

STATUS OF INDIA'S BORDER TRADE

STRATEGIC AND ECONOMIC SIGNIFICANCE



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INSTITUTE FOR DEFENCE
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रक्षा अध्ययन एवं विश्लेषण संस्थान

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Status of India's Border Trade: Strategic and Economic Significance

Introduction

It is generally contended that border trade forms an insignificant aspect of India's foreign or trade policy and yet agreements on border trade are one of the first documents that countries sign in the process of normalising their bilateral relations. India has also signed a number of border trade agreements with its neighbours to signify deepening of their relationships. The Memorandum of Understanding (MoU) on the Resumption of Border Trade with China in December 1991, the Border Trade Agreement with Myanmar in January 1994, the agreement to start border trade with Pakistan in 2008 and the agreement to establish border *haats* along India-Bangladesh border are cases in point.

The significance of border trade lies at various levels - at the international diplomatic level, it is a "high visibility- low cost" image building exercise, which projects India and its neighbours as mature political entities committed to regional peace. At the bilateral level, border trade is a major confidence building measure (CBM) especially between India and China, and India and Pakistan as it reduces trust deficits, encourages constructive engagements, stabilises the borders by reducing frictions and importantly, gives a legal basis to the hitherto disputed international borders. At the local level, opening of trade routes brings economic prosperity to the people residing in the far-flung border areas and has a positive impact on their emotional well-being. It also aids in better border management as attention gets focussed on better regulation of the traffic of goods and people across the international border.

Border trade is officially defined as over-land trade by way of exchange of commodities from a bi-laterally agreed list by people living along both sides of the international border.¹ In other words, it is a trade in local

¹ "Border Trade", Ministry of Development of Northeastern Region, Government of India, at <http://mdoner.gov.in/content/border-trade> (Accessed June 9, 2014).

products of limited value by the people residing along the border areas. The rationale for border trade arises from two main factors. The first factor is the remoteness of the border areas, which does not allow access for the local people to commercial centres to sell their products and buy items of daily necessity within the national borders. The second is the traditional socio-cultural ties and economic complementarity that these people share across the border, provides them with a natural milieu for greater economic interactions. Keeping these factors in mind, border trade is allowed so that the residents can trade their surplus produce in exchange of essential commodities from across the international borders. Such type of trade is barter in nature as it is based on mutual trust developed over a period of time through sustained interactions between traders residing on both sides of the border. Border trade forms a part of border area development plan as it provides an alternate means of livelihood to the border residents in the economically depressed areas. Successful conduct of border trade also curbs smuggling in essential items as it provides legitimacy to traditional exchange of commodities.

This paper analyses the trends and significance of border trade of the country. In the first section, it discusses the processes which resulted in the resumption of border trade between India and its neighbours, analyses the trends in border trade along various borders, and describes the impact of border trade both nationally and locally. In the next section, the paper discusses the impediments in opening the trade routes as well as in the smooth functioning of the trading stations. The paper concludes by suggesting few recommendations.

Trends and significance of border trade

India-China border

India started its first border trade with China. The seed for resuming border trade with China was first sown during the 'historic' visit of the Indian Prime Minister Rajiv Gandhi to China in December 1988. Since the visit was aimed at normalising relations with China by deepening bilateral engagements in all fields, the two countries agreed to establish a Joint Working Group (JWG) to seek a "fair, reasonable and mutually acceptable solution" to the boundary issue, and a Joint Economic Group (JEG) to

expand bilateral economic cooperation.² The JWG and the JEG deliberated on instituting various CBMs that would prevent frictions and ensure peace and stability along the Line of Actual Control (LoAC). This allowed the movement of goods and people across the LoAC by reviving border trade between the two countries and acted as a CBM.

To implement this CBM, India and China signed a Memorandum of Understanding (MoU) on the Resumption of Border Trade on December 13, 1991³ and the Protocol on Entry and Exit Procedures for Border Trade on July 1, 1992. These agreements paved the way for restarting border trade by designated Gunji in Pithoragrah district and Pulan in Tibet Autonomous Region (TAR) as trading markets, and Lipulekh as the pass through which border trade would to be carried out. Thus after a gap of three decades, border trade with China formally resumed through Lipulekh on July 14, 1992. Following the successful conduct of border trade through Lipulekh, India and China agreed to open another route for border trade.⁴ Consequently, a year later, on September 7, 1993, both the countries signed the protocol for extension of border trade across Shipki La, which specified Namgaya in Kinnaur district and Juiba in Zada country (TAR) as trading markets and designated Shipki La in Himachal Pradesh as the second pass for entry and exit of persons, commodities and vehicles engaged in border trade.⁵ Both these routes were selected as they fall in the middle sector, the least contentious part of the India-China boundary.⁶

² "India-China Bilateral Relations", Ministry of external Affairs, Government of India, at <http://meaindia.nic.in/meaxpsite/foreignrelation/china.pdf> (Accessed May 29, 2014).

³ *Annual Report 1991-1992*, Ministry of External Affairs, Government of India, 1992, p. 17.

⁴ *Annual Report 1992-1993*, Ministry of External Affairs, Government of India, 1992, p.35.

⁵ *Protocol between India and China for Extension of Border Trade across Shipki La Pass*, September 7, 1993, at <http://mea.gov.in/Portal/LegalTreatiesDoc/CHB1206.pdf> (Accessed June 2, 2014).

⁶ Surjit Mansingh, "India-China Relations in the Post-Cold War Era, *Asian Survey*, Vol. 34 (3) March, 1994, p. 292.

During the same time, India expressed a desire to expand border trade to other areas along the border, which though agreed in principle by China, did not materialise. For example, India proposed opening a trade route through Sikkim but China's reluctance to agree to it came in the way.⁷ This proposal was revived a decade later during Prime Minister Atal Bihari Vajpayee's visit to China and upon reaching an agreement, the two countries signed the MoU on expanding border trade on June 23, 2003. In this memorandum, both the countries agreed to establish trading marts at Changgu in India and Reqinggang in TAR, and designated Nathu La in Sikkim as the third pass for conducting border trade.⁸ Border trade through Nathu La started on July 6, 2006 after a hiatus of 44 years. The resumption of border trade through Nathu La gave an impetus to border trade with China and at present, it accounts for 80 per cent of the total India-China border trade volume.⁹

Presently, border trade along the India-China border takes place through following Land Custom Stations (LCS):

1. Gunji (Uttarakhand) – Pulan (TAR)
2. Namgaya Shipki La (Himachal Pradesh) – Jiuba (Zada county, Ngari Prefecture)
3. Sherathang (Sikkim) – Renqinggang

The border trade in these three trading posts is conducted through barter system and no customs duties are levied on these commodities. Traders are authorised to trade without acquiring the Import Export Code number (IEC) provided the value of each transaction does not exceed Rs. 25, 000. Any trade occurring for more than Rs. 25, 000 would require the traders to acquire an IEC. In the case of Nathu La, the exemption limit has been

⁷ Ibid.

⁸ *Annual Report 2003-04*, Ministry of External Affairs, Government of India, 2004, p. 16.

⁹ "Duty-free import of Chinese garments, shoes via 3 more border points", *Businessline* New Delhi, July 20, 2012, at <http://www.thehindubusinessline.com/industry-and-economy/dutyfree-import-of-chinese-garments-shoes-via-3-more-border-points/article3662315.ece> (Accessed June 3, 2014).

Map 1: India-China Border Trading Posts



raised to Rs. 1,00,000 from the year 2007-2008. A permit fee of Rs. 50 is, however, levied on every vehicle entering Sikkim from China and Yuan 5 (Rs. 25) on every vehicle exiting Sikkim and entering China.¹⁰ Unlike on other borders, border trade along the India-China border is restricted to the summer months only as the trading routes, which traverse 14,000 ft to 17,000 ft high terrain, remain closed during the winter seasons due to heavy snowfall. Trading season usually starts from May and ends in November every year and trade is conducted for four days in a week (Monday to Thursday).¹¹

Trading takes place according to the mutually agreed list of items. Initially, the official trading list contained 44 items - 29 items for export and 15

¹⁰ "Nathu La Trade Route", Government of Sikkim at <http://sikkim.nic.in/msme-di/html/trade.html> (Accessed June 2, 2014).

¹¹ Ibid.

Map 2: India-China Border Trading Posts



items for import. The items allowed for export from India comprises primary as well as secondary products such as spices, flour, cycles, utensils, agricultural implements, shoes, etc. and items allowed for import were mainly animal and animal products such as goat, sheep, horses, sheep skin, yak hair and tail. Following demands for expansion of the trade basket, 5 new items for import and 7 new items for export were added to the trading list in May 2012. Handicraft and handloom products and readymade garments are some of the items that could be exported from India and quilts, blankets, and shoes are some of the items that could be imported from China.¹²

¹² “Indo-China Border Trade”, *Directorate of Foreign Trade*, Ministry of Commerce and Industry, Government of India, at <http://dgft.gov.in/Exim/2000/PN/PN11/pn11010.htm> (Accessed June 2, 2014).

The resumption of border trade between India and China had generated a lot of enthusiasm among the residents of the border villages evidenced from the number of people who went across the border for trading. At Lipulekh, 299 Indian traders crossed the border into Pulan when the route was first open in 1992.¹³ Similarly, the reopening of Shipki La route in 1994 witnessed about 90 Indian traders visiting the Tibetan mart in Jiuba.¹⁴ However, after the initial euphoria, numbers of trader crossing over to TAR dwindled considerably. In the subsequent years, approximately 35-45 traders each from Pithoragarh and Kinnaur made trips to the corresponding border trade marts in TAR.

Representation from the Tibetan side, on the other hand was always poor. While in 1992, only three traders came from Tibet through Lipulekh,¹⁵ not a single Tibetan trader crossed through Shipki La since the recommencement of trade through this pass.¹⁶ The “unsuitable” location of trading marts is generally cited as one of the main reasons for poor Tibetan representation. For example, Gunji, has not seen a single Tibetan trader since 2000 because the Tibetan nomads and the traditional trading partners of Indian traders find it difficult to visit Gunji with their livestock as the distances to the trading mart is enormous and arduous.¹⁷ Relatively poor economic condition of the Tibetan nomads and traders is another reason for their disinterest in border trade.

As far as the volume of India-China border trade through Lipulekh and Shipki La is concerned, it has been low and has displayed erratic trends. In

¹³ S L Kaushik and Rama Pattanaik, *Modern Governments and Political Systems*, New Delhi, Mittal Publications, 1995, p. 264.

¹⁴ “Cross-border trade through Shipki La touches new records”, *The Hindustan Times*, Shimla, November 29, 2013, at <http://www.hindustantimes.com/india-news/himachalpradesh/cross-border-trade-through-shipki-la-touches-new-record/article1-1157151.aspx> (Accessed June 2, 2014).

¹⁵ S L Kaushik and Rama Pattanaik, no. 13.

¹⁶ SudhaVasan, “Indo-Tibetan Border Trade in Himachal Pradesh”, *China Report*, Vol. 42 (1), 2006, p. 52.

¹⁷ Bhawan Singh Rawat, *Travails of Border Trade*, Munsayri, MallaJohrVikasSamiti, 2009, at http://www.claudearpi.net/maintenance/uploaded_pics/Travails_of_Border_Trade.pdf (Accessed June 2, 2014).

the first year of trading, the total value of trade transacted was Rs. 16.5 lakh at Lipulekh¹⁸ and Rs. 25 lakhs at Shipki La.¹⁹ In the subsequent years, the total value at Gunji increased from Rs. 4.9 crore in 2001 to Rs. 15.26 crore in 2004.²⁰ Incidentally, balance of trade had always been in favour of China as high value items such as raw silk and livestock had been the major items for imports. However, trade volume fell to Rs. 1.6 crore in 2005 and since then it had shown a declining trend till 2012.²¹ The main reason behind the downslide was the simultaneous ban on the import of raw silk and livestock from Tibet by India in 2005. But once the ban on import of raw silk was revoked in 2012, trade in these two trading posts picked up.²² In contrast, trade at Nathu La has shown an increasing trend since its inception. The total value of export increased from Rs. 8.87 lakhs to Rs. 3 crores in 2011.²³

The inclusion of 12 additional items in the agreed trading list also had a positive impact on the overall border trade across all the three trading posts. At Namgaya Shipki La, the trade figures registered an increase of 380 per cent with a total turnover of Rs. 5.33 crore in 2013. Imports from China totalled Rs. 3.28 crore whereas export accounted for Rs. 2.03 crore.²⁴ Similarly at Sherathang, trade increased by 23 per cent from Rs. 7

¹⁸ The trade is barter in nature and the value figures are based on valuation figures provided by the traders. S L Kaushik and Rama Pattanaik, no.13.

¹⁹ "Cross-border trade through Shipki La touches new records", no. 14.

²⁰ Bhawan Singh Rawat, no. 17.

²¹ The ban on raw silk was imposed to protect the indigenous silk industries, whereas absence of animal quarantine facility at Gunji was the reason behind the ban on livestock. "India-Tibet barter trade awaits nod from India, China", *rediff.com*, May 25, 2009, at <http://business.rediff.com/report/2009/may/25/india-tibet-barter-trade-awaits-nod-from-india-china.htm>(Accessed June 2, 2014).

²² *The Hindustan Times*, no. 14.

²³ Sanjaya Kumar Subba and Praveen Rizal, "An Overview of the Exports-Imports Trend in Cross-Border Trade through Nathu La, Sikkim", *International Journal of Management and Development Studies*, Vol. 3 (7), July 2013, p. 126.

²⁴ "Cross-border trade through Shipki La touches new records", no. 14.

crore in 2012 to Rs. 8.92 crore in 2013 (See Table 1).²⁵ While tobacco, mishri and jaggery were the main items exported from India; wool, silk, blankets and readymade garments were chief items imported from China.

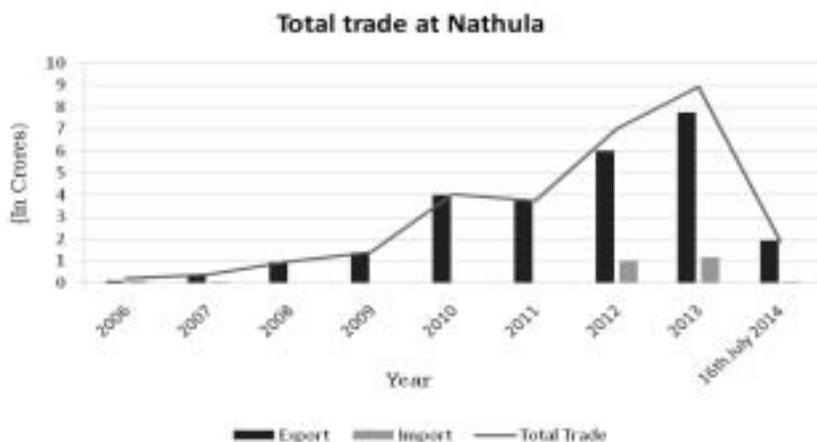
Table 1: Total Trade at Nathu La

(Rs. in crores)

Sl. No.	Year	Export	Import	Total Trade
1	2006	0.09	0.11	0.2
2	2007	0.28	0.07	0.35
3	2008	0.95	0.013	0.95
4	2009	1.35	0.029	1.38
5	2010	4.02	0	4.02
6	2011	3.72	0	3.72
7	2012	5.99	1.01	7
8	2013	7.75	1.17	8.92
9	July 16, 2014	1.92	0.04	1.92

Source: Sanjaya Kumar Subba, and Praveen Rizal, "An overview on the exports-imports trend in cross-border trade through Nathula pass, Sikkim", International Journal of Research in Computer Application & Management, Vol. 3, no. 7, July 2013, p. 126; "Trade from Nathu La Border in Sikkim", PIB, Government of India, July 23, 2014, at <http://pib.nic.in/newsite/PrintRelease.aspx?relid=107266> (Accessed on July 25, 2014)

²⁵ "Trade at Nathu La Border in Sikkim," PIB, Government of India, New Delhi, July 23, 2014, at <http://pib.nic.in/newsite/erelease.aspx?relid=0> (Accessed July 24, 2014). "Nathu la border trading season ends", *The Echo of India*, Gangtok, November 28, 2013, at <http://echoofindia.com/gangtok-nathu-la-border-trading-season-ends-42516> (Accessed June 3, 2014). Also see, "Trading season ends over Nathu La", *Sikkim Now!*, November 30, 2012, at <http://sikkimnow.blogspot.in/2012/11/despite-unfavorable-environment-border.html> (Accessed June 3, 2014).



One of the significant impacts of the resumption of border trade along the India-China border has been the implicit recognition of Sikkim as an Indian state by China.²⁶ Since the signing of the MoU on border trade in 2003, China stopped showing Sikkim as an independent state in its official maps.²⁷ The border trade agreement also provided a legal basis to the boundary in the middle sector, which is disputed. Above all, the border trade has been successful in de-escalating tensions along the border where trading has commenced.

At the local level, while the low quantum of border trade across India-China border has not permitted substantial economic benefits to the border people, it did bring about incremental improvement in the local economy. For instance, villagers near Lipulekh could afford small things to make their lives easier such as install solar lights from the money earned through trade.²⁸ The carpet weaving industry in Pithoragarh, which is dependent

²⁶ “We extracted a lot on Sikkim, sans compromise on Tibet: Vajpayee”, *The Economic Times*, New Delhi, July 24, 2003, at http://articles.economicstimes.indiatimes.com/2003-07-24/news/27529111_1_nathu-la-border-trade-sikkim (Accessed June 3, 2014).

²⁷ P S Suryanarayana, “China’s gesture”, *Frontline*, Vol. 21(11), May 22-June 04, 2004, at <http://www.frontline.in/static/html/fl2111/stories/20040604001905100.htm> (Accessed June 4, 2014)

²⁸ Surjit Mansingh, “India-China Relations in the Context of Vajpayee’s 2003 Visit”, *The Sigur Center Asia Papers*, Washington, 2005, p. 5.

on wool from Tibet has been revived.²⁹ The tourism industry of Sikkim also grew as Nathu La became a major tourist attraction, a fact that could be corroborated from the increased revenue generated from tourist permit and environmental fee since 2006.³⁰ Construction of infrastructure such as roads, trade marts, LCSs, etc. in the border areas have generated employments for the local people besides making these far flung areas accessible.

India-Myanmar Border

After China, Myanmar was the second country with whom India restarted border trade. The resumption of border trade was a result of India's desire to expand its relations with Myanmar after a long period of uneasy relationship. The need for developing better relations with Myanmar emerged after India's decision to deepen its economic engagements with the Southeast Asian countries following the collapse of the Soviet Union. Given that Myanmar is the land bridge to the Southeast Asia, the country became vital for India to implement its Look East Policy (LEP).

The process of developing a better working relationship with the Myanmar Government started in August 1992 with the visit of the Myanmarese delegation to India led by the Director General of the Myanmar Foreign Office.³¹ During the deliberations, emphasis was placed on improving the security situation along their mutual border through promotion of border trade, prevention of drugs trafficking and facilitating greater contact between civilians and military authorities in the border region.³² The visit was reciprocated in March 1993, when the Indian delegation led by the foreign secretary visited Myanmar. During the visit, the Agreement on the Prevention of Drug Abuse was signed and discussions were held on the modalities of Border Trade Agreement as well as MoU on cooperation

²⁹ Rajesh Kadian, *Tibet, India and China: Critical Choices, Uncertain Future*, New Delhi: Vision Books, 1999, p. 176.

³⁰ Praveen Rizal and R. Asokan, "Promotion of tourism after the reopening of Nathu La cross-border trade in Sikkim: An economic analysis, *International Journal of Management and Development Studies*, Vol. 2(6) June 2013, p. 8.

³¹ *Annual Report 1992-93*, Ministry of External Affairs, Government of India, New Delhi, 1993, p. 18.

³² Ibid.

between civilian and border authorities of the two countries.³³ Subsequently on January 21, 1994, the border trade agreement and the MoU on cooperation between civilian border authorities were signed during the visit of the deputy foreign minister of Myanmar.

According to the border trade agreement, two corresponding trading posts were agreed upon along the international border. These were³⁴:

1. Moreh (Manipur)- Tamu (Chin)
2. Champhai (Mizoram)- Hri (Chin)

Map 3: India-Myanmar border Trading Posts



³³ *Annual Report 1993-94*, Ministry of External Affairs, Government of India, New Delhi, 1993, p. 4.

³⁴ *Agreement between Government of the Republic of India and Government of the Union of Myanmar on Border Trade between the Two Countries*, January 21, 1994, New Delhi, at <http://commerce.nic.in/india-myanmar-trade-aggmt.pdf> (Accessed June 5, 2014).

Moreh was operationalised with the establishment of the LCS on April 12, 1995 and Zokhawthar near Champhai was inaugurated a decade later on January 30, 2004. At present, the bulk of the border trade with Myanmar takes place through the Moreh LCS.

Border trade along the India-Myanmar border is carried out in two ways. First is the 'Traditional/Free Exchange Mechanism' and second is the 'Barter Mechanism'. Under the Traditional/Free Exchange Mechanism, trade is allowed according to the 'customary practice' through simple customs documentation. In other words, indigenous people residing within 40 km on either side of the international border are allowed to exchange locally produced commodities in small quantities i.e. whatever could be carried as a head load. Each transaction is limited to less than U.S. \$1000 and the export and import of items is required to be balanced by import and export of items of equivalent value within one or two days. No customs duties are imposed on these tradable items and no customs formalities are required to be completed.³⁵

As far as the Barter Mechanism is concerned, ICE is issued to a select number of traders residing within the stipulated limits of the border. These ICE holders are then allowed to trade in 62 officially approved items. They are also allowed to stay in each other's country for three days within 40 km on either side of the border. As is obvious there is no monetary exchange in these type of transactions, but the traders are required to invoice their goods in US dollars with each transaction limited to U.S. \$ 20, 000 only. The imports have to be balanced by export of goods of equivalent value by the individual traders within six months. Concessional customs duty and other cesses amounting to 5 per cent are levied on these transactions and the traders are also required to complete customs formalities as per international trade norms.³⁶

The 1994 border trade agreement had approved only 22 items to be traded under barter system. Some of the items were bamboo, betel nuts and leaves, chillies, mustard/rape seed, pulse and beans, fresh vegetables,

³⁵ According to the documents provided by customs officials in Zokhawthar LCS during the author's field visit on March 11, 2014.

³⁶ Ibid.

fruits, onions, chillies, spices, ginger, minor forest produce excluding teak, reed broom, tobacco, and sunflower seeds. In subsequent years the officially approved list of tradable items was expanded twice. Once in November 2008, when 18 new items including agarbatti, bicycle's spare parts, cosmetics, fertilizers, etc. and again in November 2012, when 22 new commodities were added to the list which included agricultural machinery/implement, bicycle, three wheelers and cars below 1000 cc, coal, semi-precious stones, plastic items, rice, wheat, etc.³⁷ The periodic expansion of the trading list were because of two factors- a) falling trade volume, b) widespread smuggling of essential commodities not included in the list. It was hoped that inclusion of more items in the trading list will not only legalise smuggling of these commodities but also result in increase in trade volume.

The volume of border trade along the India-Myanmar border at Moreh showed tremendous growth in the initial years. The total trade volume increased from Rs. 15 crore in 1995-96 to Rs. 46.49 crore in 1996-97 and Rs.62.39 crore in 1997-98.³⁸ It however, witnessed a sharp decline in 1998-99 and since then, the total trade has shown a declining trend. The inclusion of 18 additional items in 2008 also failed to provide any boost to the trade. This is evidenced from the fact that the quantum of trade had fallen from Rs. 8.82 crore in 2006-07 to Rs. 3.37 crore in 2011-12 (*See Table 2*).³⁹ A number of factors have contributed in adversely affecting the border trade. Some of these are: Myanmar government's demand that imports from Myanmar should precede exports from India, limited choice of commodities for the traders, ban imposed on export and import of certain commodities by both the governments, frequent *bandhs* and blockades called by various groups in Manipur, imposing of illegal taxes by insurgent

³⁷ "Indo-Myanmar Border Trade", Public notice no. 30 (re-2012)/2009-2014, November 16, 2012, *Directorate General of Foreign Trade*, Ministry of Commerce and Industry, New Delhi, 2012, at <http://dgft.gov.in/Exim/2000/PN/PN12/pn3012.htm> (Accessed June 5, 2014).

³⁸ M P Bezbaruah, "Indo-Myanmar Border Trade: the Stakes for North East India", *Dialogue*, Vol. 9(1), 2007, p. 85.

³⁹ Ch. Priyoranjan, *Border Trade in Manipur: Ground Level Survey and Status Report*, Department of Commerce and Industries, Government of Manipur, Imphal, pp. 146-159, at <http://economics.manipuruniv.ac.in/SAP/Reports/Indo-Myanmar%20Order%20Trade%20Report.pdf> (Accessed June 5, 2014).

groups, multiple check-posts of the Assam Rifles and the state police along the Imphal-Moreh highway, and poor infrastructure at Moreh.⁴⁰

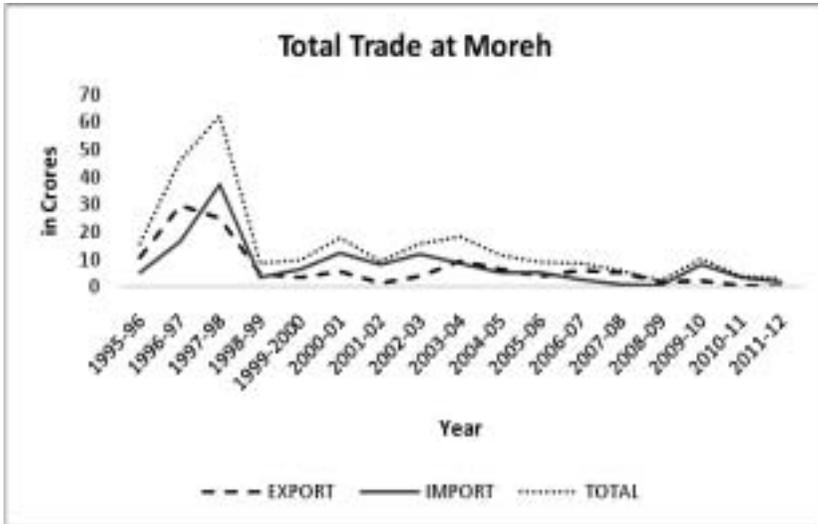
Table no. 2: Total Trade at Moreh

(Rs. in crores)

Year	Export	Import	Total
1995-96	10.45	5.39	15.84
1996-97	29.79	16.7	46.49
1997-98	25.16	37.19	62.35
1998-99	4.88	3.74	8.62
1999-2000	3.31	6.52	9.83
2000-01	5.68	12.41	18.09
2001-02	1.29	8.13	9.42
2002-03	3.84	11.9	15.74
2003-04	9.45	8.85	18.3
2004-05	6.49	5.38	11.87
2005-06	3.87	5.21	9.08
2006-07	6.13	2.69	8.82
2007-08	4.94	1.35	6.29
2008-09	1.61	0.76	2.37
2009-10	2.15	8.32	10.46
2010-11	0.26	3.8	4.16
2011-12	1.49	1.88	3.37

Source: Ministry of Development of North Eastern Region; Ch. Priyoranjan, *Border Trade in Manipur: Ground Level Survey and Status Report*, Department of Commerce and Industries, Government of Manipur, Imphal, pp. 146-159.

⁴⁰ J S R Khathing, "Indo-Myanmar Border Trade", in Gurudas Das, et al (eds.), *Indo-Myanmar Border Trade, Status, Problems and Potentials*, (New Delhi, Akansha Publishing House, 2005), p. 51-57. Also observations made during the author's field trip to Moreh on March 8, 2014.



Border trade at Zokhawthar similarly presented a very dismal picture with total trade volume remaining extremely low. The trend has also been very erratic. For example, in 2009-10, the total trade was valued at only Rs. 1.2 lakh, which decreased to Rs. 1.85 lakh in 2012-13 but increased to Rs. 1.24 crore in 2013-14.⁴¹ The increase in trade volume is because of the import of large quantities of betel nuts from Myanmar. As far as export and import of items are concerned cotton yarn, auto parts, soya bean meal and pharmaceuticals, are some of the major items exported to Myanmar. Main items that are imported by Myanmar are betel nut, dried ginger, green mung beans, turmeric roots, resin and medicinal herbs. However, in the last four years, only two items- betel nuts and reed brooms - have been imported from Myanmar (*See Table 3*) and only soyabari has been exported to Myanmar (*See Table 4*). There has not been a single item exported from Mizoram in the years 2010-11, 2011-12 and 2013-14. Lack of demand for Indian goods due to poverty coupled with absence of good roads and other infrastructure have been the main factors for low border trade in Mizoram.⁴²

⁴¹ Data procured at the LCS Zokhawthar during the field visit on March 11, 2014.

⁴² Interview with Customs officials at Aizwal on March 10, 2014.

Table 3: Import through the LCS Zokhawthar

Year	Commodity	No. of Consignment	Qty. (in. Metric Ton)	Assessable Value (in Rs.)
2009-10	Reed Broom	01	15	61,882
2010-11	Betel Nut	04	11.68	4,33,548
2011-12	Betel Nut	07	60	22,27,740
2012-13	Nil	-	-	-
2013-14 (up to Feb 14)	Betel Nut	11	110	1,24,79,489

Source: Land Customs Station, Zokhawthar

Table 4: Export through the LCS Zokhawthar

Year	Commodity	No. of Consignment	Qty. (in. Metric Ton)	Assessable Value (in Rs.)
2009-10	Soyabari	01	2	60,000
2010-11	Nil	-	-	-
2011-12	Nil	-	-	-
2012-13	Soyabari	01	6	1,85,600
2013-14 (up to Feb 14)	Nil	-	-	-

Source: Land Customs Station, Zokhawthar

While formal barter trade at Moreh and Zokhawthar continues to remain unimpressive, the traditional barter trade through head-load which takes place through Gate no. 2 at Namphalong market in Myanmar has been flourishing. The trade figures of this traditional mechanism, however, do not get reflected in the overall border trade of the Moreh LCS as no Guaranteed Receipt (GR) formalities are required for this kind of trade, which would otherwise have yielded relevant trade data. Since there are no restrictions on the kind of goods that can be exchanged under this mechanism, items such as Chinese/Korean made blankets, readymade

garments from Thailand, Chinese made electronic goods, household items such as crockeries, appliances, precious stones, etc. are freely imported from this market. Similarly, items such as pharmaceuticals, wood furniture, etc. are exported from India through the same route with the full knowledge of the customs officials.⁴³ The security and law enforcement personnel stationed at the gate check the head loads only for contraband and let other commodities pass through the border.⁴⁴

In addition, because of the free movement regime (FMR), there are no restrictions on movement of people across the border and no imposed baggage limitations. A single person may make numerous trips across the border. Zero duties, no requirement to balance exports with imports, minimum documentations and no restrictions on tradable commodities are powerful incentives which have lured big businessmen to trade through Gate no. 2. Despite the fact that trading through Gate no. 2 is leading to flooding of Indian markets with cheap Chinese goods as well as enormous revenue loss to the government, no steps have been taken to curtail or regulate it.

The border trade however, has had a positive impact on the bilateral relations as well as on the local population. The trade has led to greater interactions between the customs and immigration officials as well as security personnel of India and Myanmar, which in turn have resulted in better understanding of each other. The inauguration of the border trade has also formalised hitherto informal trade in many items such as fertilizers, wheat flour, machinery parts, etc. At the local level, border trade has generated employment for petty traders, porters, transporters etc residing in Moreh and Zokhawthar. Most importantly, it has helped meeting the daily needs of the residents of the Northeast which is away from the industrial and commercial centres of the country.

Beside the official trade through the LCSs in Moreh and Zokhawthar, informal trade is also carried out in Nampong in Arunachal Pradesh, which

⁴³ Observations made at Gate no. 2 in Namophalong by the Author on March 8, 2014.

⁴⁴ J S R Khathing, no. 40.

is 12 km from the Pangsau Pass. This trade is permitted essentially to allow local inhabitants to continue with their old practice of exchanging commodities with people residing across the border, which takes place in traditional markets during weekly fairs. Under the present system, local Myanmarese traders are allowed to sell their products in Nampong once a week (every Friday),⁴⁵ and the Indian traders are permitted to visit Pangsau town in Myanmar twice a month (15th and 30th) where fairs or markets are organised under the supervision of district administration and the para-military forces.⁴⁶ It is estimated that nearly 150-200 Myanmarese and 60-100 Indian traders cross the borders to trade on the designated days.⁴⁷

Such kind of border *haats* were quite common along the borders as they fulfilled the needs of the local rural economy and strengthen ethnic and cultural bonds. Realising that border *haats* caters more meaningfully in fulfilling the day to day needs of border people, India and Myanmar agreed to open more such border *haats*. In an MoU on establishing border *haats* signed on May 28, 2012, India and Myanmar agreed to open the first border *haat* at Pangsau Pass (Nampong) corresponding to Pangsau in Sagaing region of Myanmar.⁴⁸ They also agreed to establish more *haats* along the border. The location of the *haats* shall be based on history of trade, accessibility and availability of *haat* sites and degree of interdependence of border population of either side.⁴⁹

⁴⁵ E. Bijoykumar Singh, "NER-Myanmar Border Trade: The Emerging Pattern", *Indo-Myanmar Trade Bulletin*, Vol. 1(1), Dec 2012 - Jan 2013, p. 23, at <http://economics.manipuruniv.ac.in/SAP/Bulletine/Vol-I%20I.pdf> (Accessed May 23, 2014).

⁴⁶ "Indo-Myanmar Border Trade", *Department of Trade and Commerce* Government of Arunachal Pradesh, at http://arunachalpradesh.gov.in/trade/html/indo_myanmar_trade.htm (Accessed May 23, 2014).

⁴⁷ E. Bijoykumar Singh, no. 45.

⁴⁸ *Memorandum of Understanding between The Government of the Republic of India and The Government of the Republic of the Union of Myanmar on Establishing Border Haats across the Border between India and Myanmar*, May 28, 2012, Nay Pyi Taw, Myanmar, at <http://www.mea.gov.in/Portal/LegalTreatiesDoc/MM12B0297.pdf> (Accessed June 4, 2014).

⁴⁹ *Ibid.*

India-Pakistan border:

Border trade with Pakistan is restricted to the state of Jammu and Kashmir along the Line of Control (LoC). The cross-LoC trade or intra-Kashmir trade border trade is generally referred to as is one of the CBMs that India and Pakistan have undertaken to address the trust deficit between them.⁵⁰ The border trade forms a part of the two governments' objective of facilitating economic development as well as people to people contact between the divided parts of Jammu and Kashmir.

The decision to start the cross-LoC trade was taken in a meeting between Indian Prime Minister Manmohan Singh and Pakistan President Pervez Musharraf in April 2005 when both the leaders "agreed to pursue further measures to enhance interaction and cooperation across the LoC including agreed meeting points for divided families, trade, pilgrimages and cultural interaction"⁵¹. The first step towards the implementation of this decision was taken in May 2006 when both the countries agreed to start the Srinagar-Muzaffarabad truck services in the first half of July 2006 and exchanged indicative lists of tradable goods between the two countries. Further impetus to this proposal was given when the Working Group on Strengthening of Relation across the LoC, constituted in 2006 under the aegis of the Round Table Conference on Jammu and Kashmir, also recommended commencement of cross-LoC trade.⁵²

Accordingly, in June 2006 the state government decided to establish LCS [later designated as trade facilitation centre (TFC)] at Salamabad for Uri-Muzaffarabad trade and Chakkan-da-Bagh for Poonch-Rawalakot trade.⁵³

⁵⁰ *Joint Statement on PM's visit to Pakistan*, Islamabad, January 6, 2004, at <http://pib.nic.in/newsite/erelease.aspx> (Accessed May 27, 2014).

⁵¹ *Joint Statement, India-Pakistan*, New Delhi, April 18, 2005, at <http://mea.gov.in/bilateral-documents.htm?dtl/6588/Joint+Statement+IndiaPakistan> (Accessed May 27, 2014).

⁵² *Economic Survey- 2008-09*, Government of Jammu and Kashmir, p.-460, at <http://www.ecostatjk.nic.in/publications/release4.pdf> (Accessed May 27, 2014).

⁵³ "Chapter 43- LoC Trade", *Economic Survey J & K 2013-14*, Government of Jammu and Kashmir, p. 536, at <http://www.indiaenvironmentportal.org.in/files/file/J&K%20EconomicSurvey%202013-2014.pdf> (Accessed May 27, 2014).

Meanwhile, the CBM on facilitating people to people contact was implemented with the inauguration of the Srinagar-Muzaffarabad and the Poonch-Rawalakote bus services on April 7, 2005 and June 20, 2006 respectively.⁵⁴ The cross-LoC trade however, did not start as there were few issues which required further deliberations.⁵⁵ After the modalities for intra-Kashmir trade and truck services, among other things, were completed on September 22, 2008, the Indian Prime Minister Manmohan Singh and Pakistan President Asif Ali Zardari met in September 2008 in New York and agreed to start the cross-LoC trade on October 21, 2008.⁵⁶ Finally, cross-LoC trade commenced from Salamabad and Chakkan-Da-Bagh TFCs on the stipulated date. 13 trucks carrying goods from Salamabad crossed over to Chakoti and 14 trucks came from Chakoti. On the same token, three trucks from Chakkan-Da-Bagh and four trucks from Rawalakote crossed over the LoC from either side.

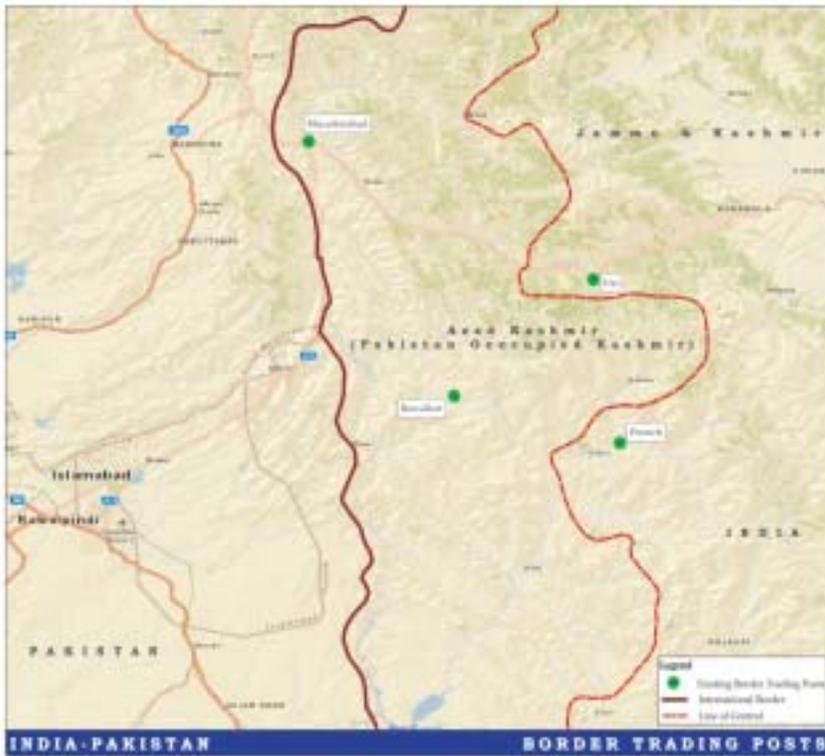
The cross-LoC trade is similar to the border trade practised along India's other international borders. The trade is barter in nature and no duties are levied on the items traded. There is no qualitative restriction either. The trade takes place on 21 locally produced items which were agreed by both the governments. Also, only local traders are allowed to engage in the trade. However, given the security situation along the LoC, trade is carried out according to the mutually agreed standard operating procedure (SOP). According to SOP, only registered drivers from both the sides are permitted to cross the LoC with their trucks. These trucks are however are not allowed to enter beyond the TFCs where their cargoes are

⁵⁴ *Annual Report 2005-06*, Ministry of Home Affairs, Government of India, 2007, p. 11.

⁵⁵ *Joint Statement issued after Foreign Minister Level Review of the Fourth Round of Composite Dialogue*, Islamabad, May 21, 2008, at <http://mea.gov.in/bilateral-documents.htm?dtl/5250/Joint+Statement+issued+after+Foreign+Minister+level+Review+of+the+Fourth+Round+of+Composite+Dialogue+Islamabad> (Accessed May 27, 2014).

⁵⁶ *India-Pakistan Joint Statement issued after meeting of the Prime Minister with President of Pakistan*, in New York, September 24, 2008, at <http://www.mea.gov.in/bilateral-documents.htm?dtl/5364/India+Pakistan+Joint+Press+Statement+issued+after+meeting+of+the+Prime+Minister+with+the+President+of+Pakistan+in+New+York> (Accessed May 27, 2014).

Map 4: Cross-LoC border Trading Posts



offloaded. The trucks are also required to return on the same day and are allowed to carry a consignment of 1-1.5 tones, which inturn is verified by trade facilitation officers (TFOs). The trucks are also sealed before they are sent across the LoC.⁵⁷ Unlike other borders, local traders are not allowed to travel to Pakistan occupied Kashmir (POK) for meeting their counterparts and placing orders.⁵⁸ Initially, the border trade across the LoC was restricted to two days in a week (Tuesdays and Wednesdays) but

⁵⁷ Smruti S. Pattanaik and Arpita Anant, “Cross-LoC Confidence Building Measures between India and Pakistan: A Giant Leap or a Small Step towards Peace?”, *IDS Issue Brief*, February 10, 2010, p. 7. at <http://www.idsa.in/system/files/CrossLoCCBMbetweenIndiaandPakistan.pdf> (Accessed May 27, 2014)

⁵⁸ *Ibid*, p. 13-14.

from November 15, 2011 the number of trading days were increased to four days a week (Tuesdays, Wednesdays, Thursdays and Fridays).⁵⁹

The opening of cross-LoC trade was greeted with much enthusiasm and around 800 to 1000 traders participated.⁶⁰ However, since then, the number of traders has been declining steadily. At present, only 60 traders on the Indian side are engaged in trade. A limited trading list, lack of communication and banking facilities, absence of trade related dispute redressal mechanism, etc. are often cited as reasons for the poor response of the traders.⁶¹

Despite these constraints, trade volume has been growing at an impressive rate over the years with both imports and exports showing an upward trend. For example, between October 2008 and November 2012, goods worth PKR 1592.28 crore were imported from PoK and goods worth RS. 1084.3 were exported from Jammu and Kashmir. The volume of trade in 2013 also remained encouraging with export worth RS. 244.80 crore and import worth PKR 377.35 crore (See Table 5) being traded across the LoC.⁶² While dry fruits, agricultural and horticultural products, and herbs were the main items imported, fresh fruits and vegetables, dry fruits, Rajmah, mixed spices, shawls and stoles, paper machie and kangdi were the prominent items exported.⁶³ The numbers of trucks engaged in cross LoC trade has also been substantial suggesting a booming trade.

⁵⁹ *Annual Report 2011-12*, Ministry of Home Affairs, Government of India, 2012, p. 17.

⁶⁰ A. H. Kira, Cross-LoC trade in Kashmir: From Line of Control to Line of Commerce”, *Working Paper*, Indira Gandhi Institute of Development Research, Mumbai, September 2011, at <http://www.igidr.ac.in/pdf/publication/WP-2011-020.pdf> (Accessed June 3, 2014).

⁶¹ “Traders losing interest in cross LoC trade”, *Greater Kashmir*, Srinagar, October 23, 2013, at <http://www.greaterkashmir.com/news/2013/Oct/24/traders-losing-interest-in-cross-loc-trade-24.asp> (Accessed June 3, 2014).

⁶² “Chapter 42 - LoC Trade”, *Economic Survey J & K 2012-13*, Government of Jammu and Kashmir, p. 3, at http://www.jandkplanning.com/images/Economic_Survey/42-loctrade.pdf (Accessed May 28, 2014).

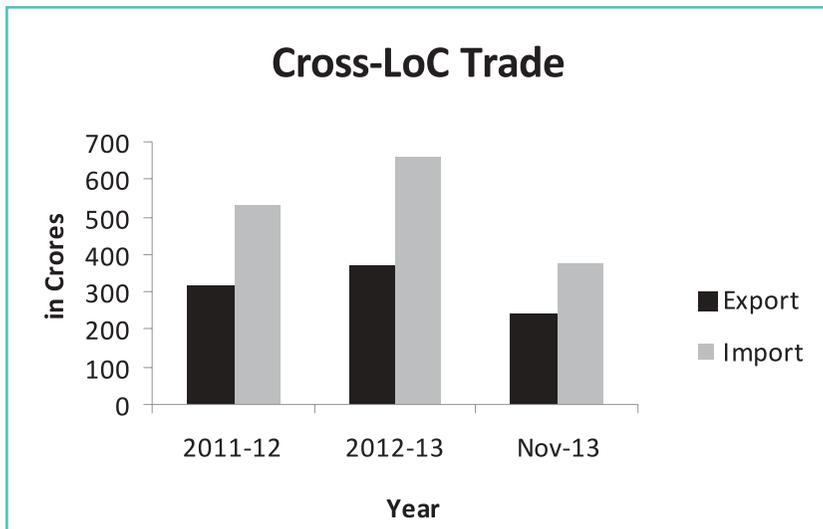
⁶³ *Ibid.*

According to the Ministry of Home Affairs (MHA) between October 2008 and December 2012, 21,765 trucks have crossed over to PoK and 16,130 trucks have crossed over to India through the Salamabad and Chakkan Da Bagh routes.⁶⁴

Table 5: Quantity and value of exports and Imports

Year	Export to PoK		Import from PoK	
	Quantity (Qtls)	Value* (RS. Crore)	Quantity (Qtls)	Value* (in Crore) Pak currency
2011-12	465272.41	320.19	368535.17	531.24
2012-13	768061.86	371.67	790245.70	657.79
2013-14 Ending Nov 2013	508024.90	244.80	247160.96	377.35

Source: *Economic Survey J & K 2013-2014, Jammu and Kashmir*, p. 536



⁶⁴ *Annual Report 2012-13*, Ministry of Home Affairs, Government of India, 2013, p. 10.

The initiation of cross-LoC trade has been welcomed by all sections of the population in Kashmir as it has not only generated economic benefits for the people of divided Kashmir, but has also created a positive psychological and emotional impact on them. Resumption of trade has invigorated the local economy by drawing in a number of allied services to cater to the requirements of the traders. The traders, especially those trading in horticultural goods got access to additional markets for their products. They also benefited significantly from the duty free trade on various commodities. The trade has also been beneficial to people living along the LoC as it generated employment opportunities to labourers, drivers, contractors, so on and so forth.⁶⁵ The opening of the trade provided an alternate route to the Jammu-Srinagar route, which remains the only link connecting Kashmir to rest of India. This had a positive psychological impact on the Kashmiris in general.

Importantly, the cross LoC trade helped the Kashmiri communities separated by the artificial line to rebuild their severed socio-economic and cultural relationships.⁶⁶ The fact that approximately 60 per cent of the traders involved in the border trade belong to divided families and trade with their relatives from across the LoC,⁶⁷ indicate that border trade has facilitated greater economic interactions and emotional bonding among such families. However, restrictions placed on the cross-LoC movement of traders have impeded the reunion of these divided families. The cross-

⁶⁵ Altaf Hussain Kira, "Cross-LoC trade in Kashmir: From Line of Control to Line of Commerce", Indira Gandhi Institute of Development Research, September 2011, at <http://www.igidr.ac.in/pdf/publication/WP-2011-020.pdf> (Accessed May 28, 2014).

⁶⁶ Ayesha Saeed, "Trading for Peace in Kashmir", in Alexander Ramsbotham and I William Zartman (eds), *Accord*, Issue 22, January 2011, p. 81, at http://www.c-r.org/sites/default/files/22_Cross%20border%20peacebuilding_201101_ENG_F.pdf (Accessed June 3, 2014).

⁶⁷ *Peacebuilding and Economic Potential of Cross-LoC Trade*, PERCEPTION SURVEY Report on First-ever Opinion Poll with Cross-LoC Traders on both sides of divide in Jammu and Kashmir, Mirpur-Azad Jammu and Kashmir, April 2012, p. 3, at <http://cpdr.org.pk/wp-content/uploads/2012/05/2012-04-18-opinion-survey-for-publication.pdf> (Accessed May 28, 2014); also see SmrutiPattanaik and ArpitaAnant, n. 57, p. 11.

LoC trade has also resulted in building cross-border peace constituencies. The formation of the Federation of Jammu and Kashmir Joint Chamber of Commerce in October 2008 is the first formal cross-LoC institution,⁶⁸ which “uniquely connects Kashmiri civil society and traders to governmental apparatuses on both sides”⁶⁹. Moreover, the trade has given many former Kashmiri militants settled in PoK an opportunity to lead a settled life, thereby making them stakeholders in maintaining a peaceful and stable LoC.⁷⁰ The successful continuation of the trade, despite the Mumbai terror attacks of 2008 also created hope that it will create capacities for peace building and lead to the final resolution of the Kashmir problem.⁷¹

India-Bangladesh Border:

Although India and Bangladesh border regions have strong socio-economic interdependence, the two countries have not engaged in formal border trade. Prior to 1971, people residing on either side of the border used to exchange their surpluses through traditional markets or *haats*. These *haats* were however shut down during the liberation war of Bangladesh. An attempt to restart border trade between the two countries was made in 1972 when India and Bangladesh signed a Trade Agreement on March 28, 1972. Article IV of the Agreement provided trading opportunity to people living in rural areas within 16 km belt on either side of the border to dispose off their goods which were mutually agreed upon.⁷² But before

⁶⁸ Moeef Yusuf, “Promoting cross-LoC trade in Kashmir, An Analysis of the Joint Chamber of Commerce”, *Special Report*, United Institute for Peace, August 2009, at http://www.usip.org/sites/default/files/kashmir_loc.pdf (Accessed June 3, 2014).

⁶⁹ Ayesha Saeed, no. 66.

⁷⁰ *Intra-Kashmir Trade*, Policy Brief, January 2011, Conciliation Resources, at http://www.c-r.org/sites/c-r.org/files/IntraKashmirTrade_PolicyBrief_201101_ENG.pdf (Accessed on May 28, 2014). Smruti S Pattanaik and Arpita Anant, no. 57, p. 11.

⁷¹ Ayesha Saeed, no. 66, p. 2.

⁷² *Trade Agreement between the Government of India and the Government of the People's Republic of Bangladesh*, March 28, 1972, New Delhi, at <http://mea.gov.in/bilateral-documents.htm?dtl/5606/Trade+Agreement+Protocol+1+Nov+1972> (Accessed May 21, 2014).

the border trade could be formalised, Bangladesh raised apprehensions that free exchange of commodities would result in large scale smuggling and therefore border trade between Indian and Bangladesh should be not be allowed. Consequently, in October 1972 the provision of border trade was discarded from the Agreement by mutual consent.⁷³

After a gap of almost four decades when their relationships improved, India and Bangladesh decided to reopen border *haats*.⁷⁴ Subsequently, a MoU to establish border haat between them was signed on October 23, 2010. The stated aim was to promote the wellbeing of the border people by setting up traditional markets for their local produce.⁷⁵ Accordingly, two border *haats* were established along India-Bangladesh border. The first *haat* was inaugurated at Kalaichar in West Garo Hills District of Meghalaya corresponding to Baliamari in Kurigram District of Bangladesh on July 23, 2011. The second *haat* at Balat in East Khasi Hills District of Meghalaya corresponding to Lauwaghar in Sunamganj District of Bangladesh was made operational on May 1, 2012.

The border *haats* along the India-Bangladesh border are enclosures constructed on the zero line and are opened once a week (Wednesdays for Kalaichar and Tuesdays for Balat) from 10 am to 3 pm. The commodities sold in these *haats* are exempted from customs duties. It allows a purchase of upto RS.. 4,000 per person and transactions can be conducted in local currencies or through barter system. People residing within the radius of 9-10 km of the border trade are able to frequent these *haats*, although the stipulated distance is only 5 km. Traders are given

⁷³ Gurudas Das and C J Thomas, *Indo-Bangladesh Border Trade, Benefiting from Neighbourhood*, New Delhi, Akansha Publishing House, 2008, p. 7.

⁷⁴ *Joint Communiqué issued on the occasion of the visit to India of Her Excellency Sheikh Hasina, Prime Minister of Bangladesh*, New Delhi, January 12, 2010, at <http://www.mea.gov.in/bilateral-documents.htm?dtl/3452/Joint+Communique+issued+on+the+occasion+of+the+visit+to+India+of+Her+Excellency+Sheikh+Hasina+Prime+Minister+of+Bangladesh> (Accessed June 6, 2014).

⁷⁵ *Memorandum of understanding between The Government of The Republic of India and The Government of The People's Republic of Bangladesh on Establishing Border Haats across the Border between India and Bangladesh*, New Delhi, October 23, 2010, at http://commerce.nic.in/trade/MOU_Border_Haats_across_Border_India_and_Bangladesh2010.pdf (Accessed June 6, 2014).

trading permit valid for one year and are required to carry photo identity cards. To ensure public order, only 150 persons are allowed inside the *haats* at a given time.⁷⁶ During the days of trading, customs officials, local police and border security force (BSF) personnel are present in the *haats* to ensure smooth conduct of trade. Commodities sold in the Indian stalls include prayer mats, cumin seeds, bed covers, quilts and blankets (imported from China/Korea through Moreh), cosmetics and toiletries, bay leaves, and betel nuts. Items sold in the Bangladesh stalls comprise vegetables, plastic and melamine products and readymade garments. Traders are allowed to carry their goods as head loads or on hand carts.⁷⁷

Map 5: India-Bangladesh Border Trading Posts



⁷⁶ Observations by the author during field trip to Balat and Kalaichar on March 4-5, 2014. Also see, “Anand Sharma Inaugurates Border Haat at Kalaichar”, *Press Information Bureau*, Government of India, July 23, 2011, at <http://pib.nic.in/newsite/erelease.aspx?relid=73439> (Accessed June 6, 2014).

⁷⁷ Personal observations by the Author during field trip to Balat and Kalaichar on March 4-5, 2014.

The restarting of the border *haats* has been welcomed by the people living in the remote areas. The popularity of the border *haats* can be assessed by the fact that volume of trade has increased tremendously, a fact that is corroborated by the increase in the number of hand carts in these *haats*. Easy cross-border communication has also allowed traders on either side to place orders for the required products beforehand, which are picked up once the *haat* opens. This practice has led to trading in products which are not manufactured locally but brought from interiors. For example, cumin seeds and prayer mats are sourced from Gujarat and Rajasthan. Similarly, melamine and plastic products are brought from Dhaka. Officials lament that these border *haats* have become trading centres for big businessmen residing in big cities instead of being traditional markets for exchanging locally produced goods.⁷⁸ Local people are however happy to get their essential items from across the border, which otherwise would have been difficult to procure given that major markets in their areas are located quite far away. Availability of essential goods has also reduced the incidents of smuggling of these items and in turn have reduced tensions between the BSF and the local people as well as between the BSF and the Border Guards Bangladesh (BGB).⁷⁹

From the above discussion, it can be inferred that resumption of border trade with the neighbouring countries has resulted in significant tangible as well as intangible gains both to the bilateral relations as well as people residing along various borders. The successful conduct of the trade and the positive changes that it has brought about in the lives of the people have induced a number of border communities as well as state governments to demand/request reopening of additional trade routes. For example, in J & K, there has been a recurring demand for opening the

⁷⁸ Author's interview with Customs officials and BSF personnel during the field visit to Balat and Kalaichar on March 4-5, 2014.

⁷⁹ Ibid.

⁸⁰ Ghulam Mehdi, "Divided Ladakh cherishes Reconnection", *Rangyul*, November 2010, at <http://rangyul.wordpress.com/2010/11/22/divided-ladakh-cherishes-reconnection/> (Accessed June 9, 2014), "Turtuk residents criticize Govt for neglecting region", *Daily Excelsior*, Jammu, January 29, 2014, at <http://www.dailyexcelsior.com/turtuk-residents-criticize-govt-for-neglecting-region/> (Accessed June 9, 2014), "Divided families seek reopening of road links with kargil, ladakh", *Dawn.am*, Skardu, April 15, 2014, at <http://www.dawn.com/news/1100027> (accessed June 9, 2014).

Kargil-Skardu and the Khaplu-Ladakh routes. Proponents for opening these routes argue that these will not only facilitate reunions of divided families from Baltistan but also bring prosperity to the local communities.⁸⁰ There is also a strong demand for opening the Jammu-Sialkot route for trade and travel in the state as part of the CBM between India and Pakistan.⁸¹

The state governments in the Northeast have been equally eager to resume border trade with the neighbouring countries. Arunachal Pradesh is keen on reopening border trade with China and Myanmar. It has proposed a number of trading posts such as Kenzamani, Bumla, Gelling, Kibithoo, along India-China border⁸² and Chingsa, Wakka along India-Myanmar border.⁸³ Manipur has suggested that border *haats* be opened at Kongkan Thana, New Somtal and Behiang. Similarly, Mizoram and Nagaland have proposed eight locations for border *haats* along their international border.⁸⁴

⁸¹ “Omar pushes for opening Jammu-Sialkot route”, *The Indian Express*, Jammu, November 8, 2012, at <http://www.newindianexpress.com/nation/article1333241.ece> (Accessed June 9, 2014).

⁸² “Border Trade”, *Department of Trade and Commerce*, Government of Arunachal Pradesh, at <http://arunachalpradesh.gov.in/trade/html/trade.htm> (Accessed June 9, 2014).

⁸³ “Proposed Border Haats”, *Ministry of the Development of Northeastern Region*, Government of India, at <http://mdoner.gov.in/content/proposed-border-haats> (Accessed June 9, 2014).

⁸⁴ *Ibid.*

⁸⁵ “Market along India-Bangladesh border to boost trade”, *First Post*, Agartala, November 5, 2013, at <http://www.firstpost.com/fwire/markets-along-india-bangladesh-border-to-boost-trade-1210227.html> (Accessed June 9, 2014). “Tripura To Have Second Border Haat With Bangladesh”, *The New Indian Express*, Agartala, May 22, 2014, at <http://www.newindianexpress.com/nation/Tripura-to-Have-Second-Border-Haat-With-Bangladesh/2014/05/22/article2238985.ece> (Accessed June 9, 2014). “Meghalaya proposes to setup 22 Border Haats along Bangladesh border”, *Meghalaya Times*, Shillong, December 5, 2012, at <http://meghalayatimes.info/index.php/front-page/23108-meghalaya-proposes-to-setup-22-border-haats-along-bangladesh-border> (Accessed June 9, 2014).

Tripura and Meghalaya have also demanded that additional border *haats* be opened along their borders with Bangladesh to allow local people to trade in essential items.⁸⁵

Impediments to Border Trade

While there could be demands for opening the international borders for more trade, a number of factors act as impediments in opening the border for trade as well as its smooth conduct. Some of these impediments are reluctance of neighbouring countries to open their borders, poor connectivity, absence of infrastructural facilities, limited trading basket, restricted trading season and smuggling.

Reluctance of the neighbouring countries: Opening up the borders for trade and travel is a political decision taken by governments keeping in mind the political benefits as well as security concerns. If the political and security costs of opening up the border is high, governments will be naturally reluctant to allow greater cross border socio-economic and cultural interactions. The reluctance shown by China to open additional trading routes through Sikkim during the 1990s is one such example. China feared that such a gesture would be interpreted as its implicit recognition of Sikkim as part of India, thereby inviting domestic protests.⁸⁶ Bangladesh too, as discussed above, did not allow border trade with India for a long time fearing that it will be inundated by Indian goods. It warmed up to the proposal of establishing border *haats* only in 2010, but despite local demands, only two *haats* have been made operational till date. Bangladesh's continued apprehension is evidenced from its delaying tactics to sanction land for border *haat* corresponding to Kamalasagar in Tripura.⁸⁷

Myanmar's disinclination towards opening its borders to border trade can be observed from the fact that it has not improved transportation and communication links to the border trading posts. It has also remained non-committal towards building infrastructure required for operationalising

⁸⁶ Surjit Mansingh, no. 6.

⁸⁷ Author's interview with senior officials in Tripura government as well as senior BSF officials in Tripura on March 14, 2014.

⁸⁸ Author's interview with senior MHA officials in New Delhi.

the newly agreed trading posts.⁸⁸ Similarly, Pakistan has been indifferent towards opening additional route through Ladakh to start cross-LoC trade. India also has not displayed great enthusiasm in opening newer routes for border trade, especially in Arunachal Pradesh. Given China's claim on the state and also given the dismal state of road connectivity in the border areas, India's security concerns remain the prime driver in thwarting local demands for opening up the border for trade in this sector.

Poor Connectivity. Poor connectivity in terms of transportation and communication links in the border regions is the main hurdle in conducting border trade. Almost all the trading posts along the borders are characterised by poor domestic as well as cross border road links. Along the India-China border, the mountainous terrain and severe weather conditions not only impede construction of roads but also damage the existing ones. Recurrent landslides which destroy road links to the passes and beyond has led to frequent delays or and at times suspension of border trade. For instance, in 2013 trading through Lipulekh was delayed because the link road to Gunji was destroyed by heavy rains.⁸⁹ Trading through Nathu La has been often affected by landslides. The 54 km road from Gangtok to Nathu La is marred by potholes and landslide.⁹⁰ Border trade along Indo-Myanmar border is equally affected because of poor road conditions. The 110 km stretch of road connecting Imphal to Moreh has number of

⁸⁹ "China-India border trade for this year begins", *The Times of India*, Pithoragarh, Jul 22, 2013, at <http://timesofindia.indiatimes.com/india/China-India-border-trade-for-this-year-begins/articleshow/21239741.cms> (Accessed June 2, 2014).

⁹⁰ In 2013, the trading season started on May 21st instead of May 1st. "Nathu La reopens for trade, weather and road condition delay trading, *Sikkim Now!*, Gangtok, May 2, 2013, at <http://sikkimnow.blogspot.in/2014/05/Nathu-La-reopens-for-trade-weather-and.html> (Accessed June 8, 2014), "Indo-China trade through Nathu La ends for the 7th season", *Meghalaya Times*, Gangtok, November 29, 2013, at <http://meghalayatimes.info/index.php/region/17064-indo-china-trade-through-Nathu-La-ends-for-7th-season> (Accessed June 8, 2014), "Down and out in Nathu La, *The Telegraph*, Calcutta, May 29, 2011, at http://www.telegraphindia.com/1110529/jsp/7days/story_14043623.jsp (Accessed June 8, 2014).

⁹¹ Observation made by the author during the field visit to Zokhawthar on March 11, 2014.

potholes and is badly maintained. Likewise, road from Champhai to Zokhawthar is severely affected by landslide and large stretches of the road do not have metalled surfaces.⁹¹ Further, poor condition of the Rih-Tiddim-Falam link road across the border in Myanmar is another impediment to trade in this sector. Access route to Balat border *haat* along India-Bangladesh border is also in poor condition. The road is not only narrow but is poorly maintained. As a result travel time to the *haat* increases manifold.⁹²

Similarly, communication infrastructure in the border regions is extremely poor. A combination of factors such as difficult terrain, low population threshold and security concerns make it difficult to operationalise telecommunication services along the border areas. For instances, in Nathu La despite efforts by the government to provide telephone facility, no mobile towers or telephone exchange have been installed till date.⁹³ Along India-Pakistan and India-Bangladesh borders, communication across the border has been barred because of security reasons. Along the LoC while the Pakistani traders are allowed to contact Indian traders, the Indian traders are not permitted to make any cross-border calls.⁹⁴ Mobile phone services are not available in Balat and Kalaichar.⁹⁵

Absence of infrastructural facilities: Absence of basic facilities in the trading posts is another major hurdle to border trade. Lack of banks in the trading posts prevents traders engaged in border trade to exchange or transfer money. Other facilities such as screening and detection machines, warehouses

⁹² Observation made by the author during the field visit to Balat on March 4, 2014.

⁹³ "No network in Nathu La so jawans borrow phones from Chinese soldiers", *The Indian Express*, New Delhi, May 6, 2012, at <http://archive.indianexpress.com/news/no-network-in—Nathu-La-so-jawans—borrow-phones-from-chinese-soldiers/945976/> (Accessed June 8, 2014).

⁹⁴ "Cross LoC Trade & regional Development: Opportunities and Challenges: An Intra-Kashmir cross LoC Dialogue", *Centre for Dialogue and Reconciliation*, Srinagar, July 10-11, 2012, at <http://www.cdr-india.org/pdf's/jan-2013/Intra-Kashmir%20Cross-LoC%20Trade%20Dialogue%20-%20A%20Report.pdf> (Accessed May 27, 2014).

⁹⁵ Author's observation during the field trip to Balat and Kalaichar on March 4-5, 2014.

and storage, parking, trade dispute redressal mechanism, etc. have all contributed towards stymieing the border trade.

Likewise, absence of food testing and plant and animal quarantine facilities in most of the trading posts has led to either delays as in Moreh and Zokhawthar. Since most of the items traded under border trade are agricultural products, food testing laboratories are deemed essential to screen the items in order to prevent in importation of diseases. Imphal has a food testing laboratory at Lamphelpat, which was established as late as July 2012.⁹⁶ Earlier all consumable items were sent to Guwahati based laboratory which took 40 days of processing time. In Mizoram, as there is no food testing laboratory and items are send to Imphal for testing which takes substantial time to process.⁹⁷ Here, it is important to point that given the understanding that goods that are imported through border trade are meant for consumption within a few km from the international border, testing of plants and animals should not be made mandatory. Such testing should be carried out for products meant to be transported in the interior of the country and not for border areas.

Limited trading basket. The list of commodities which are officially approved for trading has been extremely limited. For instance, only 44 items were allowed to be exchanged along the India-China border, 22 items along India-Myanmar border and 21 items along India-Pakistan border, most of which are primary products. The problem is that most of the commodities in the trading list are easily available across the border. For instance, items such as cigarettes, watches, canned food, blanket, shoes, tea and blankets which are allowed to be exported from India across the India-China border are available in large quantities and at cheaper rates in Tibet. On the other hand, demand for commodities such as plant and

⁹⁶ "Lab boost to border trade", *E-Pao*, Imphal, December 19, 2012, at <http://e-pao.net/GP.asp?src=26..201212.dec12> (Accessed May 22, 2014)

⁹⁷ "Look East Policy and the Northeastern States", *Ministry of Development of North Eastern Region*, Government of India, February 14, 2011, p. 17, at http://mdoner.gov.in/sites/default/files/silo2_content/Look%20East%20Policy/Aspects%20of%20Look%20East%20Policy.pdf (Accessed May 22, 2014).

⁹⁸ Ch. Priyoranjan, no. 39, p. 147.

plant products (timber) from Myanmar and Indian industrial products in Myanmar are quite high, but these items are not allowed to be traded.⁹⁸

Many of the items have also been rendered obsolete by changes in technology, lifestyle and availability of mechanised alternatives. The situation is further aggravated by repeated violation of trade agreement by banning export and import of certain items by the governments. For example, the 21 items that were allowed to be traded across the LoC in 2008 have been reduced to only 14 items⁹⁹ in 2011 and only four in 2014 because a number of items have been banned by both India and Pakistan under some pretext for the other.¹⁰⁰ Similarly, Myanmar had banned the import of garlic, onion, rice and ground nut from India and India had banned the export of wheat flower to Myanmar in the past.¹⁰¹ Import of livestock from Tibet has been banned in Gunji and Shipki La by India as there are no animal quarantine facilities in these LCSs.¹⁰²

Restricted trading season/time. Trading period along the borders gets restricted because of inclement weather, political unrests, strikes, etc. Along the India-China border, trade is confined to the summer months only as severe cold weather conditions freeze the passes. Trading season becomes further restricted when roads get damaged because of heavy rains and landslide, a problem which is common to all the borders. Political unrests both domestic and bilateral also adversely affects cross-border trade. For instance, in 2008, China stopped the border trade because of the large

⁹⁹ "Demand for expansion of LoC Trade list", *The Indian Express*, Srinagar, June 13, 2011, at <http://indianexpress.com/article/india/regional/demand-for-expanding-loc-trade-list/> (Accessed June 8, 2014).

¹⁰⁰ "Traders hope Modi, Nawaz will revitalise LoC Trade", *Rising Kashmir*, Srinagar, May 26, 2014, at <http://www.risingkashmir.com/traders-hope-modi-nawaz-will-revitalize-loc-trade/> (Accessed June 8, 2014). Five items - garlic, lentils, Ajwain, pistachio nuts and coconuts are presently banned and 8 others are restricted.

¹⁰¹ "Indo-Myanmar Border Trade: An Assessment of the Moreh-Tamu Sector", in Gurudas Das and R K Purakayastha (eds.), *Border Trade: Northeast India and Neighbouring Countries*, New Delhi: Akansha Publishing House, 2000, p. 159.

¹⁰² "Cross-border trade through Shipki La touches new records", no. 14.

scale protests in Tibet in the run up to the Olympic Games. The cross-LoC is highly susceptible to the situation along the LoC and international border (IB). Trade gets suspended whenever the security situation at the borders deteriorates as it happened in 2012 and 2013 when the ceasefire agreement was violated and heads of five Indian soldiers were decapitated by Pakistani soldiers.¹⁰³ Disputes between traders and customs officials over abolition of duties on commodities and strikes over demand for expansion of trading list and better facilities have resulted in frequent suspension of cross-LoC trade.¹⁰⁴ Trade along the Indo-Myanmar border is frequently affected in Manipur because of insurgency and the frequent bandhs and blockades imposed by various insurgent groups.¹⁰⁵

Smuggling Opening the routes for trade has also resulted in large scale smuggling of contrabands through the trading posts. For instance, in Zokhawthar LCS, between 2009 and 2013, a total of 106 cases of smuggling amounting to RS. 2.1 crore had been detected.¹⁰⁶ Readymade garments, foreign liquor, foot-wears, electronic items, toys, zarda and khaini are the items which are smuggled the most through Zokhawthar LCS. The enormity of the volume of the smuggled items can be ascertained from the fact that in Aizawl a number of retail shops selling these smuggled

¹⁰³ “Pak ceasefire violation halts cross-LoC trade and bus services”, *The Indian Express*, Jammu, June 19, 2012, at <http://archive.indianexpress.com/news/pak-ceasefire-violation-halts-crossloc-trade-bus-service/963623/> (Accessed June 8, 2014). Also see, “Cross-border travel, trade stop in Jammu”, *The Hindu*, Srinagar, January 12, 2013, at <http://www.thehindu.com/todays-paper/crossloc-travel-trade-stop-in-jammu/article4300445.ece> (Accessed June 8, 2014).

¹⁰⁴ Sayem Ali, “Cross-LoC trade: Successes against all odds”, *Kashmir Institute of Economics*, University of AJ&K, July 2012, at [http://www.ajku.edu.pk/Cross%20LoC%20Trade%20-%20success%20against%20all%20odds%20\(MC\).pdf](http://www.ajku.edu.pk/Cross%20LoC%20Trade%20-%20success%20against%20all%20odds%20(MC).pdf) (accessed June 8, 2014).

¹⁰⁵ J S R Khathing, no. 40.

¹⁰⁶ Data provided by the Zokhawthar LCS to the author on a field trip on March 12, 2014.

¹⁰⁷ Author’s observations during a field visit to Aizwal on March 11, 2014. Also see E. Bijoy Kumar Singh, no. 45, p. 20-22.

items have sprung up and are doing brisk business.¹⁰⁷ Reports of smuggling of commodities are reported at the trading posts along India-China border as well. In 2012 at Namgaya Shipki La, the police had reportedly seized a consignment of high value pashmina wool worth RS. 9 crore. In 2010, police reportedly seized two truckloads of red sanders close to the China border, which were to be smuggled to Tibet.¹⁰⁸ Moreh and Zokhawthar are infamous for being routes for smuggling of narcotics and precursor chemicals from India to Myanmar.¹⁰⁹ More recently, the J & K police seized a truck carrying 114 packets of narcotics worth RS. 100 crore in the international market in January 2014. The truck that was seized at Chakkan da Bagh was carrying the consignment for a Kashmiri trader in Bandipora.¹¹⁰

Conclusion

Even though border trade constitute a miniscule part of India's over all international trade with its neighbours and affects a small population residing in the peripheral areas, it has played a significant role in India's neighbourhood policy. India has successfully employed the instrument of border trade to constructively engage with its neighbours and bring a semblance of normalcy to its disputed borders. Resumption of border trade with China gave recognition to the LoAC in the middle sector as well as elicited an acknowledgement from China that Sikkim is part of India. Cross-LoC trade has facilitated increased socio-cultural and economic interactions between the divided families of Kashmir and acted as a major CBM between India and Pakistan. Border trade with Myanmar has not only been the first stepping stone towards deepening India's bilateral relation

¹⁰⁸ "Indo-China trade at Shipki La post touches Rs. 1.4 cr", *Hill Post*, Shimla, n.d., at <http://hillpost.in/2012/12/indo-china-trade-at-shipki-la-post-touches-rs-1-4-cr/56336/> (Accessed June 9, 2014)

¹⁰⁹ Pushpita Das, "Drug Trafficking in India: a Case for Border Security", *IDSIA Occasional Paper No.24*, May 2012, p. 84, at http://idsa.in/system/files/OP_DrugTraffickinginIndia.pdf (Accessed June 9, 2014).

¹¹⁰ "LoC Trade suspended after drug haul", *Greater Kashmir*, Srinagar, January 18, 2014 at <http://www.greaterkashmir.com/news/2014/Jan/19/loc-trade-suspended-after-drug-haul-5.asp> (Accessed June 9, 2014).

but also an instrument to better manage their mutual borders by legalising the informal trade. Border trade has also been an instrument for bringing economic prosperity to the underdeveloped border regions. It has generated employment opportunities, provided alternate routes as well as markets for the local products, revived local industries and has had an overall positive impact on the local economy as well as on the psychology of the border people.

Border trade, however, has not achieved its full potential since its growth is marred by various structural and institutional inadequacies. Given that border trade has been beneficial both at the bilateral and local levels, the government should endeavour to strengthen and expand border trade by addressing the inadequacies. Some of the steps that could be taken in this direction are:

- Establish additional border *haats* along the borders, especially along India-Myanmar and India-Bangladesh borders.
- Improve domestic connectivity in the border region first by building roads and setting up communication networks.
- Develop industries in the border regions and establish forward and backward linkages between the border trade and the domestic industrial base.
- Bring a balance between security concerns and economic necessities while deliberating on border trade.
- Consult trade bodies periodically before finalising the trading list.

Appendix I

List of tradable commodities along India-China border

Items of Import

1. Wool
2. Goat Cashmere (Pasham)
3. Goat Skins
4. Sheep Skin
5. Yak Tails
6. Goats
7. Sheep
8. Yak Hair
9. Horses
10. Salt
11. Borax
12. Szaibelyite
13. China Clay
14. Butter
15. Silk
16. Readymade Garments
17. Shoes
18. Quilt/Blankets
19. Carpets

20. Local Herbal Medicine

Items of Export

1. Agricultural implements
2. Blankets
3. Copper products
4. Clothes
5. Textiles
6. Cycles
7. Coffee
8. Tea
9. Barley
10. Rice
11. Flour
12. Dry Fruit
13. Dry and fresh vegetables
14. Vegetable Oil
15. Gur and Misri
16. Tobacco
17. Snuff
18. Cigarette
19. Canned food
20. Agro-chemical
21. Local herbs

22. Dyes
23. Spices
24. Watches
25. Shoes
26. Kerosene Oil
27. Stationery
28. Utensils
29. Wheat (Ua& Buck)
30. Processed Food Items
31. Flowers
32. Fruits and Spices
33. Religious Products such as beads, prayer wheels,
incense sticks and butter oil lamps
34. Readymade Garments
35. Handicraft and Handloom Products
36. Local Herbal Medicine

Source: Directorate of Foreign Trade, Government of India

Appendix II

List of Tradable commodities along India-Myanmar Border

1. Mustard/rape seeds
2. Pulses and beans
3. Fresh vegetables
4. Fruits
5. Garlic
6. Onion
7. Chillies
8. Spices (excluding nut-meg, mace, cloves and cassia)
9. Bamboo
10. Minor forest produce (excluding teak)
11. Betel nuts and leaves
12. Food items for local consumption
13. Tobacco
14. Tomato
15. Reed broom
16. Sesame
17. Resin
18. Coriander seeds
19. Soya bean
20. Roasted sunflower seeds
21. Katha
22. Ginger

23. Bicycle's spare parts
24. Lifesaving drugs
25. Fertilizers
26. Insecticides
27. Cotton fabrics
28. Stainless steel utensils
29. Menthol
30. Agarbatti
31. Spices
32. Cosmetics
33. Leather footwear
34. Paints and varnishes
35. Sugar and salt
36. Mosquito Coils
37. Bulbs
38. Blades
39. X-ray paper and Photo paper
40. Imitation jewellery
41. Agricultural machinery/equipments/tools
42. Bicycle
43. Bleaching powder
44. Coal
45. Edible Oil
46. Electrical and Electric Appliances
47. Fabricated steel products
48. Garments/ readymade garments/ cloths
49. Handlooms and handicrafts items

50. Hardware/ minor construction materials and electrical fittings
51. Lime
52. Medicines
53. Milk powder, tea, edible oil, beverages
54. Motor cycles & Motor Cycle Spare Parts
55. Other items such as electronic/musical instruments, stationary item, torch light
56. Plastic items: water tank, buckets, chairs, plastic pipes and briefcase
57. Rice, Wheat, Maize, Millets & Oats
58. Scented tobacco
59. Semi-precious stone
60. Sewing machines
61. Textile fabrics
62. Three wheelers/cars below 100

Source: Ministry of Development of North Eastern Region & Directorate of Foreign Trade, Government of India

Appendix III

List of Tradable Commodities along the LoC

Sl. no	Items for Export from India	Items for import from Pakistan
1.	Carpets	Rice
2.	Rugs	Jahanamaz and Tusbies
3.	Wall hangings	Precious stones
4.	Shawls and stoles	Gabbas
5.	Namdas	Namdas
6.	Gabbas	Peshawarichappals
7.	Embroidered items including crewel	Medicinal herbs
8.	Furniture including walnut furniture	Maize and maize products
9.	Wooden handicrafts	Fresh fruits and vegetables
10.	Fresh fruits and vegetables	Dry fruits including walnuts
11.	Dry fruits including walnuts	Honey
12.	Saffron	Moongi
13.	Aromatic plants	Black Mushroom
14.	Fruit bearing plants	Imli
15.	Dhania, Moong, Imli and black Mushroom	Furniture including walnut furniture
16.	Kashmiri spices	Wooden handicrafts
17.	Rajmah	Carpets and rugs

- | | |
|--|---------------------------------------|
| 18. Honey | Wall hangings |
| 19. Paper mache products | Embroiderd items |
| 20. Spring rubberised Coir foam
Mattress/Cushions/Pillows
& Quilts | Foam mattress, cushion
and pillows |
| 21. Medicinal herbs | Shawls and stoles |

Source Ministry of Commerce, Government of India

Border trade is trade in local products of limited value by the people residing within a few kilometres on either side of the international border. Although the contribution of border trade in India's economy is negligible, it has substantial impact on its relations with its neighbours as well as on the people living on the border. At the bilateral level, it is a major confidence building measure as it reduces trust deficits, encourages constructive engagements, stabilises the borders by reducing friction and gives a legal basis to the disputed international borders. At the local level, border trade brings economic prosperity to the people residing in the far-flung border areas and has a positive impact on their emotional well-being. It also aids in better border management as attention gets focussed on better regulation of the traffic of goods and people across the international border. For the border trade to flourish, the government has opened more areas for border trade, improved transportation and communication links and developed industries in the border regions. At the same time, it is also important that the Indian government strikes a balance between security concerns and economic requirements of the local people.



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