being supplied from

India through land borders informally. The supply of Indian cattle directly affect leather industry. At present Indian cattle supply has reduced significantly due to restrictions but leather industry is not facing supply shortage of raw materials. One reason behind this is tanneries hold extra stock for uninterrupted production and at the same time reduces the risk of price hike.

But if it continues for a long time the leather industry will face supply shortage of raw materials and as a result price will start soaring up. The increase in price will increase the price of finished leather and leather goods in the international market. The countries export of leather and leather goods will be less competitive.

The contribution of the leather industry in 2010 -11 was \$500 million which is growing steadily. Especially the footwear industry is growing at a much faster rate. Almost 30 mechanized footwear manufacturing plants are operating in the country. Most of these units are producing footwear for global export market. In addition to that large number of mechanized or semi mechanized units are producing footwear for local markets.

These units are creating job opportunities for large number of people. Along with footwear other leather items are also gaining global export market. It is expected that the growth rate will continue.

The leather and footwear industry has become a thrust sector in many considerations. Recently china's change of focus from footwear industry to other sectors has created greater opportunities for Bangladesh in the global footwear export market. The labour cost of Bangladesh is comparatively lower than other countries and as such there is ample opportunity lies ahead for Bangladeshi manufacturers.

In addition to foreign exchange earning large number of workers are employed in the sector. Leather and footwear manufacturing sector is labour intensive. Large numbers of workers are needed for manufacturing footwear and leather products. As such it has proved to be a vital sector for the economy of Bangladesh.

The total leather sector is dependent on supply of raw hides and skins. The study found that supply of raw hides and skins is very much dependent on cattle supply from India. Approximately one third of



the requirements are being supplied from the local cattle stock and rest of the requirements is being adjusted from Indian cattle imported informally.

Recent restriction from Indian side has reduced supply of cattle though the effect is not immediately felt due to stock maintained by the tanneries, but if it continues than definitely it create problem for leather industry. But the immediate effect on beef prices is clear. Two to three years back it was 300 taka per Kg now it is 500 taka Kg. It is easy to realize that informal cattle trade plays very important role for the economy of Bangladesh.

**Source:** Society of Leather technologies and chemists

Bangladesh Leather Industry: An overview of Recent Sustainable Developments

January 2013 H.L PAUL A.P.M. ANTUNES A.D COVINGTON P.EVANS AND P.S PHILLIPS

#### **4.12 Impact of informal cattle trade on dairy industry.**

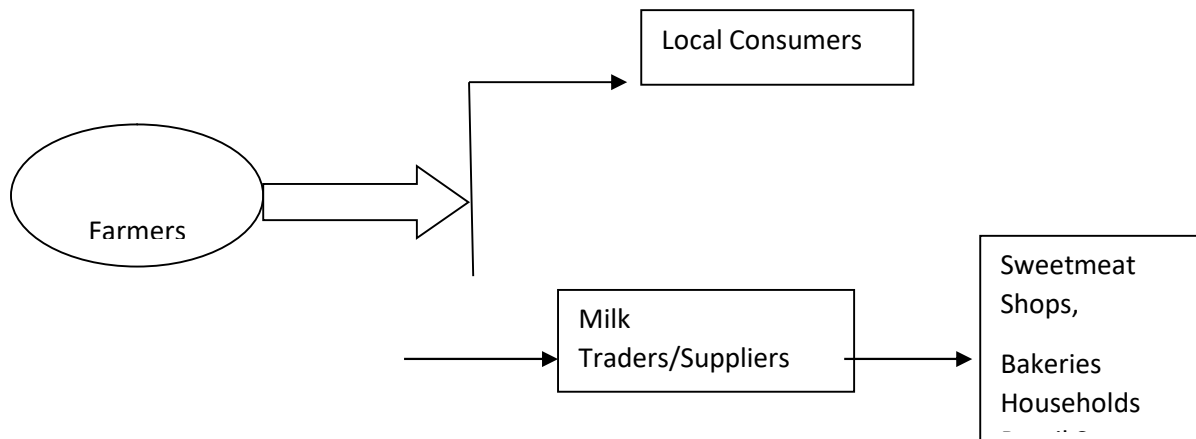
Bangladesh at present enjoying a sustained economic growth rate of 6 to 6.5 percent. As a result the level of income of average population is experiencing a sharp rise. With the growth of population especially the urban population growth has increased the demand for dairy products. Milk is used for making tea, sweetmeat yoghurt and traditional sweets made by households. The gap between demand and supply is increasing day by day in case of milk production. Per capita milk availability currently ranges from 40 to 50g per day (14-18 kg per year) But there is no specific nutritional target

of milk consumption, the figure of 250 gm per day ( 90 kg per year) as per standard shows a gap requirement of 12.8 million tones more than four to five times present output Approximately.

The gap between demand and supply being met by imported milk from different countries. At present Bangladesh imports 20,000 tonnes annually, valued at some \$70 million. Out of this import 0.16 million tonnes of liquid milk equivalent annually, rest amount in powder milk from Australia Newzeland and some European countries.

**Figure 10**

Traditional Milk Distribution system



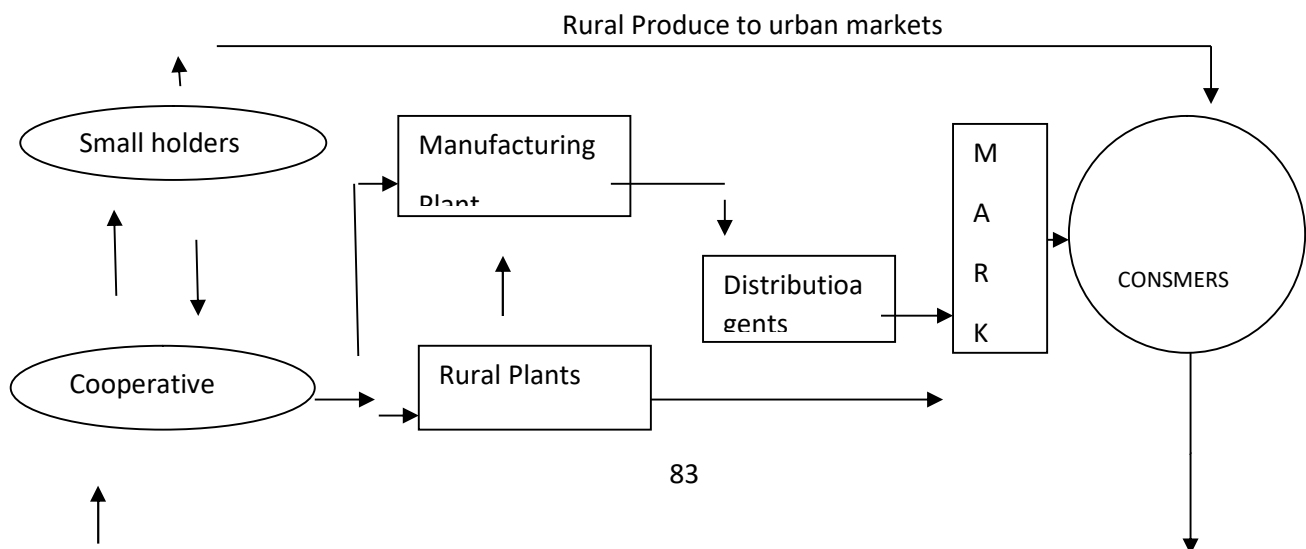
Now a days a significant portion of dairy industry is dependent on local suppliers. Local dairy industry is flourishing in Bangladesh to cope with growing demand. To increase productivity Australian and European high breed cattle stocks are imported in limited scale to increase the productivity of local stocks. But importing cattle stock in large quantity is expensive as well as involves high transport cost. Main source of cattle stock is local and Indian cattle which are informally being imported. Indian cattle is used for beef production and local cattle stock produces milk. If Indian cattle import becomes restricted, obviously pressure will be created on local stock and as result milk production will be reduced. The country will be forced to depend on imported milk. Huge amount of foreign exchange will be drained out of the country to meet the demand.

At present the restriction on cattle trade has attracted small scale dairy projects as profitable venture. But still it is very insignificant in consideration to total demand of the country. Moreover it will take time to develop the situation. The main problem of developing dairy industry in Bangladesh

is inadequate cattle grazing fields and high cost of fodder. So to some extent the country needs to depend on imported cattle stock. Indian cattle stock is playing a vital role in this regard. The stocks being imported informally is cheap and due to geographic proximity transport cost also remain low compared to imports from Australia Newzealnd and west European countries.

Figure 11

Milk Vita Cooperative Model



### Urban cash to rural producers

Another aspect of dairy industry is income generation for poor people living in rural areas. The people those who are land less and don't have any other means of income. The milk vita model shows how very poor marginal land less farmers contributing in dairy sector. A large number of people are employed in the sector. So naturally any setback in the dairy sector will impact adversely on the economy.

The study after analyzing primary as well as secondary data found that dairy industry is a vital sector for Bangladesh. Like many European and North American countries the supply source of milk is different in Bangladesh. In those countries dairy business and farming is dominated by large farms and corporate bodies, who are the main suppliers of milk. But in Bangladesh marginal farmers who owns one or two cows are the main supplier of milk. The Milk vita model of collection and distribution system has enable them to sell their produce to the cooperative and finally after processing and packing reach the final consumers.

Findings of the study shows that informal cattle trade has enable the countries cattle stock in a balanced position. If somehow the informal cattle trade is totally restricted the sector will face severe consequence. Alternatively if the country try to import cattle Europe and Australia that would be very expensive and less cost effective than local and Indian cattle stock. So in any considerations the informal cattle trade is a blessings for dairy industry of the country unless and until availability of any suitable alternative.

#### **4.13 Inflationary impact and informal border trade.**

Controlling inflation is one of the prime macroeconomic objectives of the Governments. Especially Governments are very cautious about food inflation. Food inflation directly affects the living standard of the people. In fact people of low income group spend greater portion of their income for food. So impact of food inflation is quite severe than inflation of other items in the economy.

Bangladesh is no exception to that. Once Bangladesh was dependant on food grain import especially rice. But at present Bangladesh has become self sufficient in rice production. Due to unexpected calamities like food and draught Bangladesh faces food shortages. But if such calamities are not there Bangladesh is capable of producing surplus food than required by the country.

As the economic growth is maintaining a sustained upward trend and the income level of the people is increasing steadily two developments are visible. One is more food consumption and intake of per capita more protein for average people. People's food habit is also changing very fast. So the demand for rice is gradually shifting to other items. Though per capita protein intake is lower than developed countries but as economic theory suggests that it will continue to increase as a result of economic development.

In Bangladesh one of the most popular protein diets is beef. Average beef consumption is high compared to neighbouring countries. Especially in India compared to its huge population average beef consumption is much less than Bangladesh. Similarly other neighbouring countries such as Nepal Bhutan and Myanmar beef consumption are lower than Bangladesh. Due to less demand for beef all of the countries are experiencing surplus cattle stock. But due to religious bindings of not to consume beef the countries are unable officially trade these surplus cattle stock with Bangladesh.

On the other hand being a Muslim country there is high demand for beef in Bangladesh. In fact beef is very popular protein diet. Due to increase in income and population growth the demand of beef is increasing. But Bangladesh is not self sufficient in supply of cattle stock. On an average 2 to 3 million cattle head is being imported in Bangladesh. Mainly source of supply of cattle is India. Myanmar is also another supplier but volume of import is less than India. The supply from Myanmar is meeting the demand of limited areas of Teknaf and Cox's bazaar. Rest of the countries demand is being catered partially through Indian cattle, in fact local cattle supply is inadequate to meet the total demand of the country.

Most important aspect of informal cattle trade is that the overall food inflation of the country is being influenced by. One proof of this statement is recent sharp price rise of beef price. Two three years back the beef prices were only 250 to 300 taka now it has reached 500 taka per kg. The reason is restriction of cattle supply from Indian side. India recently has increased surveillance in almost all land border posts. The strict action from Indian border security forces has reduced the supply of cattle down to approximately 50 percent. High demand has created pressure on local cattle stock and increased price level.

The close substitute of protein diets are chicken and mutton. As a result of increased price of beef the price of chicken and mutton has gone up. Due to rise in price and shortage of supply consumers are being forced to look for substitute protein diets. Mutton prices reached 750 taka per kg which was around 450 to 500 taka two to three years back. Chicken prices are also soaring up. Fish another protein substitute of beef equally showing upward trend in price increase.

Now it is easy to conclude that countries overall food inflation could be triggered only through the demand supply gap of beef. Alternatively in India beef prices have nothing to do with inflation because beef is not so important a protein diet for Indians. Especially the majority Hindu population don't consume beef as it is religiously forbidden for them. The same thing applies to Nepal, Bhutan and Myanmar. Normally they don't consume beef as a part of their religious beliefs.

The matter has become a blessing for Bangladesh. The surplus cattle is being supplied to Bangladesh through informal channels. Officially these countries don't allow cattle or beef export to Bangladesh. On the other hand Bangladesh border security forces don't restrict entry of cattle through informal ways.

One positive impact of informal cattle import from other countries especially from India is stabilizing the overall food inflation of the country. Indirectly the beef prices influence other substitute prices to increase and as a result prices of other food items become influenced eventually.

No doubt that informal cattle trade could not be supported ethically and on the other hand government loses huge amount of revenue income but controlling food inflation which is a major macroeconomic objective of the country.

In other cases occasionally due to crop failure different agricultural commodities like rice, wheat, sugar, onion, garlic and spices face supply shortages. Officially it takes time to import the products and meet the demand immediately by the time prices start soaring up. But informal sources help to minimize the gap instantly, though a premium price is charged for involvement of higher risk factors.

The study found that despite negative issues involved in informal trade, it still plays a greater role to minimize inflation. Especially control of food inflation is a major factor for the economy of Bangladesh.

#### **4.14 Key Informants views and opinions regarding informal cattle trade.**

- Magnitude of informal cattle trade is significant in consideration to value and volume. Cattle trade ranked first among the products being traded informally. In fact large number of products are being traded. Some of the products traded occasionally and for short term profit traders import those goods to avail the opportunity of demand supply gap. But cattle are traded continuously for quite a long time. Role of cattle is very important for the economy of Bangladesh. The Indian cattle is meeting the huge demand supply gap of Bangladesh. Almost two to three million cattle head being imported from India every year which costs approximately four thousand crore taka. The magnitude of cattle trade is very high.
- At present due to restrictions volume of cattle trade has decreased almost 50% (approximately). Recently Indian government has imposed restriction on cattle trade. Inside India beef consumption and trade is prohibited in some states of India. Number of casualties in border where cattle traders are active. Injuries and death of people engaged in transporting cattle through border has become common phenomenon. Due to that volume of cattle has decreased substantially.



- One immediate effect of this change is rise in beef price (Price Changed from 300 to 500 per kg in three years). Beef prices normally remain stable due to supply from India. Shortage of Indian cattle has resulted in rise of beef prices. So far beef is a major protein diet for the population shortage of beef supply force the consumers to look for alternate protein diet that is chicken and mutton. As a result prices of these items starts rising. At present same thing happened in the market of protein diet. With the increase of beef prices the prices of mutton and chicken increasing in the same way.
- Cattle trade is influencing other macro economic factors of the country such as employment, balance of trade even food inflation. The study found that cattle trade is very significant for the economy of Bangladesh. Macro economic factors and important industries are dependent on cattle trade. Research finding reveals that the major export item leather and leather goods directly depends on cattle trade. Shortage of supply of cattle reduces the beef supply automatically reduces leather production. The shortage of supply will increase leather prices and manufacturers become less competitive. Recently the leather goods manufacturers and the tanneries are facing severe crisis due to this supply shock. Less export will create adverse situation in the balance of trade of the country.
- Restriction has encouraged local farmers in farming. As a result local supply of cattle is gradually increasing. The positive side of restricted cattle import created ample opportunity for local farmers to grow. They have stated getting fair prices for their cattle and facing less competition. Especially during the EidulAzha festival demand for cattle increases and statistics shows nearly 50% of the total yearly demand for cattle is needed to be fulfilled during the festival. The local farmer wait for the season year round to get a better price for their cattle. But if Indian cattle enter the country in abundance during the days of said festival it becomes a matter of great frustration and disappointment for the local farmers. Though it is not possible to meet the total demand within a short time for the local farmers and at the same time the price of fodder is much higher in Bangladesh, inadequate land area for cattle grazing and related costs high for cattle farming in Bangladesh. But if cheaper supply of Indian cattle is reduced than it becomes an great opportunity for local farmers to establish cattle farming.
- Legalizing cattle trade will benefit both the countries. The study observed that if restriction is withdrawn from Indian side then both the countries will be equally benefited. Regarding cattle trade Bangladesh and India both are in a unique complementary situation. There is surplus cattle stock in India but on the other hand there is shortage of cattle due to high demand. Indian farmers can sell their unproductive cows to the traders who accumulate the

stock in border areas closer to Bangladesh. Eventually they manage to cross border avoiding the security check posts. The passages or border crossing corridors are considered as death trap for the traders. The incidents are deteriorating the diplomatic relation between the two countries.

The study observed and suggests that if both Bangladesh and India can reach an agreement between the two countries regarding use of formal channels for cattle trade than both the countries will be benefited.

It is not cost effective for Bangladesh to import cattle from other countries like Australia Newzealand or European countries. Indian cattle is cheaper than any other countries. Even average price of cattle is high in Bangladesh so Indian cattle is most suitable option for Bangladesh.

On the other hand the India will become benefited by selling its surplus stock of cattle which they can not sell in other countries. Because of quality consciousness and strict health standard requirements it is difficult for India to export beef. So that Bangladesh market is the best option for Indian cattle. If the trade becomes legalized both the countries will earn substantial revenues. More employment will generate peoples of both the countries will enjoy multiple benefit through cattle trade.

#### **4.15 Key findings (Informal trade of textile products).**

- 1. Textile trade ranks second in consideration to value and volume of informal trade.**
- 2. Significant number of people involved in textile trade especially the local people living closer to the border areas.**
- 3. Train service is most convenient mode of transport for the informal textile traders.**
- 4. Informal textile trade has both positive and negative impact.**
- 5. Informal traders get support from Customs and law enforcing agencies and get paid for this.**
- 6. Payments made in this connection to customs and border security forces are not fixed; it varies from time to time and especially on value and volume. It is notable that traders who are living adjacent to land border area markets are dealing with Indian textile than local textile items.**

#### **4.16 Impact of informal trade on Textile Industry**

The study selected two items being traded informally in a large volume and has significant impact on macro-economic aspects of economy. As per study findings textile products ranked second in consideration to value and volume of trade being done informally. It is next to cattle trade. Trade restrictions has created barrier for Indian textile to enter Bangladesh. But informally a large volume of textile is being traded every year.

Study focuses on impact of the trade on the economy and found both positive and negative implications. Negative side is crating competition for local products. The Indian textile products are low priced for different reason more over taka appreciation has decreased the price level further low. It has become difficult for the local competitors

Textile sector is labour intensive. At present large number of workers are employed in textile sector. Growing competition in the sector will cause job losses for local workers. For this reason Government has imposed restriction on import of Indian textile for local use. Another opportunity created by RMG sector textile sector. Large volume of textile as raw materials of garments is being imported every year from different countries including India through back to back L/C. Local textile manufacturers can utilize the opportunity to supply textile to export oriented garments manufacturers as import substitute. Back linkage textile industry can help the country in many way. On the other hand informal import is being considered as threat for smooth growth of textile industry.

The system of payment for informal trade is not clearly known to concerned authority or policy makers. But somehow the payment is made through foreign exchange or hundi system.

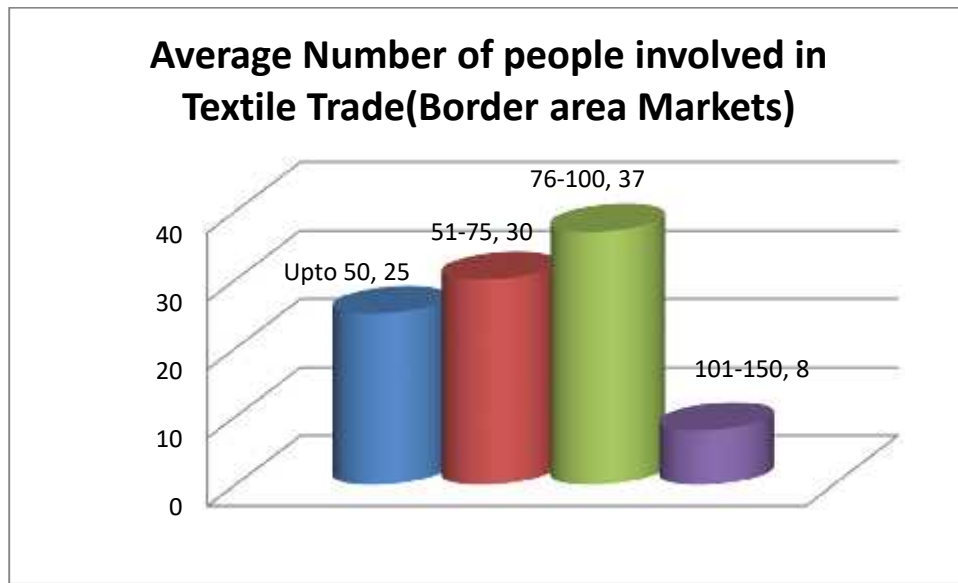
But no matter what ever process they adopt, means out flow of foreign currency which plays a vital role for the economic development of the country. On the other hand presence of black money in the economy is harmful in many considerations.

The study also finds some positive aspects of informal trade. First of all the competition with local products are not always harmful. Because the said competitive atmosphere is making local firms more efficient and cost effective. Local firms get the opportunity to develop their designs from Indian textile. Even some cases they are producing better design than Indian textile designs. Less competition and Government unconditional support turn the local manufacturers inefficient and internationally less price competitive.

Large numbers of people are engage in informal trade. Some of them just carry the products from one place to another or just help to cross the border. Especially women wrapping the textile products through the border check posts and get paid for this. Border security forces don't go for checking the female passengers and as such traders use them for carrying the products. Large number of traders in the border areas is dependent for their living on informal textile trade. Though it is ethically not acceptable but still a large number of alternate employment opportunities is being created through informal textile trade. Every year large number of people are joining the work force among them a significant portion are educated working people, but remains unemployed due to inadequate job opportunities.

In future the Globalization process and WTO trade liberalization bindings the countries will be forced to abolish (both tariff and Non tariff) trade restrictions. So in a different way informal trade is preparing the country for future barrier free trade between countries. Where efficiency and cost factors would be main tools to survive and grow.

Figure 12



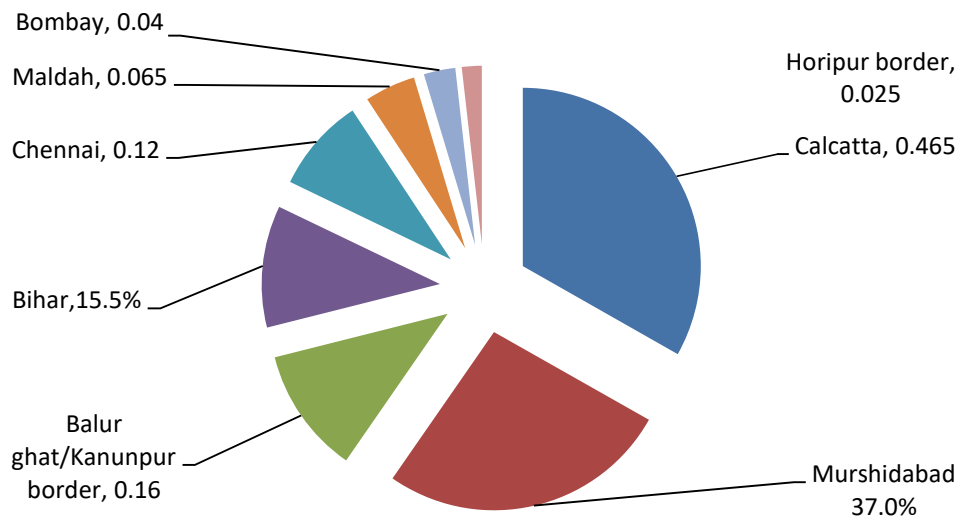
The traders involved in dealing with Indian textile products vary from border to border. Some areas where importing Indian textile is easier and convenient, survey finds that greater number of traders of that area is involved in such trade. Market size is also a factor. Larger sizes of markets where number of shop are more, greater number of traders are involved in trading with Indian textile products. Depending on the market size number of traders varies from 50 to 150. In addition to traders large numbers of people are engage in exchanging textile products from India to Bangladesh. Especially women living adjacent to land borders visit India on a regular basis. They carry Indian products especially sarees and 3 piece and other ladies wear.

Most of the time women wrap sarees other items in their body to avoid customs checking. Though it is easily noticeable but customs official normally ignore checking women for this. Sometimes they need to pay railway official and customs officials at a specific rate depending on the value and volume of products they carry. The study observed that huge number of people's livelihood is dependent on

cross border trading. Especially the border districts which are economically backward and unemployment rate is high and other income sources are limited the people tend to engage them in informal trading. Large number of people travels India every day for this purpose. Eventually the sale the textile products to the nearest markets at a higher margin. The study also observed that trading with textile products are less risky that cattle trade. Where risk of death and injury is very common. But in case of Textile at best the officials confiscate the items or impose minor punishment like few days imprisonment or fine small amount of money.

Figure 13

## Supply Source areas of Textile Items



As per survey the main supply source of textile products is West Bengal and Assam borders. Most of the textile products enter Bangladesh through west Bengal. Though the products come from different parts of India such as Mumbai Bihar and Chennai. But most of the textile products enter Bangladesh through land borders are manufactured in west Bengal and adjacent areas. Some specific type of textile enters Bangladeshi markets which are manufactured in Mumbai Bihar or Chennai. According to the survey 46.5% textile products are from Calcutta. On the other hand only 4% textile products are from Bombay. Perhaps the distance is one reason for this at the same time textile products of west Bengal are more popular to average income Bangladeshi customers. Interestingly some Bangladesh origin sarees are very popular to Indian customers such as Jamdani, tangail handloom. These items also cross border informally and few of them also traded legally through formal channels.



Figure 14

### Traders view about Indian Textile



One of the objectives of the study was to reveal the fact, that why traders prefer Indian textile. Regarding the issue 94% traders responded that they enjoy greater profit margin than dealing with local products. 73% traders opinion was closer to this, their view is there is consistent demand for Indian Textile. More over some specific branded products are in high demand among Bangladeshi consumers. As Bangladeshi consumers are loyal to Indian textile products the traders gain more profit through selling the items. Only 5% responded that selling Indian textile items are easier. This is also related to the above mentioned facts. That as the products are in high demand the items become easier to sell. Traders tend to deal with the with products which are in high demand and yield more profit. So naturally traders are equally interested to deal with Indian products side by side with local products.

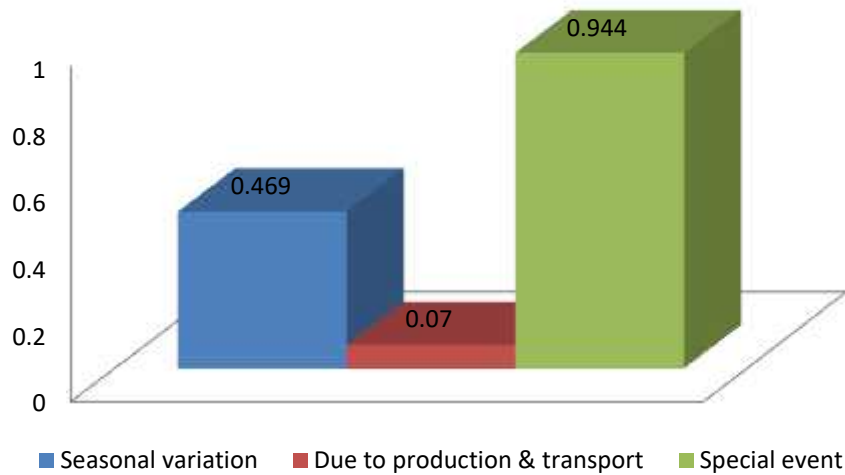
**Table 2****Average amount of transaction per traders of textile Items**

Area	Average amount Tk.
Chengrabandha	1077375.00
Sonamaszid	209250.00
Hili	355500.00
Benapol	1468750.00
Tamabil	106750.00
All/total	643525.00

The average amount of transaction per trader is 50 to 60.5 lacks. But the figure varies largely due to influence of different factors. So far the trade is being done informally so factors such as law enforcing agencies surveillance or customs official checking occasionally restrict such transactions. Demand supply factors also influence trade. The textile trade is greatly influenced by change of fashion and style. And most important factor is social functions and festivals like Eid Puja Christmas. For these occasions volume of trade increases many fold. But on an average huge amount of Indian textile products is being traded every day. Popularity of items changes over time once Indian shares dominated this trade now it is three piece and other ladies items. In consideration to value Indian textile items ranked second after cattle trade.

**Figure 15**

### Variation in trading of Textile items



Regarding the causes of variation of trade in consideration to value and volume traders responded in the following way. 94,4% traders informed that demand increase due to special occasions. Especially the religious festival dominates the demand. For example two Muslim festivals respectively Eidulfitr and EidulAzha. Hindu festival of Durga puja and Christmas create huge demand for Indian textiles products. Demand also varies due to seasonal change. Winter season creates demand for winter clothing's such as shawls, woolen sweaters and in summer cotton textile products.

#### 4.17 Price quality relationship and informal trade.

## Quality

		High	Low
Price	High	Attracts high income group of customers who are brand and quality conscious.	Due to tax payment price increases. Discourage consumers and results in decrease of demand in case of price sensitive products.
	Low	Create demand for price elastic goods. Possible when official channel is avoided i,e avoiding tax payment. Indicate informal trade.	Offer products to low income group of customer. Who are less quality and brand conscious which is considered to be natural act markets.

The study found that there is a co-relationship between price quality variance and informal trade. Study observed that informal trade of Indian textile is closely related to the fact. Normally there is a high demand for Indian textile products. Especially Indian made cotton products are very popular in Bangladesh. Indian origin fabrics of different categories are comparatively low priced and quality is better than local textile. As a price sensitive item naturally attracted local customers. In addition the designs of Indian textile are unique in consideration to local ones. But Governments restriction in the form of tariff and non tariff barrier is restricting Indian textile to enter local markets. That is why huge value and volume of informal trade is going on in textile sector.

Study explained price quality relationship and informal trade through the above metrics. When price and quality of a product both are high the products are normally offered for high income group of people. It is expected that high quality products are charged higher price. Similarly the when price and quality of a product both are low, the products are offered to low income group of people who are less quality and brand conscious. The products which are low quality but high priced due to tax imposition decreases demand especially in case of price elastic goods. Most important fact is when prices are low but qualities of those products are high. Important finding of the study regarding the fact is usually these are smuggled products entering the local markets without paying taxes to the Government. Though unofficially the trades need to pay certain amount of money to concerned parties, Who extend support to continue the transactions smoothly. But they avoid greater amount of tax payment while trading informally. The process reduces the process of the products significantly.

#### **4.18 Impact on balance of trade**

Being close door neighbor Bangladesh India trade relationship is very long. Large numbers of products are being traded between both the countries. From spices to motor parts and from cattle

to textile every day the products are crossing the border. Formal trade trade gap is as high as ten times. India is enjoying a sustained favourable trade gap with Bangladesh for quite a long time. Statistics shows that the gap was as high as 13 times. i.e the value of imports from India compared to its import from Bangladesh is 13 times higher. The issue is being negotiated for a long time. Both the countries are negotiating and discussing ways to reduce ever increasing trade gap.

Positive outcome of these negotiations are visible in minimizing tariff barriers, certain products or product category has been exempted from duties. But the gap still ten times higher on an average.

**Positive Impacts:** Important issue of Bangladesh India bilateral trade is informal cross border trades. Different studies show that equal value and volume of informal trade goes on between Bangladesh and India which is not recorded officially. The unrecorded trade gap is very close to formal trade. So far the trade is unofficial; Governments of both the countries rarely proceed for any actions to minimize the unrecorded trade gap which is always against Bangladesh.

But both the countries try to check informal trade practices. In this connection they take actions against the involved traders. Most cases actions are taken against the people involved in carrying the products, but main traders remain safe. The traders who basically deal the products from both the countries are not visible on the spot even it is alleged that they have connections with high officials of law enforcing agencies and border security forces. Their informal trading activities go on uninterrupted for years.

**Negative Impacts:** Cattle trade is most complex issue among the informal trade items as per secondary data and research conducted by observer research foundation of India value of cattle trade is 3500 to 4000 crore taka per year. This huge amount of trade is not recorded officially. Not only has that from spices, chocolates biscuits to auto parted a large number of products are being traded through informal channels. The unofficial trade gap is not recognized by the Governments of both the countries as trade. So whenever the Governments try negotiate the issue of trade gap between the two countries the issue of unrecorded trade never come on the table. For India the trade with Bangladesh is not so significant. But for Bangladesh trade with India is very important. Analysis shows that exchange rate has contributed the gap to be widened further.

Bangladesh India trade deficit is being adjusted by trade surpluses with other countries like USA and EU especially through export of garments. Inflow of remittance in larger amounts is also contributing in adjustment of trade deficit with countries. But greater inflow of remittances is responsible for taka appreciation to some extent.

Appreciation of Taka/Rupee is encouraging more export from India. Side by side with official trade informal or unrecorded trade gap is also widening. It is not expected that a country should enjoy trade surplus with all the countries rather based on fundamentals of competitive trade theory that countries will naturally face negative trade gap with some countries. Countries naturally focus on overall trade balance to be in positive trend.

Sustained overall negative trade balance creates macro economic problems. Though Bangladesh is facing huge trade gap with India, but some of the items being imported officially or informally plays very important role for the economy of Bangladesh. One of them is certainly cattle. Informal cattle trade is influencing employment, food inflation export oriented leather industry. Dairy and milk production.

## **Bangladesh-India Bilateral Trade Statistics**

**Value in million Tk.  
(Value in million US \$)**

<b>Year</b>	<b>Export</b>	<b>Import</b>	<b>Trade Ratio</b>
-------------	---------------	---------------	--------------------

2008-09	18391.95			
	(274.26)	186093.00		
		(2863.19)	1:10	
2009-10	21680			
	(304.62)	221573		
		(3202.1)	1:11	
2010-11	36475			
	(512.5)	324832		
		(4560)	1:9	
2011-12	38792			
	(490.42)	376428.5		
		(4758.89)	1:10	
2012-13	45071.68			
	(563.96)	381598		
		(4776.9)	1:8.47	
2013-14	35448.42			
	(456.633)	469080		
		(6035.5)	1: 13.22	
2014-15	40944.83			
	(527.16)	452668.2		
		(5828.10)	1:11	
2015-16	53969.82			



(689.662)

426847.35

(5452.9)

1:8

**Source: Import Payment, Bangladesh Bank and  
Export Statistics, Export Promotion Bureau.**

**Prepared by: DCCI Research Cell**

It is noticeable that, though the informal trade gap is widening along with official trade figure. But ultimately by creating export opportunities of leather and leather goods and reducing the import requirements of milk and dairy products the gap is becoming narrow. Both way positive and negative impact on balance of trade is noticeable in case of informal trade.

#### **4.19 List of Items being traded officially between Bangladesh and India**

##### **Major Export Items**

<b>in 2013-14</b>	<b>(In million US \$):</b>
Woven Garments	(76.443);
Knitwear	(19.807);
Home Textile	(14.79);
Agri-Products	(96.462);
Frozen Food	(4.014);
Leather & Leather Products	(11.55);
Footwear	(5.329);
Raw Jute	(22.465);
Jute Goods	(84.77);
Bicycle	(5.744);
Others	(115.259)

#### **4.20 Major Import Items in 2013-14 (In million US \$):**

Cotton (all types), cotton yarn / thread and cotton fabrics (1421.4);

Cereals (1085.9); Vehicles other than railway or tramway rolling- stock and parts and accessories thereof (497.7); Residues and waste from the food industries, prepared animal fodder (293.1);

Nuclear reactor, boilers, machinery and mechanical appliances, parts thereof (278.7);

Iron and steel (213.9); Edible vegetables and certain roots and tubers (172.1);

Organic chemicals (160.8); Mineral fuels, mineral oils and products of their distillation,

bituminous substances, mineral waxes (141.7); Plastics and articles thereof (138.3); Tanning or dyeing extracts, tannins and their derivatives, dyes, pigments and other colouring matter, paints and varnishes, putty and other mastics, inks (130.2); Salt, sulphur, earths and stone, plastering materials, lime and cement (125.9); Electrical machinery and equipment and parts thereof, sound recorders and reproducers, television image and sound recorders and reproducers and parts and accessories of such articles (114.1); Man-made staple fibres (109.4); Dairy produce, birds' eggs natural honey, edible products of animal origin, not elsewhere specified or included (91.3); Coffee, tea, mate and spices (85.7); Rubber and

articles thereof (84.1); Edible fruit and nuts, peel of citrus fruit or melons (75.3); Man-made filaments; strip and the link of man-made textile materials (64.5); Aluminium and articles thereof (61.2); Knitted or crocheted fabrics (52.6); Inorganic chemicals, organic or inorganic compounds of precious metal, of rare-earth metals, of radioactive elements or of isotopes (39.7); Paper and paper board, articles of paper pulp, of paper or of paper board (34.0); Essential oils and resinoids; perfumery, cosmetic or toilet preparation (30.8); Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruits; industrial or medicinal plants; straw and fodder (28.8); Pharmaceutical products (16.5); Others (487.8)

**Source: Import Payment, Bangladesh Bank and**

**Export Statistics, Export Promotion Bureau.**

**Prepared by: DCCI Research Cell**

#### **4. 21 List of Smuggled products available in the Markets of Bangladesh.**

**Ladies wear of Different categories:**

Indian Shari,

Indian 3 piece

Babies Wear

**Gents Wear :**

Panjabi

Pant and Shirt Piece

Lungi Dhuti Indian Shal

Bed sheets

Bed cover, Mosquito net

**Spices:**

Onion, Garlic, Cumin-seed, Ginger

**Food item:**

Rice

Fruits/Apple/orange/Mango

Biscuit/chanchur/chocolate/Cake

Sugar/Tal misri

Edible Oil

Bevarage/fruit juice /Soda

**Other Items:**

Pest/Shampo/Cream/Lotion/

Soap/Blade/Detergent/

Brush/Chiruni.

Perfume/agorbati/ator

Sandal

Toys

Herbal Medicine

Colours

Stationery

Bag/School bag

**Cosmetics and jewelery Items:**

City gold item/nail palish, churi,fita

#### **4.22Enhance scope of Women employment**

Perception of the people is such as, that the informal trading activities are carried by the men; women are not involved in informal trade. But the study found except cattle trade a large number of traders are women. Especially in case of textile trade women are being used for carrying the textile items and help to cross the border. Normally they get paid for it. On the other hand the border security forces and customs officials show liberal attitude towards women. Normally they overlook the matter though they know that they are illegally carrying the products.

Women face less Customs checking while crossing the border points. A section of customs officials charge extra money for allowing them to cross the border with smuggled goods. Sometimes they carry the products in their hand luggage. They use small hand bags along with their personal belongings they carry. Women wrap the shares and some other ladies wear in their body to avoid customs checking. Though it is an open secret but customs officials avoid body checking of women. The women take the full advantage of this attitude.

Large number of women is being involved in dealing with Indian products. Main traders use the women for carrying these items from India. The women involved in the process get certain amount or percentage of money depending on the value volume and demand of the product. These women are from low income group of the society living nearby areas of land border ports. They do the job on regular basis. Definitely textile is the main item but along with textile they also smuggle other items as well. Large number of items are being smuggled in Bangladesh. Some of the items are occasionally traded, some items are seasonal such as Kasmiri shawl other consumer goods like chocolates, biscuits fruit juices spices are traded and marketed on a regular basis but value and volume of the is not so significant like textile items. Women play very important role in transporting said items from India. Later on items are distrusted and traded nationwide.

Involvement of women in informal trade has got significance in influencing macroeconomic objectives of the country. The activity has both positive as well as negative impact. According to statistical fact near about 50% of the population is women folk. But greater percentage of women remains unemployed in Bangladesh. That means they are not contributing to the economy. Country is being deprived off from potential economic growth due to unutilized labour force. The employment generation for women is important for living standard of the families. Most cases families of low income group become dependent on their female members. Most often widows and divorcee women's family members especially children's living become dependent on female members of family. So if

they remain unemployed their family suffers worst situation. Positive thing is informal trade with India generating employment for them. The study found that these women are earning good amount of money for their family. At present status of the country's economy at present status of the country's economy it is difficult to create employment for a large number of people.

Though it is not ethical or expected and so far government is being deprived off huge tax revenue, but still employment creation through informal sector proved to be useful for a large number of vulnerable women folk. These women are only earning member of the family. The scope of other earning sources, like agriculture, small Industry or even small scale businesses are very limited in border areas. So the low income group of people chose cross border trade as a means of their living.

#### **4.23 Exchange rate and informal border trade.**

Exchange rate greatly influences foreign trade. Especially demand of price elastic products is influenced by exchange rate. Exchange rate changes the price of products. As per primary data findings most of the traders informed that informal trade is being influenced by the exchange rate fluctuations. Taka/Rupee exchange rate is encouraging Bangladeshi traders to buy more Indian

products. At present it is 1.30 to 1 previously it was 2:1. Naturally price of Indian products has come down significantly. The profitability of informal trade has become more lucrative.

The economic indicators of Bangladesh is helping to appreciate taka, among them is sharp rise in foreign currency reserve of the country. At present it is more than 30 billion and increasing at a sustained rate. Incoming foreign remittance, export and economic growth at around 6 to 6.5.percent and overall the economy as whole showing sustained positive growth. The situation is initiating taka to appreciate. On the other hand Indian policy to boost export India is devaluating its currency. This exchange rate change is influencing both formal and informal trade gap in favour of India.

In case of formal trade the payment is done through the formal channels i.e through the banks but in case of informal trade the payment is not visible. The study found that as informal trading practices are subject to legal action and penalty. Even it is considered as a criminal offence so the trades make payments in different channels which they don't try to disclose anything in this regard. But most cases they use hundi for making such payments.

The study found that the traders who sale the products in their shops they pay in local currency i.e in taka but main dealers who manage to import the products in bulk quantities and on regular basis the make payments by converting take into rupee in different ways such as through hundi or currency smuggling or even in some cases settlement is done through exchange of gold.

The study also observed that small traders who deal with Indian products are rarely beneficiary of exchange rate changes. The main beneficiaries are the dealers who deal with bulk quantities and on regular basis. There is an organized channel with a well organized network for dealing products in informal way. They are normally the main beneficiary of exchange rate fluctuations. Finally payments are made through them.

Among two major items being traded informally cattle and textile, exchange rate fluctuations more influence textile than cattle. Cattle trade yield significant profit for traders so fluctuations in exchange rate not so important. A cow which costs 3000 taka in India is finally being sold in Bangladesh at a cost of 25000 and above. But textile products are fashion goods and as such very much price sensitive. Low price of Indian textile products are considered as a competitive advantage. Exchange rate change reduces price of textile products and become more competitive compared to local textiles.

As Bangladesh has imposed restrictions on Indian Textile products most of the products enter Bangladesh through informal channel. Depreciation of Indian exchange rate allows traders to yield more profit.



Records show that taka appreciation is encouraging informal trade to a greater extent. In case of other products like biscuits, fruit juices spices impact of exchange rate is negligible. Though exchange rate changes influence the change of price of these items, but in consideration to value and volume they are not so important to country or even the traders. Some of the products are traded occasionally but main reason appears as the change of price due to exchange rate. In such a situation the traders of Bangladesh try to import those items and avail the opportunity to gain short term profit.

Price sensitive items are more influenced by exchange rate fluctuations. The study found similar views from the respondent. Majority of them informed that exchange rate do influence trade of price sensitive items. Textile items are price sensitive. There is demand for textile items in Bangladesh. For two reasons they have gained popularity one is comparatively items are cheaper than local products and secondly unique designs and in some cases quality is also better.

Some items are not competitive to local products such as Indian Kashmiri shawl. This has earned admiration throughout the world for its design quality and texture. But Bangladesh as part its protectionist policy doesn't allow textile items import for domestic market. As there is no scope to officially import these items they are being imported informally through different land borders.

Appreciation Taka is making Indian textile items more attractive to the local customers. Within few years gradually taka appreciation to Indian Rupee has initiated informal textile trade in greater volume. Few years back taka/rupee exchange rate was 2:1 now it is 1.20 :1 it is easy to understand that without change in other factors such as quality design the exchange rate changes is offering the same products at a much lower price.

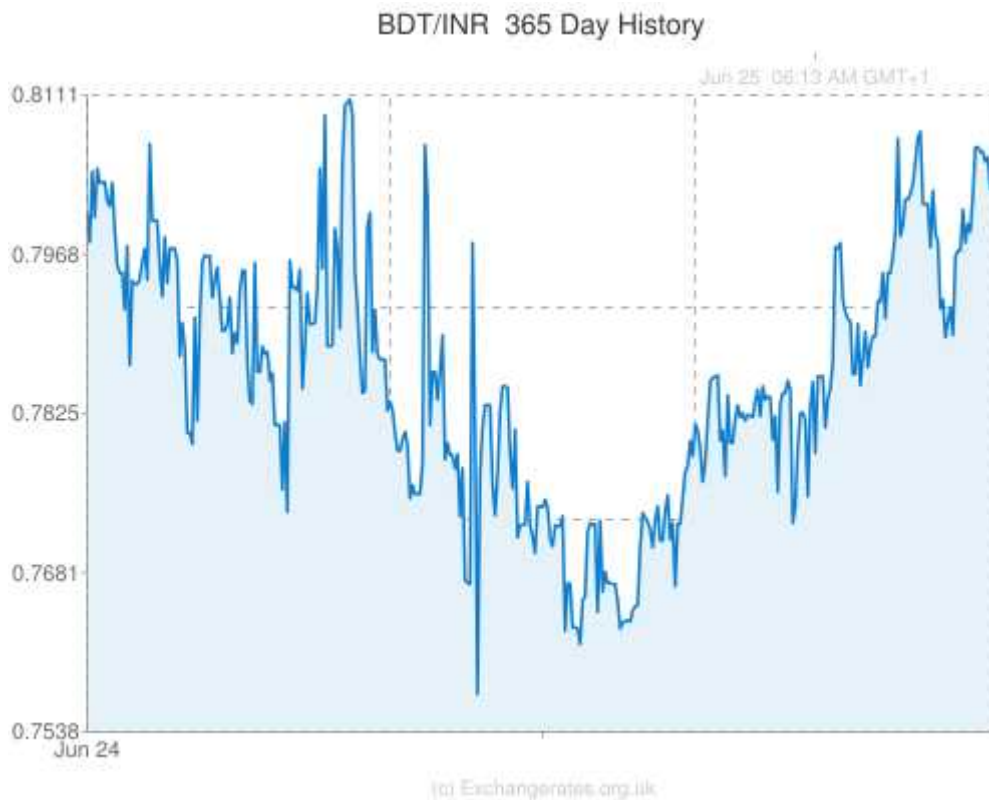
The study suggests that to keep control over informal trade or to reduce the magnitude of trade exchange rate should be carefully adjusted. The policy makers should take the matter seriously. Normally the policy makers design policies which are related to formal trade practices. Though effect of exchange rate is same in both cases but still informal trade become more lucrative to traders due to exchange rate.

This is the Bangladesh Taka (BDT) to Indian Rupee (INR) exchange rate history summary page, detailing 180 days of BDT INR historical data from Wednesday 27/12/2017 to Saturday 23/06/2018

Highest: 0.8078 INR on 24 May 2018.

Average: 0.7836 INR over this period.





Data Source : Bangladesh Bank <https://www.bb.org.bd/econdata/exchangerate.php>

The best day to change Bangladeshi takas in Indian rupees was the **Sunday, 8 October 2017**. At that time the currency had reached its highest value.

**100.00 Bangladeshi takas = 81.07 Indian rupees**

The worst day to change Bangladeshi takas in Indian rupees was the **Tuesday, 28 November 2017**. The exchange rate had fallen to its lowest value. **100.00 Bangladeshi takas = 75.72 Indian rupee**

The data source shows that currency rate change to a greater extent influences price level of products. This allows the Informal traders to inflate their profit level.

Rate of other currencies in exchange of taka

A. Inter-bank exchange rates as on Jun 24, 2018:

Currency	Day's lowest	Day's highest
USD	83.7000	83.7000

B. Cross rates as on Jun 24, 2018:

Currency	Buying	Selling
EUR	97.5524	97.5858
GBP	111.0532	111.0783
AUD	62.2644	62.3063
JPY	0.7610	0.7612
CAD	63.0556	63.0794
SEK	9.4521	9.4553
SGD	61.6121	61.6348
CNH	12.8566	12.8575
INR	1.2331	1.2334

Data Source : Bangladesh Bank <https://www.bb.org.bd/econdata/exchangerate.ph>

The best day to change Bangladeshi takas in Indian rupees was the **Sunday, 8 October 2017**. At that time the currency had reached its highest value.

**100.00 Bangladeshi takas = 81.07 Indian rupees**

The worst day to change Bangladeshi taka's in Indian rupees was the **Tuesday, 28 November 2017**. The exchange rate had fallen to its lowest value. **100.00 Bangladeshi takas = 75.72 Indian rupee.**

Data source : Bangladesh Bank

#### 4.24 Key informants view regarding trade of Textile items

\*The reasons behind cross border textile trade are price variance quality and demand of specific brands or types of textile products. In case of cattle trade it is due to demand supply gap. Local demand is very high compared to its supply.

\*It is difficult to assess the actual figure because there are no official records, on the other hand the things are not fixed that means volume demand routes always changes.

\*More than one reason is behind the cross border trade between India and Bangladesh, but perhaps the price variance and import restriction for domestic use of similar quality products is the main reason behind the trade .

\*Where price is the only determinant factor in that case tax adjustment is going to yield positive result, but where quality brand preference and other related issues become dominating factor is those cases impact of price adjustment will not going to be effective to that extent.

\*Compared to other products textile and cattle trade is more profitable, moreover the currency rate changes make it more profitable.

\*Textile products enter Bangladesh from India on a regular basis and in large volume. The informal traders use every single route they find easier and convenient. So basically they utilize all the routes as when appears to be convenient and easier. Most favourable mode of transport for informal textile trade is train. Other routes like land and even people carry products in their hand and cross the border, eventually they sale the products to shops adjacent to border areas.

\*The Border hats are operating on test basis, till now very low level of trading is going on in consideration to value and volume. So the impacts are very negligible compared to other markets and some policy issues are required to be adjusted after that it is expected that these hats will contribute in trading between India and Bangladesh. Normally insignificant amount of tobacco products are being traded in these hats now a days

\*Bangladesh sharing a long porous border with India and Myanmar, so it is difficult to check all the border areas equally and as such informal traders take the opportunity to smuggle products

where monitoring facilities are not adequate. Employing adequate manpower logistic support latest technology will enable the law enforcing agencies to increase their level of efficiency to a great extent.

\*One of the major sources of supply of textile products is informal trade. Unless and until the management system changes and root causes of informal trade is identifies and solved it is expected to continue

#### **4.25Black economy and its economic impact**

The study found that magnitude of informal trade is very high in Bangladesh. Other studies and statistical records show that ratio of formal and informal trade is almost equal. Study evaluates after analyzing primary and secondary data that magnitude of informal trade is significantly high.

Informal trade is a common phenomenon for every country. No matter rich or poor. But main influencing factor is magnitude of trade. In case of developing countries the magnitude is very high on the other hand for developed countries its comparatively low. The reason is developed countries have better control over economy and at the sometime less bureaucratic administration and trade facilities in formal sector don't encourage informal trade practices.

No matter whatever the reason is high volume of informal trade has got some severe impact on the economy. In many African and European economy the economy is being dominated by informal sector. The trade of legal goods in informal way do have some positive impact. The informal trade is providing job for a large number of people especially the women of ultra poor group. Through the informal trade demand supply gap of essential commodities are being minimized some cases stability price level depends on informal supply of commodities.

In many ways informal trade is positively contributing to many economies of the world.

The study identified same impacts of informal trade on the economy of Bangladesh. Employment generation, supply of essential commodities, price stability especially reducing and controlling food inflation all are noted as positive side of the informal trade.

The study is focused on two main items one is cattle and one is textile items. Informal cattle trade is influencing the economy in many ways. Directly informal cattle trade is helping the country to stabilize beef supply and price. Another important aspect is supply of leather. Leather and leather goods are one of the major export items for Bangladesh.

The dairy industry is indirectly influenced by informal cattle trade. If cattle supply some how restricted the cattle stock will face the supply shock and as a result dairy industry will also face problem.

Study viewed some positive impact of textile trade. As per traders though textile items are competitive to local products but some items are not being produced in Bangladesh. Design and quality of Indian textile is comparatively better than local one's.

As a result local producers are forced to improve their quality and design to exist in the market. The competition has enabled local producers to increase their efficiency to compete in the international market. They also get ideas to develop the design from Indian textile. In course of time if they can



improve their quality there will be no need to import Indian textile. Even there is wide opportunity to enter Indian market if the qualities and design supersede Indian textile items.

At present Bangladesh is importing huge volume of textile for readymade garments industry under back to back L/C. India is one of the country from which Bangladesh is importing textile for readymade garments. If Bangladesh can improve their product quality they have greater opportunity to capture the market. As per findings of the study Informal textile trade has many positive aspects for the economy of Bangladesh.

There no scope to deny the dark side of the informal trade for the economy of Bangladesh. The socio economic impact of informal trade is also a matter of grave concern.

First of all large number of people involved in informal trade which is unethical will gradually encourage them to involve in other unethical activities. The traders involved in informal trade unchallenged will tend to involve more traders in such activities and formal trade will be downgraded. Traders will prefer to trade in informal way to trade through formal channels.

The profitability of doing informal trade is much higher than formal trade, as in case of informal trade payment of Government tax is avoided. Informal trade allows and creates lot of social problem in the society. Some of the South American countries like Columbia Venezuela Bolivia informal trade and informal traders are dominating these countries ignoring the legal system and administration of the country. Black economy has turned to driving force for economy of the country. Political and social system has become corrupted and informal sector has become established and accepted fact for the society and economy. Official records shows that a enormous amount of money which consists significant percentage of GDP is going out of the country. No doubt these are black money earned through informal activities including informal cross border trade. Every year Government is offering incentive to legalize black money into white money but little success has yet been achieved. Government offers 10% tax to legalize black money where the normal tax rate is much higher.

Another negative impact of informal border trade is loss of Government tax revenue. Through formal trade Government earns tax revenue but informal trade avoids tax payment. One of the main source of Government tax revenue is foreign trade. At present to meet the growing expenditure Government is looking for new sources of revenue. But due to informal trade Government is being deprived of huge revenue income from cross border trade. Though the traders make payments informally to law enforcing agencies and border security forces allowing them to do business, but Government don't get any benefit out of that. If the trade is legalized than government will get huge revenue from border trade.

Informal trade allows inflow of black money in the economy. The influx of black money in the economy creates number of social problems. As the money cannot be invested or used in legal sectors tend to be used or invested in other sectors which are not legally recognized. To avoid legal action and security of the money these are being laundered out of the country

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#### **4.26 Border security forces and informal trade.**

The informal traders normally do business avoiding the vigilance of law enforcing agencies and border security forces. The study observed that informal traders choose the areas of crossing border very close to formal border check posts. They rarely use remote areas where transport facilities are poor. As such informal trading activities are rare in Chittagong hill

tracts and remote hill areas of Sylhet, Sunamgong and Netrokona. But the surveillance of border security forces is comparatively low in these areas.

The study observed that popular border posts for informal trade is Benapole, Sonamasjid Changrabandha, Hilli and Darshana. These are West Bengal state land border posts shared with Bangladesh. More over these post control major portion of formal trade with India. The Rail road network and other facilities are built and designed to facilitate trade and transport activities for formal trade. The informal traders utilize the facilities in their favour. Which reduces both of their cost and time. It is also become convenient for them to trade through these areas. Bangladesh is sharing a long porous land border which is difficult for the law enforcing agencies to monitor. Especially in the night it is a difficult task for border security forces to monitor such activities. Border security forces faces in adequate manpower to check the border round the clock. The informal traders know the weak areas of border security forces and transport products through those routes.

But the study observed that it is difficult to avoid the surveillance of the border security forces and customs authorities of both the countries. As the activities go on very close to their areas of monitoring and surveillance it is unusual that a great portion miss their vigilance and monitoring.

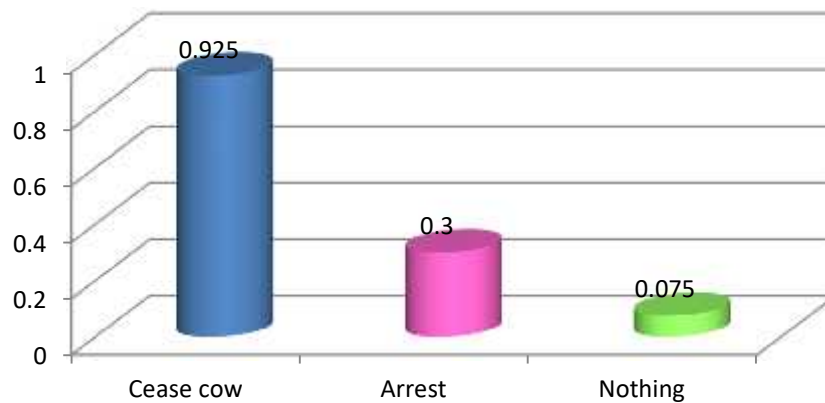
The study identified loopholes in the monitoring system of law enforcing agencies, Section of law enforcing agencies and border security forces co-operate the traders to continue such act of trading. In return they get paid for it. The amount being paid by the informal traders is not fixed. It varies from product to product or on value of the product.

Large number of people cross border every day. On way back they carry different types of products by hand and sale those products. Especially textile items which are not allowed to import for domestic use cross border this way. The customs agency and border security forces allow the people to cross the border without any obstruction. Indirectly some of these Government officials extending support to informal traders. As a proof of that market survey of the research shows huge amount of Indian products especially Indian textile items available in markets. Significant number of shops in the market holds different types of Indian products.

The products are freely traded in the market but rarely face any challenge from law enforcing agencies. During festival like Eid Puja the volume of trade increases many fold but border security forces allow the products to enter the products and law enforcing agencies allow them to be traded freely. Study found that there is a link between the said Government agencies and the informal traders. Informal traders pay for co-operation they get from law enforcing agencies and customs authorities on regular basis.

**Figure 17**

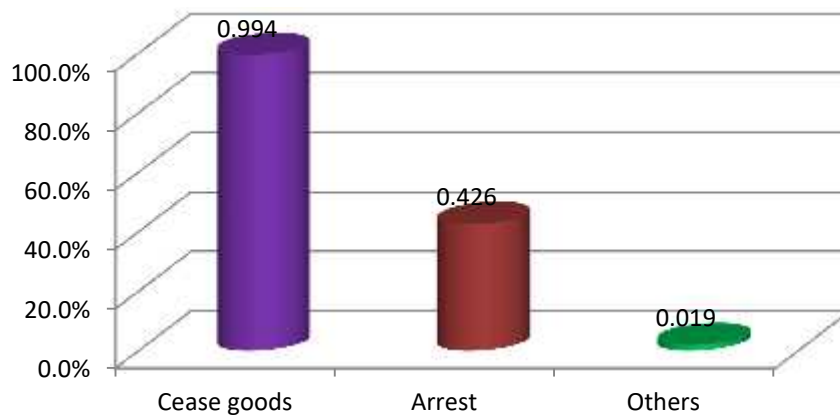
### Obstacles faced by border security forces and law enforcing agencies.



Cattle trade is risky in consideration to other products like textile food etc. In case of trading textile and other products risk of death or injury is nil. But in case of cattle trade it is very risky. Bangladesh border security forces create less obstruction than Indian border security force. At best they confiscate the cattle or even few cases arrest the involved traders. Some cases they allow the traders to do business without any trouble. But Indian border security forces open fire on traders resulting death and injury to the traders. They also confiscate cattle and create other problems to the traders. Traders need to pay certain amount of money to border security forces of both sides.

**Figure 18**

### Types of obstacle faced in trading Textile Products



Regarding the action of customs authorities and border security forces traders informed that most cases their products are ceased. Some cases they are arrested and sent to prison. But released within a short time. But one thing is clear that they don't face any severe consequence for this. This encourages traders to continue business. From both sides of the border they need to pay certain amount of money to law enforcing agencies and border security forces and traders allowed to continue their business.

They are unfortunate when higher authority of law enforcing agencies instruct border forces to be stricter in dealing with informal trade. In those cases border security forces confiscate the goods or arrest the involved traders. Large number of people who only carry the products from other side of the border and deliver those to the traders.

In case of textile trade these people face less trouble than cattle trade. In case of cattle trade incidents of death and injury is common. Indian border security forces frequently open fire on people crossing border with cattle's. According to the traders in case of textile and other products such risks are not involved.

#### 4.27 Benefits of border trade through normal channels.

We know that it is not possible to reduce informal trade practices to zero level. Because in every economy developed or developing even in cases of under developed economy the presence of black economy and informal trade practices are there. Most cases the magnitude of trade depends on the level of black economy dominating the counties overall economic activities.

As such it is identical that the countries of Asia, Africa and Latin America where influence of black economy is greater than developed countries of Europe and North America the magnitude of informal trade is also higher. Analyzing the causes we can see that where black economy dominates the magnitude of informal trade is higher. In less developed countries the formal trade is bureaucratic formal institutions are very weak or corrupted.

In addition to bureaucratic administration large number of people is unemployed, they try to live on informal activities especially the informal trade proved to be a provision for their living. But the magnitude of informal trade and exchange is much lower in developed countries. Interestingly the developed counties sharing border with a less developed economy is experiencing greater extent of informal trade than they share border with another developed nation. For example USA sharing border with Mexico in south and Canada in north. Greater volume of informal trade activities goes on including human trafficking with Mexico than much less or negligible amount with Canada.

Converting informal trade into formal channels will enable government to achieve number of socio-economic benefits. First of all formal trade allows government to collect taxes which is vital for any economy. Grater tax income allows Government to spend more on social services and other development activities. The people who earn money through formal trade can invest the money for further expansion of their business activities. The process allows more employment and income generation for mass people.

But the money earned through informal activities are tend to be laundered outside the country or invested in other informal sectors where it becomes difficult for Government to identify. As the trading activities treated as unethical and subject to legal action the said trading activities become confined to a limited scope. Scope of growth and development remain uncertain and limited.

#### **4.28 Perception of local people and informal border trade.**

Both Bangladesh and India is densely populated. Border area of both the countries are also inhabited by huge population. In fact except few kilometers of land border which the country



shares with Myanmar and Bay of Bengal in south rest of the country is surrounded by Indian land border. As such social economic relation of the country is closely associated to India.

As a neighbor and a large economy India produces large amount of goods. Some of these goods are cheaper as well as better quality. So the products are popular in Bangladesh. Some of the goods are not being produced in the country and the demand is being fulfilled by Indian products. Similarly some Bangladeshi products are popular in Indian. Though ratio of bilateral informal trade is in favour of India, but certainly it is a two way business. People of both the countries engage in trade.

Long land border and frequent movement of large number of people every day has made it difficult for customs authority and law enforcing agencies to monitor and check. For protecting their respective industries both the countries restrict certain type of products to enter their country. But according to baggage rule individual passengers are allowed to carry certain amount of goods. Every day large number of people carrying different products under baggage rule even equal number of people crossing border on foot also carrying Indian products especially textile items under the cover of baggage rule.

The study found that people don't mind involved in such activities. According to them it not as serious as a criminal act. More over these goods are not demerit goods like drugs and alcohol or even tobacco products. The demit goods are serious threat for the society. But legal goods like spices food items and textile does not cause any serious problem to the society.

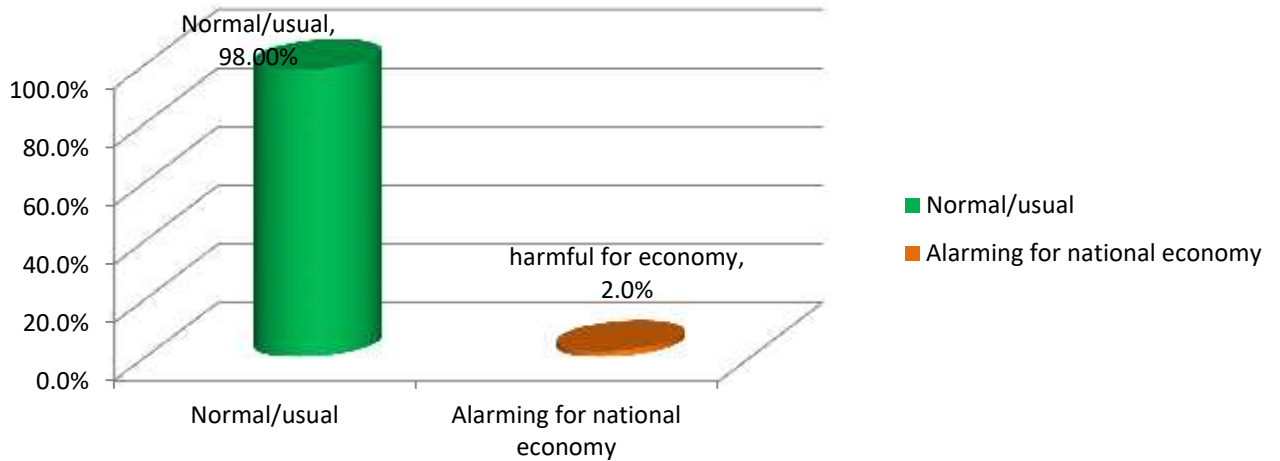
The attitude of the local people that is the people living closer to the border areas are proved to be a moral support for the informal traders. large number of people living in the border areas are also providing different services like transporting, distributing and selling the products to shops and markets in the border area. Later on the products sold and distributed by large scale traders to other parts of the country. No one involved even the local people take it so seriously or think it as an act unethical practice.

So far the products are legal products but due Government regulations and other reasons being traded through informal channels people are inclined to take it so seriously. Moreover products are of high demand and all class of people are regular user.

But in case of demerit goods like drugs narcotics alcoholic drinks peoples support is nil. The traders who deal with said products face problem and obstruction from different sections of the society. Law enforcing agencies and customs authorities are much more alert active and serious in case of dealing demerit goods.

The study found that peoples perception and attitude is in favour of informal traders. The governments agencies less active and serious about the issue. The over all situation is helping informal trade to go on uninterrupted for years.

## View of local people regarding informal trade practices.



Local people normally do not take it seriously. They think it is a natural process. As there is huge demand for Indian products and Government has created obstruction, there is no other option but to trade in informal ways. 98% respondents view was, it is natural and not harmful for economy and for the country as a whole. Only 2% viewed it as harmful and think that it should be restricted anyway. As the products are not illegal like drugs, narcotics or any other demerit goods they think there is no problem dealing with legal products in informal way.

# **Chapter 5**

## **Conclusion**

### **5.1 Hypothesis and Research Question Evaluation**

Hypothesis1. Informal trade has significant impact on the economy of Bangladesh.

Hypothesis2. The value and volume of informal cross trade between India and Bangladesh is not stable perhaps changes time to time in consideration to value and volume and product line..

At primary stage the study started working on the above basis of hypothesis. The study now concludes with following outcomes.

The primary and secondary data shows that 2 hypothesis determined in the primary stage is very close to reality. First of all the as per Hypothesis 1 informal trade has significant impact on economy of the country. Basically primary and secondary data shows that informal trade is directly and indirectly influencing a number of vital industrial sectors and macro economic factors of the country.

As with informal cattle trade two vital sectors i.e leather and dairy is directly influenced. Agriculture to some extent is also dependant of cattle stock and as such supply of cattle through informal way is helping the sector indirectly. The informal cattle trade has got vital role in controlling food inflation. Increase beef prices lead to inflate the prices other items especially substitute items of beef i.e chicken and mutton. Recent supply shock and increase in beef prices. The informal trade has created job opportunities for a large number of people. Large number of women performs different activities in relation to informal trade. So informal trade is providing and creating job opportunities for

The study found that value volume and product line all changes over the time. Only two items i.e cattle and textile to some extent remains . Textile items and products tend to change over time. For example once Indian shares were dominating trade now it is three piece ladies wear in being traded in a greater volume than shares.

Other products like spices cosmetics food items, auto parts changes over time. These items are traded on the basis of demand created in local markets for different reasons. Every year budget session creates space for informal trade due to tax imposition on such products. The higher prices create supply shortage through formal channels and informal traders take the opportunity. So the study concludes, hypothesis 2 that products traded informally changes in over time in consideration to value volume and product line.

The study found most of the items being traded informally is due to price variance. Price difference occurs due to government tax and demand supply gap. Every year Government fix tax rate on products which creates price variance. The price difference creates opportunity to trade informally between India and Bangladesh. Study found that most of the products come from India. Products also enter India from Bangladesh but much less in consideration to value and volume. Study also observed

that due complex documentation and bureaucratic administration small traders tend to avoid trade through formal channel. The study draw the conclusion regarding hypothesis, set at the initial stage is very close reality.

## **5.2 Implications**

Globalization is making countries more dependent on each other. Even bigger economies are experiencing export oriented growth and becoming dependant on foreign trade. As the countries are experiencing higher economic growth the purchasing power of the peoples of

many countries especially the developing countries are increasing. The result is more demand for product and services. Countries are more focused on specialization. Narrow product dependency forcing the countries to have more trade with other countries.

Trend shows that increase of formal trade to some extent increases informal trade activities. It is more applicable in developing countries where formal channel normally fail to provide adequate trade facilities to trader and tax and tariff policy which creates price difference with competitive products being manufactured in other countries.

Bangladesh is sharing long porous land border with India. Bangladesh India the two neighboring states has a long history of economic relations. After independence of Bangladesh trade and economic relationship started growing steadily. Since then volume of trade has increased many fold. But along with formal trade the informal trade has grown in same pace. The trade gap between India and Bangladesh is increasing at a sustained rate. At present on an average the trade gap between Bangladesh and India is almost 1:10.

Many Studies including this study shows that in consideration to value and volume the involvement of informal trade between Bangladesh and India is equal to formal trade volume. Large numbers of items are being traded informally but two items are dominating and impact on economy is greater than other products. Especially cattle trade reaches 3 to 4 thousand crores annually. One of the major export oriented leather industry is directly dependant on cattle supply. Supply of Indian cattle through informal channel is balancing the demand supply gap. Indirectly Dairy industry food inflation is also dependant on cattle supply from India. An Indian cattle is comparatively cheaper and convenient to get supply instead of other countries.

The economy of India is quite bigger than Bangladesh. India producing a large number of products. Common land border and easy communication has made monitoring and surveillance difficult for the border security The informal traders take the full advantage of this weakness. Sometimes border security forces become involved. They extend support and facilitate smooth transportation of goods to and from India. In return they get paid. All these reason allowing informal trading activities to continue for decades, and show no sign of reducing the volume rather increasing day by day

Macro economic impact of informal trade is huge for Bangladesh. Study analyses that many vital sectors of economy is dependent on informal trade. Different times the country faces shortages of different types of products to meet the local demand. It becomes time consuming to meet the demand by importing the products through formal Channels. Informal channels in that situation proved to be a solution. In addition to demand supply gap adjustment macro economic factors like balance of trade, employment and inflation all have got significant impact of informal trade. Study reveals that informal trade has both negative as well as positive impact on the economy of Bangladesh.

The study focused on two important items that dominates Informal trade with India cattle trade is one of the. In consideration to value of trade the cattle trade ranked first. Due to restriction from Indian side the cattle is being traded between the two countries through informal channels.

The textile trade through informal channels creating competition for local producers is helping industry in a different way. According to traders this competition is not necessarily harmful for Bangladesh. Competition forcing local manufacturers to become more efficient and more competitive locally as well as internationally.

The import of better quality textile is a source of better design and quality and assist local producers to become more innovative. Some evidence shows that local producers superseded Indian textile design and quality and those items are not being imported from India. The sellers selling the items as Indian products to their customers.

Some of the Indian textile items enjoy absolute advantage and as such no scope to be treated as competitive for local manufacturers. Locally there is no scope to produce those items in Bangladesh, For example Kashmiri shawal and silk and cotton items of specific category and brand.

There is no point of disagreement that informal trade has got many negative impacts on the economy. Ethically there is no valid ground to support and accept informal trading practices. Greater magnitude of informal trade will increase the size of black economy.



At one stage the size of black economy will certainly supersede the formal economy. As it is happening in many south American countries. Even those countries become dependent on informal economy.

Due to informal trade huge amount of black money enter the country. The money rarely utilized for further investment. Most of the money is laundered out of the country or used for other unrecorded economic activities. Widely suspected, that the money is used in exchange of narcotics or drugs.

Policy makers of Bangladesh is more concerned with formal trade gap with India, which stands as high as ten times but less concerned about informal trade. Study shows that formal and informal trade volume is almost equal or at least closer to equal. So far no official records are there they simply overlook the issue and fail to negotiate from official platform. Huge amount of foreign exchange is drained out of the country.

Informal trade avoid Government tax. The informal traders by avoiding tax inflate their profit margin. The study also found that higher tax is one of the reasons for informal trade. Higher tax rate increases the price of products. With a view to protect local industries government imposes tax on certain products. Especially the demand for price elastic goods decreases due to tax imposition. But the strategy bounces back because of informal trade. This allows the products to enter the country without paying tax ultimately Government deprived off tax revenue.

Informal trade poses threat for local products. Tax free entries of Indian products through informal channels are considered as a direct threat to local industries.

Many local industries are not capable to compete with Indian products and turn to shut down position. If informal trade is checked than local farms try to meet the demand. Recent growth of dairy and cattle farm is a proof of that. Due to restriction from Indian side on cattle trade a sharp shortfall of cattle supply prompt local farmers to set up cattle farms. It has become profitable for them because they are now able to charge prices above their production cost. As there is the cheap source of Indian cattle is not available buyers are ready to pay more for local cattle.

Informal trade restrict job opportunities of the country. If local production faces uneven competition from foreign products investment become discouraged and ultimately results in job loss. The informal trade to some extent create uncertainty for firms. The business firms always tend to look for safe and secured investment. But informal trade creates a situation of uncertainty in the countries business environment.

Bangladesh India bilateral trade is very significant for the country. Compared to its total trade volume trade with Bangladesh is not so significant for India. Magnitude of informal trade shows same trend i.e trade gap is in favour of India. Bangladesh is negotiating the issue to narrow the trade gap but no negotiations are there to minimize informal trade gap. As the issue is not officially recognized and no record or statistics available there is little scope to negotiate. If it continues at one stage the value and volume of informal trade will exceed the formal trade. So policy makers should focus on the issue seriously.

The study suggests that to solve the issue of informal trade between Bangladesh and India the policy makers should identify the root causes of informal trade. Numbers of reasons are responsible for informal trade. Burdensome trade documentation, bureaucratic administration lack of formal trade facilities irrational tariff and tax imposition and trade restrictions initiate informal trade.

Developing countries experiencing greater extent of informal trade practices than developed countries. Because formal trade arrangements are far better than developed countries. There is little incentive for traders to follow informal way of trading. No matter rich or poor country, almost in every economy informal trade activities exists to some degree. So it is not expected that informal trade activities will come down to zero level. But magnitude of trade should be reduced to tolerable level.

### **5.3 Scope of Further research**

Study observes that to address the problem of informal trade effectively by the policy makers, further research work is needed in related areas.

1. Tariff and Tax policy that initiates informal trade.
2. Ways to Improve border Management.
3. Increasing formal trade facilities that discourages informal trade

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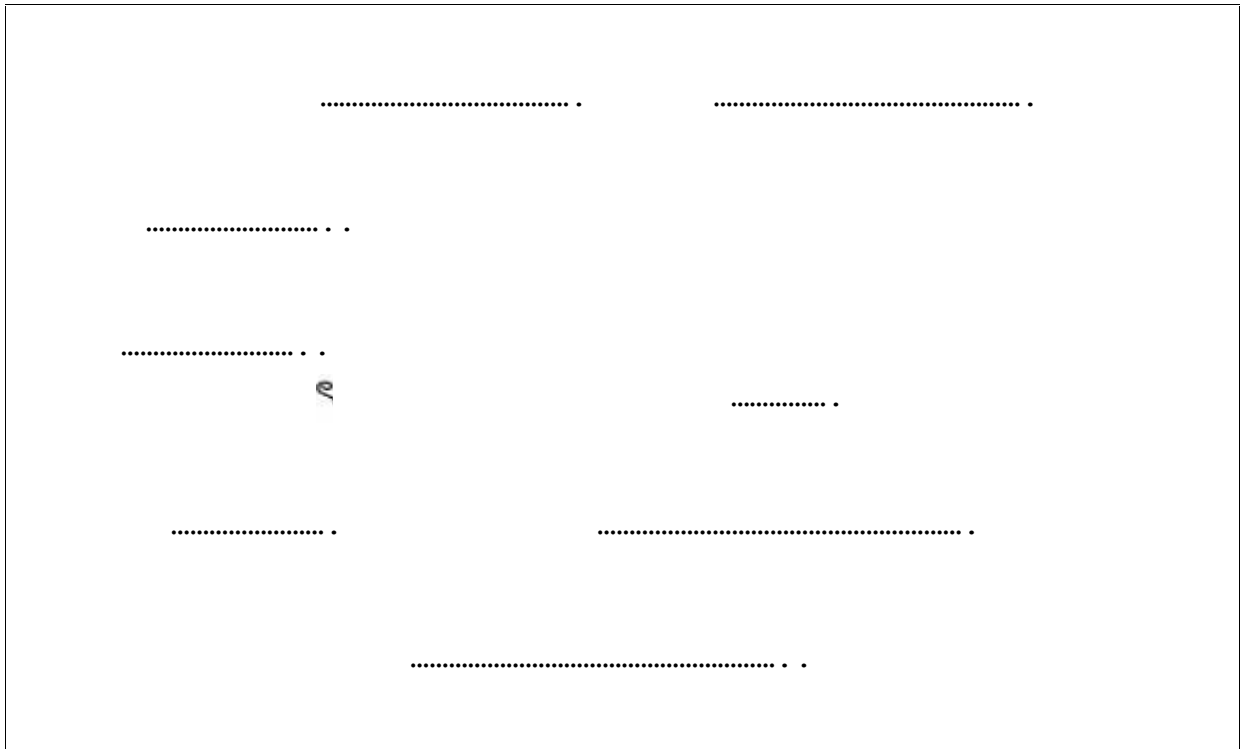
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## Appendix A

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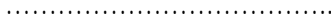
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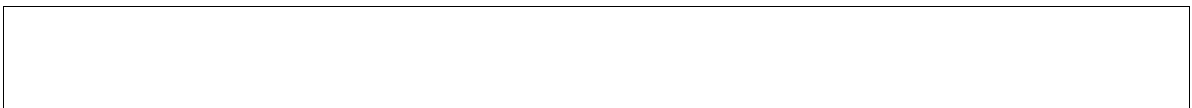
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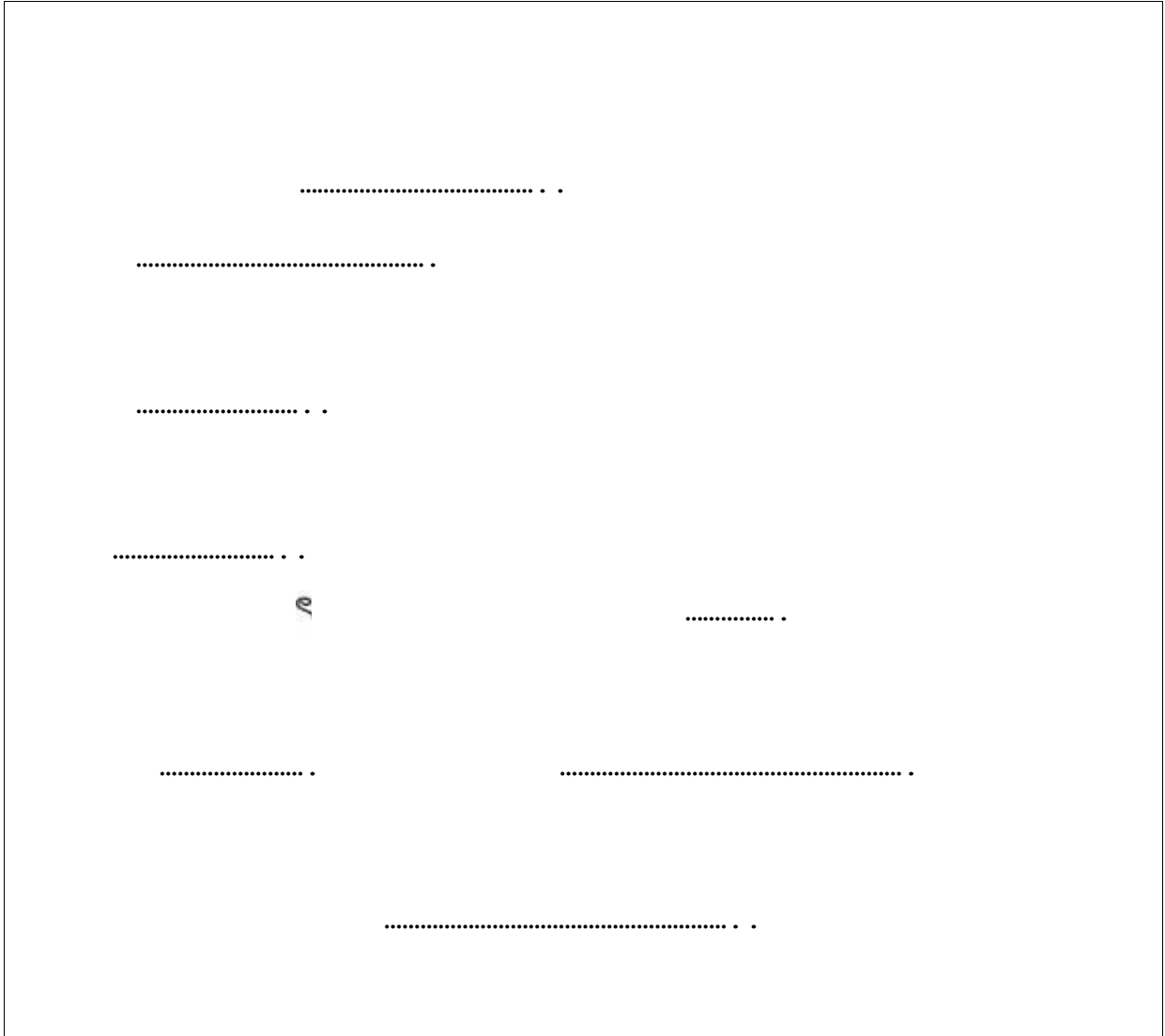
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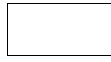
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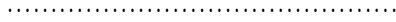
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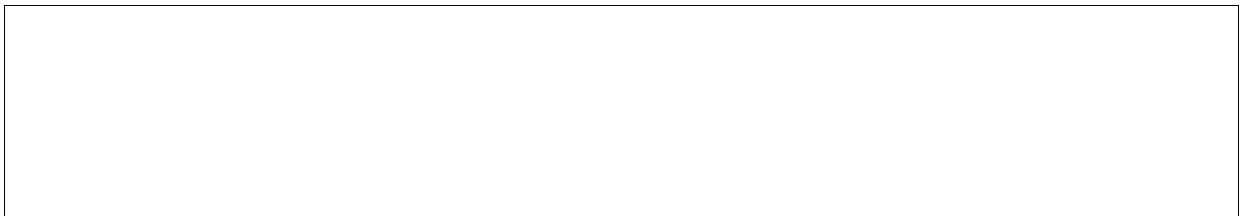
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**Questionnaire for Traders.**

Name of Trader..... Date of Interview.....

Village ..... .

Thana .....

Upzilla ..... Name of Interviewer.....

Name of Facility.....

Name of District.....

1. How long you are engaged in trade?

1Year 2 year 3 Years 4 Years More than5 Years

2. What type of products do you Exchange.

Please specify.

3. Do you sell Indian Manufactured products through your shop?

Yes No

4. Amount of money approximately traded per month. Specify

Less than 1 Lac 1 Lac 2 Lac 3 Lac More than 3 Lac specify.

5. Why Indian products are being imported from India?

Price difference . Better quality . Higher Tax .Greater Demand.

6. Why Indian textile is gaining popularity in Bangladesh.

Advertising Low price Greater Demand Better quality than local brands.

7. How do you exchange the products?

By train By Bus People crossing the border on foot . Border hats others

8. Normally what type of problems do you face for cross border trading of Tobacco's?

Transport Storage Customs authority Law enforcing agencies Others specify

9. Informally do you need to pay money to customs and law enforcing agencies for trading commodities?

Specify

Fixed amount Percentage base Varying amount Consignment base Any other way specify

10. After crossing the border how it is supplied to other parts of the country. Specify.

Through agents Traders collect it from you Varying amount Consignment base Any other way specify

11. Why do you feel encouraged to deal with Indian products instead of local products?

Higher rate of profit  Easy to trade  Stability in demand others specify.

12.. Mention the frequency of your transaction.

Monthly basis Order basis  On a regular interval  Certain time or months of a year.

13. Approx. how many people are involved in such trading and related activities of this area?

Ten  Twenty  Thirty  More than one hundred.

14. How much you know about the Govt. restrictions about informal trade

Nil  Few things  All the regulations.

15. How these regulations are being monitored by Govt. agencies.

Regular basis  Occasionally Never

16. Do you feel implementation of regulations will restrict informal trade?

Yes  No

17. What is the role of border hats in reducing informal cross border trade?

Nil  Very important  Increasing gradually.

18. In your view which of the following is the determinant factor in case of informal cross border trade between India and Bangladesh.

Production cost  Govt. regulations  Tax

19. Is there any impact of exchange rate on informal trade?

Yes  No

20. How do you adjust exchange rate fluctuation?

Through increasing or decreasing price reducing quantity traded switch to alternatives.

21. What is the process of payment in exchange of goods?

Through local currency  Barter system  Hundi Gold  Dollar/pound

Any other process

22. Which of the above mentioned method is most dependable and used frequently?

Specify

23. Why traders use this method instead of other.

Convenience  Acceptability  Avoid Govt. monitoring agencies  Others specify

## **Appendix C**

**Key informants**

**Check List**



Respondents/Groups:

Customs authority/Border hat/Law enforcing agency/

Local community/.....

Date of

Interview.....

District.....

Name of Town.....

Name of

Interviewer.....

Upzilla.....

Thana .....

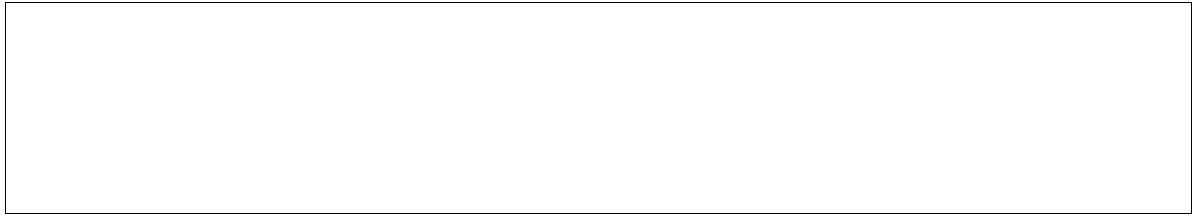
Name of District.....

1. To reduce cross border informal trade arrangements of border hats has been introduced. Do you think that it is an effective measure towards reducing informal cross border trade?

2. Do you think that disadvantage of informal trade outweigh its advantages. In your opinion what are the negative impacts of informal trade?

3. In your view what are the determinant factors in informal trade between Bangladesh and India. What are the ways to reduce informal cross border trade?

4. In your view what is the best possible way to legalize cattle trade, so far Bangladesh is heavily dependant of Indian cattle and being deprived off huge revenue earning every year due to informal trade, but on the other hand without Indian cattle Bangladesh can not meet the growing demand of beef and use of cattle in agriculture and dairy production is equally important for Bangladesh.
  
5. Do you think that section of law enforcing agencies, customs authorities and border security forces encourage and facilitate informal cross border trade and if they want they can restrict informal trade substantially.
  
6. Do you think that Govt. steps adequate for reducing informal trade? What are the present trends and what type of products are dominating present Indo Bangladesh informal trade?
  
7. Cattle and Textile is dominating the informal trade between India and Bangladesh what are the reasons behind this.
  
8. Is there any positive impact on bilateral trade between India and Bangladesh through regional trade blocs like SAPTA?
  
9. Do you think that WTO global trade liberalization and bilateral trade agreements can reduce the magnitude of informal trade between India and Bangladesh? If you agree than how it will impact on bilateral trade?
  
10. Bangladesh India trade gap is widening it is much wider than official records because of not taking informal trade into consideration. What are your suggestions to minimize cross border informal trade and narrow the trade gap between India and Bangladesh?



**Appendix D**

Data Collection Area :Changrabandha Border

District :Panchagarh

Data Collectors

Adnan Kabir01672998885

HafizurRahman01923223566

Data Collection Super Visor

Jahangir Alam





Data Collection Area :

District: Jessore Land Border Port: Benapole

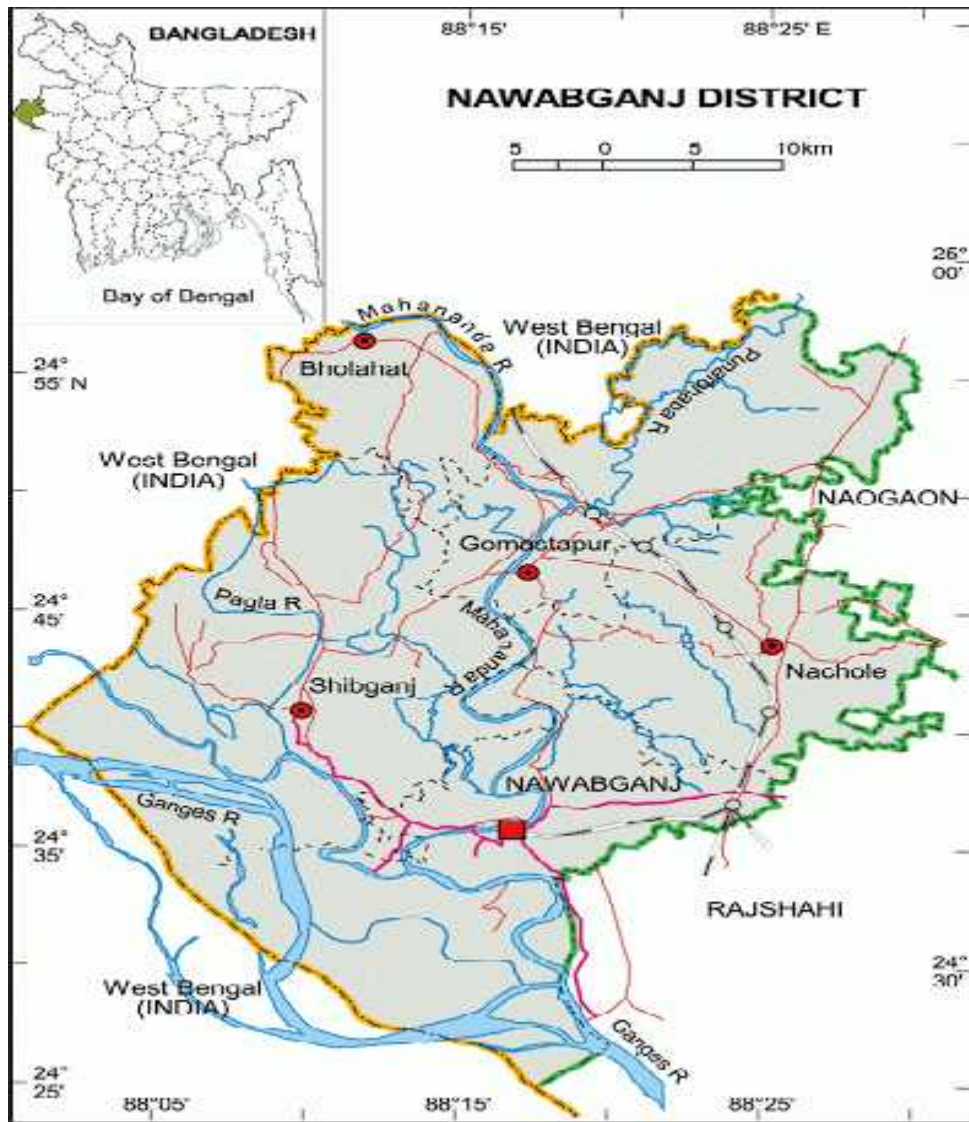
Data Collectors

HafizurRahman01923223566

Adnan Kabir01672998885

Data Collection Super Visor

Jahangir Alam



Data Collection Area :

District: Chapainawabgong Land Border Port: Sonamasjid

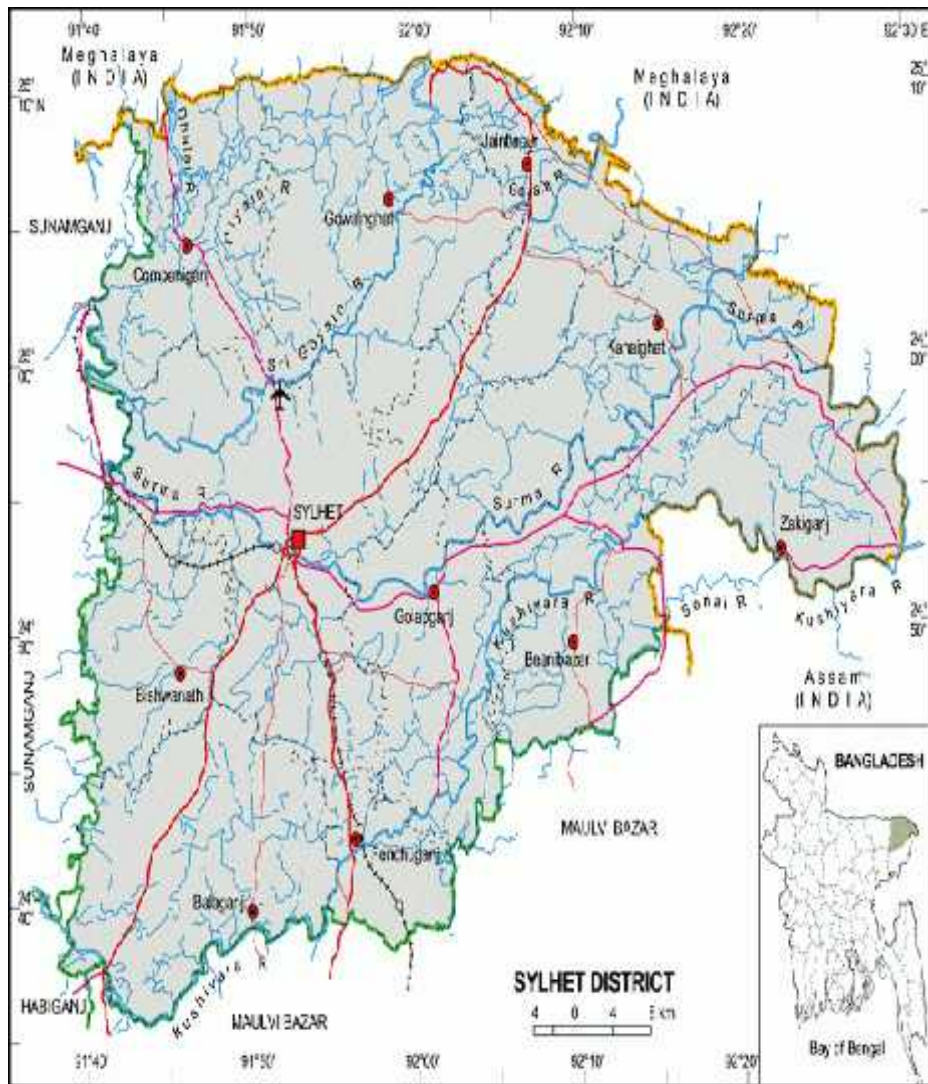
Data Collectors

Almamun Shuman: 01722023508

MdSabbirHossain01724113326

Data Collection Super Visor

Jahangir Alam



Data Collection Area :

District: Sylhet Land Border Port: Tamabil

Data Collectors

LalaRakhain: 01854703567

HumaunKabir: 01712810626

Data Collection Supervisor

Jahangir Alam

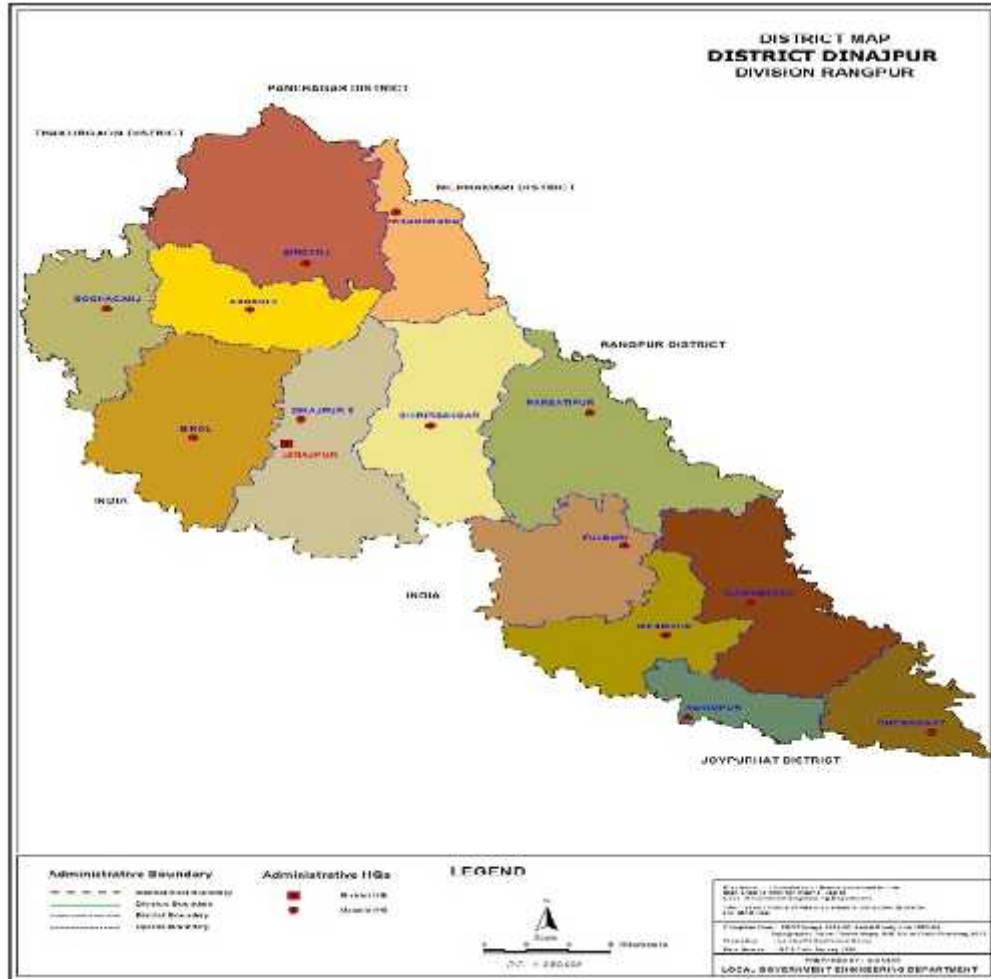
Data Collection Area : Hilli Border

District: Dinajpur.

Data Collectors

HafizurRahman01923223566

Adnan Kabir01672998885





## Appendix E

### List of Key informants

Halima Begum

Senior training officer

Chittagong port authority

UttamBiswas

Asstt. Commissioner Tax

Bhomra land border

Md. HabiburRahman

BGB Commander

Bhomra land border

Md. Humayun

Station Manager

Community Radio station

BenapoleJessore

Md. Abu Jar jahid

BGB Commander

TamabilSylhet

Md. Moudud Ahmed  
Deputy Manager  
United Land Port Teknaf

Md. Torikul Islam Mithu  
Managing Director  
M/S Kabir Shipping  
Benapole Land Port

Md. Shoeb  
Unit manager  
Benapole  
Bangladesh parjatan corporation

Abu Tale  
Joint Director  
Department of Narcotics and Drug administration  
Peoples Republic of Bangladesh

Prabin Chandra  
NGO Executive  
Jaipurhat.Hilli border

MasudRana  
NGO Executive  
Jaipurhat.Hilli border

Altafhossain  
Chief Executive  
BCPD  
Chaipainawabgong

AlmamunSuman

Chief Executive

BCPD

Chapainawabgong

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Md. ShabbirHossain

BCPD

Station Manger

Chapainawabgong

End

