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Cross-Border Trade Between India and Bangladesh

Sudhakar K. Chaudhari



**National Council of Applied Economic Research
Parisila Bhawan, 11-Indraprastha Estate
New Delhi-110002 (India)**

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Fax : (91-11) 3327164

Tel : (91-11) 3317860-68

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Preface

Foreign trade plays an important role in the economic development of all nations. While considering foreign trade between closed economies, we often are faced with the phenomenon of illegal international trade. While much effort has been made by economists to track foreign trade related illegal transactions through legal channels via under and over as well as false invoicing, unofficial trade outside official channels has received little attention so far. This study makes an attempt in this direction.

This study looks at the illegal trade flows along the Indo-Bangladesh land border at two levels :

- (i) Cross-border trade outside official channels, and
- (ii) Illegal trade through official channels via false invoicing.

While using the technique of "Partner Country Data Comparisons" for detecting the extent of false invoicing, the study makes a significant contribution in terms of evolving a modified form of the "Delphi" technique for generating primary data through field surveys for assessing the nature and extent of smuggling across the Indo-Bangladesh land border. I am sure that others making a similar effort would benefit from the methodology developed here. "Delphi" is a technique commonly used in corporate research and I believe that this is the first time it is used to develop trade estimates.

The field survey showed some unexpected results. The composition of smuggled goods is dominated by essential commodities and goods of mass consumption. The flow is more or less unidirectional, i.e., from India to Bangladesh. The overall volume as well as the direction of the cross-border trade closely follows the pattern of India's bilateral trade with Bangladesh, except for the variation in its composition. The survey gives an overall estimate of Rupees 1,165 crores of unofficial exports as against the provisional estimate of Rupees 1,350 crores of official exports during 1993-94. The prices of smuggled goods are generally high across the Bangladesh border, yielding price differentials ranging from 16% to 225% for different commodities.

The study was planned by me and executed under my overall direction by Mr. S.K. Chaudhari, Senior Economist in the Council. Mr. Chaudhari devised a semistructured format for data collection and organised the field work. The data was analysed and the report

was prepared by Mr. Chaudhari under my close supervision. Dr. A.K. Roy and his senior associates in "Economic Information Technology", Calcutta, did the field work.

I would like to place on record an appreciation of the response and cooperation extended by the Central and State Government officials, respondents from the law enforcement agencies, trader and carrier groups, and others. Without this cooperation the study would not have been possible.

New Delhi
November, 1995

S.L. Rao
Director-General

Study Team

Project Director

S.L. Rao

Project Leader

Sudhakar K. Chaudhari

Research Team

S.D. Brahmanekar

K.K. Sharma

J.P. Gautam

G.K. Sinha

Field Survey*

Dr. A.K. Roy

Cartographic Support

R.D. Gupta

Secretarial Assistance

Dharam Pal

R.N. Verma

* Dr. J.P. Chattopadhyay, M/s. T.K. Ghosh, B. Majumdar, D.K. Moitra, R.P. Roy Choudhury, S. Banerjee and R. Deb Roy senior members of Economic Information Technology did field work under the leadership of Dr. A.K. Roy. Mr. Bastoo Ram, Field Officer in NCAER, was also associated with the study for a shortwhile.

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Abbreviations

ADM	:	Additional District Magistrate
ASEAN	:	Association of South-East Asian Nations
BIDS	:	Bangladesh Institute of Development Studies
BOP	:	Balance of Payments
BSF	:	Border Security Force
CCI	:	Chamber of Commerce and Industry
c.i.f.	:	Cost, Insurance and Freight
DIG	:	Deputy Inspector - General
Distt.	:	District
Div. Com.	:	Divisional Commissioner
DM	:	District Magistrate
Dy. SP	:	Deputy Superintendent of Police
EC	:	European Community
EEC	:	European Economic Community
EU	:	European Union
FIR	:	First Information Report
f.o.b.	:	Free On Board
GATT	:	General Agreement on Tariffs and Trade
Govt.	:	Government
IG	:	Inspector - General
LCD	:	Liquid Crystal Display
NAFTA	:	North American Free Trade Association
NCAER	:	National Council of Applied Economic Research
PDS	:	Public Distribution System
PTA	:	Preferential Trading Agreements
SAARC	:	South Asian Association for Regional Cooperation
SAFTA	:	South Asian Free Trade Area
SAPTA	:	South Asian Preferential Trading Arrangement
Sec.	:	Section
SDO	:	Sub Divisional Officer
SITC	:	Standard International Trade Classification
Supdt.	:	Superintendent
UK	:	United Kingdom
UN	:	United Nations
VAT	:	Value Added Tax
VCP/VCR	:	Video Cassette Player/Video Cassette Recorder

Executive Summary

1. Official (legal) and unofficial (illegal) trade are the two components of international (bilateral) trade. Depending on the nature and extent, both have a role to play in fostering/hindering economic wellbeing of trading partners (1.1.).
2. Trade is governed by demand, supply and price differentials of traded goods. Whenever, economic or non-economic considerations obstruct legal trade, cross-border trade takes over, particularly between neighbouring countries (1.2).
3. Data sources required for evaluation and analysis of the official and unofficial trade between India and Bangladesh were different. While one needed generation of primary data through field survey, the other had to fall back on secondary sources comprising foreign trade statistics of the trading partners (2.2).
4. Distinctive features of the field survey include, adoption of the modified form of the 'Delphi' method for eliciting primary data/information, identification and selection of knowledgeable respondents from ten different categories and use of a semi-structured non-questionnaire format for informal interviews by senior field officers (2.3 to 2.6).
5. Field survey was organised in 15 districts that have a long land border with Bangladesh spread across the Indian states of West Bengal, Assam and Tripura. Eighteen major smuggling centres from the fifteen districts were selected for the field survey (2.7 & 2.8).
6. For detecting smuggling through legal channels via faking of invoices, 'Partner Country Data Comparison' technique was adopted. Before undertaking comparisons, the two data sets of the trading partners were suitably modified with necessary adjustments to generate a comparable data base (2.9 & 2.10).
7. Smuggling across the Indo-Bangladesh land border is sustained by differences in the levels of development between India and Bangladesh. Its flourishing nature flows from the socio-economic and historical/cultural factors on the one hand and the lax law enforcement on the other. Large scale smuggling of essential commodities by men, women and

- children also helps in abetting the smuggling activity (3.1 & 3.5).
8. The volume of unofficial exports to Bangladesh is estimated to be Rs.1,165 crores or 0.368 billion US \$ at the rupee to US \$ exchange rate that prevailed at the time of the field survey (Table 3.4).
 9. The volume of unofficial exports is estimated to be comparable to that of official exports to Bangladesh, though the composition and relative shares of the exported commodities vary considerably (3.13).
 10. More than one half of the unofficial exports appear to be of food items and live animals (mainly cattle which comprise cows, buffaloes and bullocks). The next highest share of unofficial exports contributed by other consumer goods, is estimated at over 15% (Table 3.4).
 11. Unofficial exports seem to be non-competitive with official exports to Bangladesh. This is evident from the commodity concentration ratios of the two types of exports (3.7.2).
 12. Among smuggling prone areas on the Indo-Bangladesh border, 5 districts of West Bengal account for as much as 83% of the smuggled-out volume. This has implications in the context of stepping up preventive measures or promotion of free trade along this border (3.7.5 & 3.7.8.).
 13. Unofficial imports from Bangladesh into India are confined to a small band of commodities, particularly, synthetic fabrics and spices. The proportion of gold/Bangladeshi Taka smuggled-in (for payments towards smuggled-out goods) is as much as 44% of the volume of unofficial imports from Bangladesh (Table 3.5).
 14. Most of the smuggled-in Taka is channelled back for payments towards unofficial imports. A part of it becomes available to Bangladeshi immigrants and tourists. Some get repatriated to Bangladesh through Hawala deals (3.8).
 15. Price differentials on Indo-Bangladesh border range from 16% at the minimum and 225% at the maximum. Prices are generally higher in the Bangladesh areas (Tables 3.7A to 3.7C).
 16. Inflow of electronic goods has declined sharply after 1990 following the liberalisation of trade policies and lowering of import tariffs in India (3.12).

Chapter 1

Introduction

1.1 Nature of International Trade

International trade (bilateral or multilateral) plays an important role in the economic growth/development of all nations, the world over. This is demonstrated over the years by the economic groupings among the industrialised countries of the West and of the South East Asian region, viz., EU (formerly EC & EEC), NAFTA, ASEAN; etc. While considering similar prescriptions for other developing economies, international trade analysts run into the phenomenon of 'smuggling' which uses illegal channels of importation/exportation and faked invoicing which implies the use of legal channels of trade to evade duties (Bhagwati, 1974). Thus, there are two components of international trade, namely, the official or legal trade and the unofficial or illegal trade. While legally conducted multilateral or bilateral trade is synonymous with international trade, the illegal or unofficial trade is popularly referred to as 'smuggling'. Foreign trade of both the varieties plays a role in fostering or hindering the economic growth of the trading partners depending upon the relative strengths of the two. Apart from this, these illicit phenomena have great scope in the less developed countries where the methods of enforcement are lax, the frontiers large (long) and the rewards from illegal activity high, relative to the returns from legal activity (Bhagwati, *op cit*).

1.2 Study Background

Normally foreign trade occurs and prospers between neighbouring (even distant) countries depending upon the demand, supply and price factors of the traded commodities/goods. Whenever normal official trade gets obstructed on economic or non-economic considerations, specially between the neighbouring countries with long borders, unofficial trade takes over. Unofficial trade or smuggling constitutes an illegal activity undertaken clandestinely to import/export dutiable goods without paying the customs. Smuggling is widely perceived as rampant on both sides of the India-Bangladesh border. Such perceptions are further strengthened by a recent study which concedes that smuggling

forms a major component of the Bangladesh economy (Bakht, 1994). While the volume of illegally traded goods between the two neighbours is anybody's guess, its rampant and flourishing nature is a cause for concern. It can be argued (hypothesized) that unofficial trade flows (cross-border trade) adversely affect the economy of the two countries—willy nilly—embroiled in the smuggling of goods. Therefore, it will be useful (perhaps vital) to get as comprehensive a picture as possible, of the composition, direction and volume of the unofficial trade flows across the international border of the two neighbours.

1.3 Issues to Explore

Regional economic cooperation among the seven countries of the South Asian Region has been accepted as of vital importance in view of the emergence of economic groupings in other parts of the globe. It is widely recognised that the SAARC countries can strengthen their economies and improve their growth prospects by mutual cooperation and economic integration through SAPTA. This is essential in the context of the protectionist trading practices adopted by the Western industrialised economies. However, the SAARC countries have failed to make headway so far and the prospects for the Preferential Trading Arrangements (PTA) appear rather dim.¹ This is so due to bilateral trade flows of the countries in this region being low apart from being competitive, rather than complementary from the point of view of international trade. This discourages inter-regional trade flows. Additionally, the political perspectives and conflicts between neighbours contribute equally towards making the promotion of trade integration among the neighbours doubly difficult.

In view of the considerations spelt out in Sections 1.2 and 1.3 above the NCAER undertook this study to investigate the nature of smuggling on both sides of the border.

1.4 Objectives

The objectives of the study are two fold:

- (i) To provide a comprehensive description of the direction, composition and volume of illegal trade flows across

¹ Since finalisation of this paper the SAARC countries have resolved to adopt SAPTA and create SAFTA by the end of 1995 (Delhi Declaration, May 1995).

Assam, Tripura, West Bengal (India) and Bangladesh border by major commodity groups.

- (ii) To examine the changes in volumes and composition of illegal trade flows along India-Bangladesh border presently as compared to 1990-91.

The scope of this study is limited to identification of the direction, composition and volume of illegal trade by major commodity groups vis-a-vis legal trade flows of such commodities.

1.5 The Plan of the Report

The presentation largely follows the NCAER's style of reporting findings. The report has six chapters. Chapter 2 discusses the approach, methodology adopted for field work and handling of the official foreign trade statistics, etc. The main findings emerging from the information base generated by the field survey are presented in Chapter 3. An attempt is made in Chapter 4 to present the socio-economic/geographical conditions along the Indo-Bangladesh border. Analysis of the official bilateral trade statistics was done with a view to detect illegal trade through legal channels via faked invoicing if any and present the nature of official trade flows, trends/changes and the resulting bilateral trade since India embarked upon liberalisation of the economy, which is discussed in Chapter 5. In Chapter 6, the main conclusions emerging from the study are presented and some of the implications of moving towards a free trade zone are examined.

Chapter 2

The Approach and Methodology for Detecting Illegal Trade

2.1 Introduction

2.1.1 Economists have made invaluable contributions by integrating the analysis of the phenomenon of illegal trade into the pure theory of international trade. Their attention to this field gathered momentum in the mid-nineteen sixties and seventies with the growing importance of international trade in economic development which brought policy advisers face to face with the phenomenon of illegal trade. However, most of the research embracing empirical work in this field, largely relies on the official foreign trade statistics as could be seen from the articles included in the volume on 'Studies in International Economics' exclusively devoted to illegal transactions in international trade (Bhagwati, 1974). These studies were path breaking and valuable, but being based only on secondary data sources, illegal trade outside the legal channels of importation/exportation did not find a place in the analysis. Perhaps non-availability of the data base, coupled with difficulties and risks involved in the generation of such data sets, contributed to its remaining outside the ambit of empirical work in international trade related studies.

2.2 The Approach

2.2.1 The approach in this study, in view of the considerations recounted above, was dictated by the requirements of data on the two components of illegal trade flows indicated in Chapter 1. Since independent and fundamentally different types of data from the primary and secondary sources were required for estimation purposes, the approach in each case had to be different. Therefore work for both the components was planned and undertaken independent of each other. In one case the partner country's data comparisons and methods of detecting smuggling using official foreign trade statistics were used. This called for collection of the official bilateral trade statistics of India and Bangladesh for comparison of import/export trade levels for major commodity

groups in the recent past to detect illegal trade (if any) via faked invoicing and carried out through the legal channels. As regards illegal trade outside the official/legal trade channels, there was a need to generate primary data/information through a field survey

2.3 Methodological Considerations for Primary Data Collection

2.3.1 For generating meaningful broad estimates of illegal trade flows outside the official channels the primary data had to be collected on the basis of a field survey. Since no hard data (information) are available on the nature and extent of smuggling in the study area, it was not relevant to think in terms of a regular sampling theory based field survey. Apart from the absence of the sampling frame, the secretive nature of the smuggling activity and inherent risks involved in the process of eliciting such information from those who can provide it also called for adoption of a different method of data collection. To minimise the risks for the investigators as well as respondents, it was decided that the operations connected with smuggling of high value and banned contraband goods like gold, silver, diamonds, drugs/narcotics, arms/ammunition, etc., would be kept outside the purview of this study. Apart from this, for building up a rapport and gaining the confidence of the respondents for encouraging free flow of information and to raise its reliability level, the following two-fold innovations (modifications) in the data collection process were considered desirable:

- (i) Substitution of the structured questionnaire approach with a semi-structured format framework for informal discussions with the respondents.
- (ii) Taking recourse to the DELPHI technique often used by the management executives in the corporate sector.

2.4 The Delphi Method¹

2.4.1 The Delphi method was developed at the Rand Corporation by *Olaf Helmer* and *Norman Dalkey* in the late 1950s. Initially its use was confined to scientific and technological forecasting. Presently its use is widespread, which includes its

¹ This section heavily draws from a study on *Top Managerial Effectiveness*, (1983) of the Madras Management Association (pp.61-66) and from *Strategic Management, Text and Cases* by Wright, Pringle and Kroll (1992).

applications to probe diverse issues such as economic trends, societal change, employee benefits, educational/medical developments, general corporate diversification/environmental issues, etc. The method is extensively used in the U.K., Japan and Russia. In India its application is gradually gaining ground.

2.4.2 Delphi is basically a technique for gathering and processing the judgements/informed opinions of a group of individuals that are well informed (knowledgeable people) and question them on the issues/trends occurring in the area/field on the basis of their informed judgements. Basic characteristics of this technique are as follows:

- (i) Structured questionnaire based interrogation of experts (knowledgeable people) on the issue(s) being probed.
- (ii) Controlled feedback of summarised responses to the respondents of the first round, so as to enable review of his/her earlier response to every respondent of the previous round.
- (iii) Anonymity of responses.
- (iv) Repeat iterations till broadly converging responses are received or reasons for unlikely convergence are documented.

2.4.3 Since the technique is usually applied to a group of experts (knowledgeable persons) individually, structured questionnaires are generally mailed. The process of receiving response, mailing back modified questionnaires with summarised feedback and receiving response again continues till convergence in expert opinion (forecast) is reached. Normally after a few rounds a consensus emerges. This method enables obtaining collective judgement of the expert group without a direct group interaction that may limit the quality of information. The technique also allows a simple and direct control of the investigation process as well as its scope.

2.5 Delphi Modifications

2.5.1 For the purposes of this study, keeping in view the required methodological innovations spelt out in Section 2.3, the Delphi technique with the following modifications was adopted for the conduct of the field survey:

- (i) Structured questionnaire approach was dropped in favour of semi-structured format framework for informal discussions.

- (ii) Knowledgeable persons (experts) were identified in terms of acquired knowledge/understanding due to official or non-official (voluntary) involvement in preventing or abetting smuggling activity on the Indo-Bangladesh border.
- (iii) Personal contacts (interviews) were preferred to the mailed questionnaire approach to obtain information through semi-structured format based informal discussions. Given the nature of investigation and the need for an indepth discussion as well as the lack of apriori information with regard to identification of knowledgeable respondents necessitated the adoption of this approach.
- (iv) The number of iterations were limited to two in the case of respondents confined to centre specific duty/activity. Possible connivance of traders/goods carriers with anti-smuggling officials and likely narrow information base of such respondents prompted limiting the number of discussions with such people to two rounds, i.e., first one to be repeated once more. Our experience later during the field visits justified this approach as very little divergence could be noticed between the first and second rounds of such discussions. In some cases, irritation was writ large on the face of those contacted again which was also reflected in their terse response of 'I already told you what I know'.
- (v) The third and final round of discussion (iteration) was conducted by the principal researcher and the core members of the investigating team. The third iteration was confined to discussions with high level officials in the border districts and at Calcutta. The BSF/Customs high ups, economic analysts, trader association executives and Divisional Commissioners/District Magistrates formed part of the third and final round of discussions/interviews.

2.6 Some Special Features of the Field Work

2.6.1 Adoption of this approach called for identifying knowledgeable persons from pro and anti-smuggling categories as well as from among those who take a dispassionate/neutral view of such activities, i.e., economic analysts, teachers, villagers not involved in smuggling. It was also considered desirable to assure the respondents of strict confidentiality of their identity and use of information only for research purposes. Recording of the names and

addresses of the respondents was avoided to reassure them of anonymity which encouraged free flow of information and uninhibited informal talk, particularly in border villages/smuggling centres. Investigating teams were advised to conduct informal interviews in border villages and/or smuggling centres and desist from taking notes during discussions except for noting important figures (numbers) or commodity details. On conclusion of every informal interview investigating teams usually retired to a quiet place for recording the contents of the discussion/conversation. This procedure turned out to be conducive to free flow of information. However, in the case of discussions with officials at higher levels, making notes during the course of discussion was a usual feature since the discussion in such cases centred around smuggling across many centres as well as centre specific characteristics, if any.

2.6.2 Other important features of the field work include involvement of experienced (senior level) persons with ability to comprehend, recall and collate information emerging from informal discussions/interviews. Two persons formed an investigating team with assigned roles of one guiding the conversation and the other recording important numbers and commodity details. Both members of investigating teams were proficient in English, Hindi and Bengali/Assamia languages. The categories of knowledgeable respondents identified for the purposes of this study were as given below:

- (i) Customs officials based at Calcutta and other important legal entry/exit points along the border.
- (ii) BSF personnel at zonal, command and entry/exit points.
- (iii) Border Police Force Officers of state governments.
- (iv) Divisional Commissioners/District Magistrates of border districts.
- (v) Professors/lecturers teaching/researching Indo-Bangladesh bilateral trade.
- (vi) Executives of trader associations at major markets.
- (vii) Wholesalers/traders of smuggled goods.
- (viii) Persons interested in Indo-Bangladesh bilateral trade and/or having information about unofficial trade.
- (ix) Traders/carriers of smuggled goods in border areas/villages.
- (x) Teachers/uninvolved villagers residing in border villages.

2.6.3 Discussions with economic journalists was initially considered useful. However, perusal of reports in national and regional newspapers on smuggling showed that such reports were largely based on customs/BSF seizers related hand outs and mostly related to high value or banned contraband goods which were outside the purview of the present study. In some cases the reports were non-official information based dealing with smuggling of consumer goods. Journalists were not included in the group of knowledgeable people for discussions though useful published news reports were used for checking out information at the time of summarising data after every round. Keeping journalists out was necessary to ensure avoidable publicity leading to alerting respondents and possible refusals to respond.

2.7 Study Area for Field Survey

2.7.1 Following discussions with EIT at Calcutta prior to commencement of the field survey, 9 West Bengal districts and 3 districts each in Assam and Tripura on the Indian side having a long border with the corresponding districts in Bangladesh were identified as the study area for the field survey (Map 1). The earlier 1988-91 BIDS study on illegal trade across the Indo-Bangladesh border had identified these districts as smuggling prone areas. From among the smuggling centres dotting the border in 15 identified border districts, 18 important smuggling centres were covered for field work. Requisite number of traders/goods carriers involved in unofficial cross-border trade and BSF/Customs and other officials posted in and around these centres were identified for interviewing. Apart from these categories of persons, local school teachers, village local body heads, i.e., Gram Panchayat Sarpanch or Panchayat members, other residents of border villages/centres not involved in smuggling but having a fair idea of the goings on were also identified for interviewing purposes. Available respondents from among the categories indicated in Section 2.6 were approached for informal discussion sessions.

2.8 Selection of Smuggling Centres

2.8.1 A team of two experienced persons, as indicated in Section 2.6 earlier went to the allocated districts and discussed the main features and dimensions of unofficial cross-border trade across each district with a number of knowledgeable official and non-official people, viz., Assistant Collectors/Superintendents of Customs



Table 2.1: List of Selected Smuggling Centres/Districts Across India-Bangladesh Border

State	India		Bangladesh	
	Selected		Corresponding	
	District	Centre	Centre	District
West Bengal	24-Parganas	Petrapole	Sarsa	Jessore
		Bagdaha	Chowgachia	Jessore
	Nadia	Majdia	Jiban Nagar	Chua Danga
	Murshidabad	Lalgola	Bagha	Rajshahi
	Malda	Mohdipur	Shib Ganj	Nowab Ganj
	North Dinajpur	Radhikapur	Birol	Dinajpur
	South Dinajpur	Kaliaganj	Parbati Pur	Dinajpur
		Hilli	Hilli	Bagura and Dinajpur
	Darjeeling	Fulbari	Tetulia	Pachagar
	Jalpaiguri	Chaulhati	Pachagar	Pachagar
	Cooch Behar	Changrabandha	Bhuragram	Kurigram
	Karimganj	Sutarkandi	Sutarkandi	Sylhet
Assam		Steamerghat	Latu	Sylhet
	Silchar	Katighora	Jakiganj	Sylhet
	Dhubri	Golakganj	Bhurungahari	Rangpur
Tripura	South Tripura	Bilonia	Sabram	Nowakhali
	West Tripura	Agartala	Akhaura	Brahmanberia
	North Tripura	Kailash Sahar	Hicklia	Mulabi Bazar

(Prevention), BSF IGs/Commandants, Divisional Commissioners/District Magistrates, state border police chiefs, etc., at zonal/district levels and other non-governmental persons such as trader association executives, trade related economic analysts, etc. These initial discussions helped in the identification of major smuggling centres in each district and led to the assessment of the relative shares of these centres in the perceived overall volume of illegal cross-border trade in the district. The 'modal' values of relative shares of different smuggling centres in the total district level volume of illegal trade emerged from cross sectional data (information) elicited during discussions with various categories of people indicated above. Such modal values provided the basis for deciding the final relative shares of smuggling centres in each district independently. While arriving at final relative shares of different centres, due consideration was accorded to the status/position of the person receiving (and processing) reports in this regard from different centres/sectors and may have been in a position to have a better overall perception of relative shares of centres than the others. These discussions were very useful and provided a broad but meaningful picture with regard to the composition, direction and expected trends in volume

of smuggling in each district in recent years. Table 2.1 presents the list of selected smuggling centres/districts along Indo-Bangladesh border.

2.8.2 For a detailed probe in border villages of each district, the centre(s) accounting for a major share was selected. During field visits traders/carriers of smuggled goods, BSF/customs personnel as well as other categories of persons residing in border villages/ areas of the centre were contacted for informal interviews. The field survey was carried out during July-August 1994. The approach, time and duration of survey, centres to be covered, commodities to be focussed and the contents of the semi-structured formats were discussed prior to the commencement of the survey by the NCAER study team and thereafter finalised.

2.9 Nature of Illegal Trade Via Legal Channels

2.9.1 It was indicated in Section 2.2 that this component of the illegal trade flows require official bilateral trade statistics for detection and assessment of this type of illegal trade. Perusal of literature on this form of international trade reveals that such trade flows usually take any of the following forms or combinations thereof:

- (i) Faked (under/over) invoicing of exports and imports.
- (ii) Misclassification of exports/imports.
- (iii) Misweighing of exports and imports.
- (iv) Under payment (under assessment) or non-payment of customs duties via misdeclaration of goods.

2.9.2 Apart from the above forms of illegal trade flows through customs points, illegal transactions such as capital transfers, transfer pricing by multinationals, over-invoicing of foreign aid financed imports, etc., are other trade related illegal flows which lead to capital flight. These forms and the phenomenon of capital flight is outside the scope of this study, the focus of which is confined to detection and estimation of the level (broadly) of illegal commodity trade flows through legal and illegal entry/exit points on the Indo-Bangladesh border.

2.9.3 As regards the four types of illegal commodity trade flows using legal channels indicated earlier, the method adopted for detection and estimation of faked invoicing is discussed in the sections that follow. The remaining three types of illegal trade flows

are not covered because these forms of illegalities do not get reflected in the foreign trade statistics. For example, misclassification and misweighing of traded goods cannot be identified without direct inspection or physical checks. For detection of under-assessment of legal duty, import statistics needs to be kept at the same basis as tariff schedules which is not the case. Complicity and gullibility of enforcement agencies leads to falsified trade accounts. Subsequent attempts in its detection do not permit tracing such forms of illegal trade flows.

2.10 Detecting Faked Invoicing

2.10.1 To detect illegal trade flows (if any) through legal channels and for assessment of its level via faked (under/over) invoicing, the method of partner-country-data comparison was adopted in accordance with the procedures outlined in the works of Bhagwati (1964), Naya and Morgan (1969), Ritcher (1970) and Cooper (1974). Conceptually, one country's exports should be identical in value and type with the imports of the other receiving country. But in practice there can be differences due to transport and other service charges, time lags, differences and inconsistencies of classification, exchange rates, transit trading, etc.¹ The magnitude of these causes of divergence are rarely measured quantitatively. Rather, differences in two records are usually assumed to be caused by these obvious factors, especially the transport, insurance, freight margins (c.i.f. imports and f.o.b. exports). According to Bhagwati it is extremely difficult to determine if faking of invoicing is actually occurring and it is further impossible to find out how much faking is going on (Bhagwati, 1964). Despite Bhagwati's apprehensions in this regard and of some others' as well, an attempt was made in this study to match the export/import official trade volumes (in value terms) by major commodity groups of India and Bangladesh because this still may perhaps be a better approach than not attempting anything at all. Before proceeding with the comparison of two sets of foreign trade statistics, disparities arising from the following important causes (sources) need to be minimised if not totally removed:

- (i) Differences due to coverage and commodity classifications.
- (ii) Differences due to valuation and exchange conversions.

¹ Allen and Ely (1953) provide detailed appraisal of the nature of international trade statistics and definitions.

- (iii) Differences due to methods of showing origins of imports and destination of exports.
- (iv) Differences due to time lags in shipments and arrivals.
- (v) Differences due to reporting periods (fiscal years) of trade statistics.

2.10.2 With the adoption of the Standard International Trade Classification (SITC) for reporting global international trade statistics, major discrepancies arising due to (i) and (ii) above get minimised in the global 'Commodity Trade Statistics' of the United Nations Statistical Publication. In the context of Indo-Bangladesh bilateral trade (iii) and (iv) above present the least cause for concern because of close proximity of the two nations. It is also unlikely that third country import origins may have been recorded in the context of bilateral trade especially for high quality machinery (capital goods) or consumer goods more so subsequent to economic liberalisation in both the countries. As regards (v) above, India's exports to and imports from Bangladesh were appropriately revised to July-June period so as to match with the Bangladesh trade statistics.¹ In view of these considerations, export-import statistics pertaining to India-Bangladesh bilateral trade from the UN statistical publications on 'Commodity Trade Statistics' with appropriate modifications in India related statistics to July-June period were used for partner-country comparison purposes. It is thus clear that the data used for this purpose are likely to have minimum discrepancies attributable to the aforesaid sources of divergence.

2.10.3 In view of the factors recounted in the preceding paragraphs, it will perhaps be reasonable to assume that import/export statistics of the partner countries used for comparisons in this study were suitably adjusted for purging discrepancies except for c.i.f./f.o.b. value differences. It is known that usually imports with c.i.f. and exports with f.o.b. value are reported. To overcome this kind of divergence in import/export values, a 10% margin is often used to convert import values from c.i.f. to f.o.b. basis. Alternatively 1 : 10 ratio is accepted as a reasonable difference in exports of one country with imports of the receiving partner country

¹ For this purpose exports/imports to and from Bangladesh for April-June quarter in each year from India's *Monthly Foreign Trade Statistics* were collected by first regrouping the commodities according to SITC Rev. 3 classification using SITC Rev. 3, series M., No. 34/Rev. 3, 1986 *UN Statistical Papers*. Thereafter, rupee trade values were converted to US dollars using RBI exchange rates for these three months of each quarter.

(Naya & Morgan, 1969). However, 10% allowance is probably excessive for countries exporting primary products and a good deal of them to adjacent countries. In such cases a 5% adjustment instead of 10% may seem appropriate. This procedure, however, assumes maintenance of fully accurate import records by the partner countries. In the context of Asian countries such an assumption is highly doubtful (Simkin, 1970). Indo-Bangladesh bilateral (official) trade is largely carried through the land border and a part of it is shipped through Calcutta port and other ports on India's east coast. Since both the countries are adjacent to each other with short sea route but a long land border, a margin of 5% seems alright for suitable adjustment of c.i.f. values for different commodity groups shipped from sea ports. After making adjustments of this nature an estimate of unrecorded (illegal) trade through legal channels can be obtained by deducting from India's exports the corresponding imports of Bangladesh for major commodity groups.

2.11 India-Bangladesh Bilateral Trade : Impact of Liberalisation

2.11.1 India embarked on economic reforms by liberalisation of her economy at the beginning of the last decade of the 20th century. Among other things this process brought about a series of trade reforms. Since the reforms are just about three years old and the process still continues, it is perhaps too early to evaluate the impact of liberalised trade policies on the foreign trade of India at bilateral or multilateral levels. However, an attempt on a limited scale was made as part of this study to examine change(s) in the volume and composition of India's bilateral trade with Bangladesh.

2.11.2 The study proposed to examine the foreign trade statistics of India with Bangladesh in the last five years to detect change(s) if any. For this purpose three years' data during the pre and post liberalisation phase were examined to bring out the nature of the imports/exports structure of India's trade with Bangladesh. The commodity concentration pattern in India's imports/exports to Bangladesh immediately before and after liberalisation was also examined. Apart from this, mutuality aspect of trade relationship between the two neighbours was also examined in terms of trade reciprocity index and import/export intensity indices¹.

2.12 Limitations and Concluding Observations

2.12.1 It needs to be underscored here that the focus of this study was illicit phenomena. The very nature of such activities

vitiates the accuracy and use of foreign trade statistics and presents enormous problems while generating primary data (information) on smuggling. The nature of discrepancies inherent in foreign trade statistics of partner countries discussed already show that it is extremely difficult (in Bhagwati's words impossible) to find out how much faking of invoicing goes on. Similarly, given the modus operandi, clandestine nature, the element of immorality, the fear of the law, etc., inherent in the smuggling activity, those involved in it tend to be secretive and evasive. Apart from this the law enforcing personnel become wary of talking about it due to their complicity and lax enforcement. Another major limitation researchers face relates to the absence of recorded data for evaluating quantitative information emerging through informal interviews.

2.12.2 Despite daunting difficulties and limitations imposed by the nature of the investigation, a very serious effort was made in this study to generate primary data on illegal trade flows on the Indo-Bangladesh border outside official channels. As regards official trade statistics, suitable adjustments were made to match partner country trade statistics. The estimates of the two components of illegal trade flows of the two neighbours are perhaps the best first approximations and need to be treated as such.

2.12.3 One of the serious limitations faced by the study team related to lack of preparation time and a shortened time frame for the conduct of the field work. Additional time of a couple of months would have enabled enlarged coverage of smuggling centres as well as an exhaustive probe. The other limitation encountered was with regard to checking out smuggling estimates emerging from the present exercise. Professor Simkin (1970) discusses two methods of establishing likely levels of unrecorded trade. The first one consists of matching partner-country-trade flows after suitable adjustments. This has been followed in this study. The second method calls for equating smuggling roughly with the difference between normal production (of commodities) with domestic consumption plus net recorded exports. Such a method relies on official statistics of production, consumption and exports for a given period. Firstly, several limitations of such data sets with regard to time lag in availability, definitional problems and non-comparability of statistics, etc., present difficulties for adopting this procedure. Secondly, India has long land and sea borders with all the countries of the SAARC region

¹ See Annexure 2.1 for details.

including Bangladesh. Therefore, it is not possible to conceive of a proportion of the surplus (commodity) output that could be apportioned to Indo-Bangladesh border so as to evaluate the estimates of commodities smuggled out to Bangladesh emerging from the field survey. Therefore, no attempt was made in this direction.

2.12.4 In view of the factors recounted above, the volume of illegal commodity trade flows using unofficial channels as well as legal entry/exit points presented in the following chapter may be viewed with caution.

Chapter 3

Nature and Extent of Illegal Trade Flows Across India-Bangladesh Border

(Results Emerging from Field Survey)

3.1 Historical Perspective

3.1.1 The economic rationale for illegal transactions in international trade has been well documented and needs no repetition. In a nutshell the rationale for illegal trade is similar to what applies for legal trade, i.e., profit maximisation behaviour of individuals. Apart from economic factors some of the non-economic historical factors also have a significant bearing on the nature of cross-border (illegal) trade flows along the India-Bangladesh border which needs to be borne in mind.

3.1.2 The partition of British India resulted in Muslim dominated eastern parts of the erstwhile Bengal province becoming part of *Pakistan* which came to be known as East Pakistan. Historically, this wing of Pakistan had been culturally and economically integrated with Hindu dominated other parts of the then Bengal province (present day West Bengal of the Indian Union) except for the religious distinctions. Partition created an artificial divide among the people of both regions but also left strong relationships and friendly bonds on both sides of the frontier. Secondly, over a period of time political and economic dominance of West Pakistan coupled with virtual neglect of the socio-economic needs of the people of East Pakistan and the socio-cultural differences between the two wings culminated in the emergence of *Bangladesh* as a sovereign nation in the early 1970s. Despite hostility gaining ground with rising socio-political compulsions emotional links among people of the border areas continue at non-official levels. These cultural and socio-economic ties on both sides of the border play a significant role in aiding/abetting illegal trade flows (smuggling) along the frontier of the two neighbours.

3.1.3 The flourishing nature of smuggling in this part of the subcontinent flows from differences in development between India

and Bangladesh. Near total absence of industrial infrastructure in general and that of consumer goods in particular, upto early 1970s left Bangladesh's economy underdeveloped. Prior to the 1970s, vigil on the Indo-East Pakistan border was strict and smuggling was at a low ebb. The interests of West Pakistan were well protected via aforesaid two pronged strategy. After the 1970s the situation changed in favour of smuggling. Consequently Bangladesh economy was saddled with growing demand for consumer goods which had to be met through imports. While suffering from rising BOP deficit on the current account, Bangladesh could hardly meet this demand wholly through legal imports. According to a recent study until recently, "import trade in Bangladesh operated under a severely controlled regime in a restrictive environment. A wide range of import control measures in the form of high tariffs, quotas, total or partial ban, licensing, etc., left the market prices of imported goods higher than the true landed value of smuggled goods" (Bakht, 1994). These conditions provide ripe environment for rampant smuggling, more so with regard to consumer goods, from across the borders of the large neighbouring economy.

3.2 Nature of Smuggling

3.2.1 The popular image of smuggling perceived by the common man relates to an illegal as well as immoral act perpetuated by organised underground networks of gangsters. This image also portrays such acts as being performed after nightfall at deserted/dissolute places in total secrecy. While this image of smuggling indicates unlawful, reprehensible acts of trafficking in narcotics, arms, ammunition, etc., there are a number of variants of illegal trade flows depending upon the nature of goods traded and the form of illegality resorted to. This study focuses on illegal trade flows of normally traded commodities. These acts are performed (or encouraged) by the man in the street, i.e., the common man. Apart from this, rising rural/urban unemployment with resulting bleak prospects for stable employment opportunities propel the unemployed to get involved in smuggling operations as petty operators or as hired porters/couriers. Even educated unemployed youth and school dropouts find illegal trade an attractive proposition for the thrill it provides besides bringing in earnings. The main operators finance and operate from a distance through a network of small agents, head loaders (porters), bicycle/motor cycle riding couriers, etc., on the border. The field operators generally operate

in liaison with the anti-smuggling enforcement agencies. Once in a while, either due to a breach of the understanding or to demonstrate efficiency or agility of the law enforcing staff (to meet anti-smuggling targets, if any), some seizures are stage managed and the petty operators bear the consequences. Such risks are compensated by higher than market wage or returns earned by petty operators. On the whole, while this phenomenon lowers the risk for main operators, it facilitates uninterrupted flow of smuggled goods and thereby increases efficiency/cost effectiveness of illegal trade vis-a-vis legal trade.

3.2.2 It is clear from the above discussion that ordinary people from trading/financing circles, law enforcing agencies, educated/uneducated persons, etc., along the border districts of this frontier participate in good numbers in smuggling activity making it flourishing illegal trade. The nature of unofficial trade discussed above is evidently akin to illegal or legal trade and contrasts with smuggling of banned and/or high value contraband goods. Therefore, it was appropriate to turn to those participating in (couriers/carriers, traders, etc.) or preventing smuggling (law enforcing officials) as well as some of the non-participating observers of the phenomenon, i.e., non-participating local residents, teachers/lecturers, etc., from the border districts for eliciting information on illegal trade flows outside the legal channels. The results of the field survey presented in this chapter have emerged from the information/data provided by a cross-section of knowledgeable respondents (Table 3.2) spread over the selected smuggling centres (Table 3.1) presented in the next section.

3.3 Distribution of Smuggling Prone Areas/Centres

3.3.1 It was stated in the preceding chapter (Section 2.8) that the first round of discussions employing 'Delphi' technique with officials at higher levels of hierarchy in states/regions and districts of the study area and principally under the purview of the customs, BSF, State Administration/Border Police of three states on the one hand and at non-official level such as executives of chambers of commerce/trader associations, wholesalers, etc., on the other, led to the identification of major (nearly all) smuggling centres within a district and their relative shares in the perceived total value of smuggling in the respective districts. Table 3.1 presents the distribution of smuggling and trading/marketing (collection/distribution) centres in the study area spread across the Indian states of West Bengal, Assam and Tripura.

Table 3.1: Statewise Distribution of Smuggling and Trading Centres

State	Smuggling Centres				Trading Centres (Major Markets)			
	All		Selected		All		Selected	
	No.	Per Cent	No.	Per Cent	No.	Per Cent	No.	Per Cent
1. West-Bengal	98	86	11	61	19	73	10	62
2. Assam	6	5	3	17	4	15	3	19
3. Tripura	10	9	4	22	3	12	3	19
TOTAL	114	100	18	100	26	100	16	100

Note : Selection of major smuggling centres in each border district from the study area resulted in relative over-representation of Assam and Tripura.

3.3.2 The first round of discussions with the categories of knowledgeable persons (respondents) indicated in the preceding paragraph enabled identification of smuggling centres covering all smuggling prone areas in the border districts (study area). Selection of 18 (about 16%) major smuggling centres for an indepth probe and identification (selection) of centre specific respondents (knowledgeable persons) was commensurate with the available time and cost parameters. It needs to be underscored at this stage that all the selected smuggling centres were earlier identified as major ones either in terms of handling a large proportion of the volume of a variety of smuggled goods or in terms of accounting for a major share of some centre specific goods (items) like live animals, timber, betel leaf and betelnut (arecanut), etc. As far as trading in smuggled goods is concerned nearly all major markets in the two north-eastern states, e.g., Silchar, Karimnagar, Agartala, Battala, Dharmnagar, etc., and the majority in West Bengal notably Calcutta, Siliguri, Krishnanagar, Balurghat & Islampur were covered for picking up wholesalers/traders and chamber of commerce/trader association representatives as respondents. This procedure provided a very useful cross-sectional (broad based) information base which led to the cross checked (filtered) as well as reliable data base.

3.4 Distribution of Selected Knowledgeable Persons (Respondents)

3.4.1 Following preliminary (first) round of discussions with officials and market functionaries (non-officials) indicated in Section 3.3, investigating teams proceeded to selected smuggling and trading centres to select knowledgeable persons/respondents for an indepth centre/market specific probe. The distribution of respondents across the study area is presented in Table 3.2.

Table 3.2 : Statewise Distribution of Respondents

Officials/Non-officials contacted	Number			
	West Bengal	Assam	Tripura	Total
A. Customs Officials	23	15	7	45
1. Collectors/Deputy Collectors	2	2	*	4
2. Assistant Collectors	3	3	2	8
3. Supdts./Inspectors	18	10	5	33
B. BSF Personnel	15	2	4	21
1. IGs/DIGs	4	—	—	4
2. Commandants	11	2	4	17
C. Border Police Force (Civil) (Dy. S. Ps.)	—	—	2	2
D. Civil Officials of Border Areas	13	1	2	16
1. Div. Com./DMs/ADMs	11	1	1	13
2. SDOs	2	—	1	3
E. Professors/Lecturers of Economics	2	2	2	6
F. Executives of Trade Associations (Distt.CCI/Marwari Traders Asso.)	8	—	1	9
G. Wholesalers/Traders (big)	16	4	6	26
H. Political Activists	6	2	—	8
I. Petty Traders/Carriers of Smuggled Goods	14	5	9	28
J. Uninvolved Teachers/Local Residents	10	1	11	22
TOTAL	107	34	42	183

* Customs collectorate for all north-eastern states is in Shillong and common for Assam and Tripura.

Note: Apart from the respondents noted above, Chief Secretaries of three states also were contacted.

3.4.2 The composition of respondents (Table 3.2) reveals more or less a balanced representation accorded to the officials (46%) and non-officials (54%) selected for informal discussion to elicit information on issues included in the semi-structured format. The officials belonging to the customs, BSF and civil administration in the three states having better perception (given their hierarchy/position) about the volume and composition of illegal trade flows from the border areas under their jurisdiction/command and charged with anti-smuggling duties formed the core group of knowledgeable people in the officials category. In the case of 'non-officials' category, wholesalers/big traders and petty (village level) traders/couriers in border districts followed by local residents, teachers and political activists had clearer perception of centre specific volume, composition and direction of smuggled commodities/goods. These two broad groups together provided information enabling its collation to arrive at first approximation

of the volume, composition and direction of smuggled goods at centre and district levels. The respondents in the first group were presented the collated summarised version of earlier discussions for review and critical evaluation of the overall picture emerging at the centre/district level. These two interactions led to a broad consensus on the district level volume, composition and direction of smuggling. The third and final round of discussion was by and large confined to the high ranking officials in the customs, BSF and civil administration at zonal/regional and state levels on the one hand and professors, socio-economic researchers on the other. Results emerging from the broad consensus with respect to total volume, commodity composition and direction of cross-border (unofficial) trade flows are presented in the following sections.

3.5 Composition of Illegal Trade Flows

3.5.1 Information gathered during the field visits from 18 smuggling centres and 16 major markets (collection/distribution centres) in the border districts revealed that a wide range of essential commodities and items of mass consumption/consumer goods were unofficially exported from Indian border districts to Bangladesh. The pattern and composition of smuggled-in goods in contrast to that of smuggled-out ones appears restricted to a few items of consumption/consumer goods, namely, Hilsa fish, palm oil and some electronic goods. Though banned items like narcotics/arms, high value items like gold, silver, diamonds and currencies were outside the purview of this study, cognizance of gold and Bangladeshi Taka as smuggled-in items was taken because both the items are principally used as means of capital transfers towards payments for smuggled-out goods. Therefore, for the purposes of this study gold smuggling is not viewed as part of commodity trade though it may eventually be partly used as a durable commodity by those receiving payments in this form. Distribution of over 60 smuggled goods classified into 5 major commodity groups is presented in Table 3.3. Annexure 3.1 provides the details of major items included in each classified group.

3.5.2 Perusal of Table 3.3 and Annexure 3.1 shows that among essential commodities, comprising primary agricultural products, agro-based industrial products like sugar are smuggled out extensively from more than one half of the border districts and smuggling centres of the study area. As a matter of fact sugar and common salt figured in the list of smuggled commodities at all selected centres. Similarly, rice (mostly coarse variety) and

lentil (pulse) among foodgrains, fresh vegetables, fruits and spices figured extensively among smuggled out items. A few items namely plastics, safety razor blades, stationery items, Ruhi fish (of Andhra Pradesh origin) betelnut (arecanut), betel-leaf (pan), etc., depict centre/district specific smuggling patterns as evident from these being smuggled out from a maximum of two districts. As regards live animals, cattle smuggling was reported from as many as 8 (out of 9) border districts of West Bengal, but from none of the north-eastern states where other live animals formed part of smuggled out goods. Smuggling of live goats was reported only from Cooch-Bihar district of West Bengal whereas timber and bamboo smuggling appears largely confined to all districts of Tripura and Karimganj in Assam.

3.5.3 An interesting feature of smuggling in textile manufactures observed was that while cotton printed sarees (Minu brand of Bombay) are smuggled out in large numbers from all districts except Dhubri (Assam), costly sarees (mostly embroidered silk/handloom) reportedly go out only from North-24 Parganas district of West Bengal. Illegal exports of other items of textile manufactures, notably cotton cloth (than) appear to be confined to a few districts in West Bengal and in the case of cotton yarn to just one district. It is also noteworthy that illegal exports of polyester printed sarees and readymade garments were not reported at any of the centres. Another striking feature of unofficial textile exports to Bangladesh emerging from the field survey relates to smuggling centres of north-eastern states catering to the demand for cotton printed sarees from across the border but not other textile manufactures.

3.5.4 Among the industrial manufactures, bicycles and bicycle parts, fertilisers, pesticides, machinery and equipment, motor/transport vehicle spares including tyres and tubes are the major items of illegal exports to Bangladesh. Smuggling of hides and skins was reported from some districts in north Bengal and Karimganj in Assam. Among other industrial raw materials, iron & steel, cement and coal appear to be the major items of illegal exports. The other items of mass consumption smuggled out to Bangladesh include kerosene and diesel, medicines (specially Phansidyl Cough Syrup with considerable alcohol content), liquor and to some extent stationery items.

Table 3.3: Distribution of Smuggling Districts/Centres by Major Smuggled Goods

Commodities	West Bengal	Assam	Tripura	All
A. Outgoing				
I. Agriculture/Allied Products				
a. Food/edible goods	9	3	3	15
b. Live animals	9	3	3	15
c. Wood/timber (Forest-products)	—	1	3	4
d. Others	9	1	1	11
II. Textile Manufactures and Yarns				
a. Cotton printed sarees	9	2	3	14
b. Costly sarees	1	—	—	1
c. Cotton/synthetic cloth	5	—	—	5
d. Cotton/synthetic yarn	1	—	—	1
III. Industrial Manufactures				
a. Bicycle/bicycle parts	9	2	3	14
b. Fertilisers and pesticides	8	—	—	8
c. Electronic goods	2	—	—	2
d. Electrical hoods	1	1	—	2
e. Machinery and equipments	2	1	—	3
f. Cosmetics	2	1	1	4
g. Motors/transport spare parts/tyres and tubes	2	—	—	2
h. Bidis	—	2	3	5
i. Baby food/milk powder	3	1	1	5
j. Plastics	1	—	—	1
k. Safety razor blades	—	1	—	1
IV. Industrial Raw Materials				
a. Hides/skins	4	1	—	5
b. Iron and steel	2	—	—	2
c. Cement	2	—	—	2
d. Coal	—	1	—	1
V. Other Consumer Goods				
a. Kerosene	7	3	2	12
b. Diesel	8	—	—	8
c. Medicines	9	1	—	10
d. Stationery	1	—	—	1
e. Liquor (Alcohol)	3	—	—	3
B. Incoming				
a. Hilsa fish	7	1	—	8
b. Electronic goods	7	1	—	8
c. Synthetic yarns/fabrics	5	2	2	9
d. Palm oil	3	—	—	3
e. Gold*	7	2	2	11
f. Bangladeshi Currency(Taka*)	7	1	—	8
g. Spices	2	—	—	2
h. Metal scrap	1	—	—	1
i. Ball bearing	1	—	—	1

* Gold and Taka for payments towards outgoing goods.

3.5.5 Composition of the smuggled-in goods, as indicated earlier, seems to be restricted to a few items which include Hilsa fish, palm oil, synthetic fabrics and some electronic goods, viz., LCD calculators, watch movements (integrated circuits of LCD/quartz watches), rechargeable emergency lights/torch lights toys, etc.

3.6 Volume of Illegal Trade Flows: Estimation Procedures

3.6.1 The nature and composition of illegal exports along the Indo-Bangladesh border presented earlier (Sections 3.2 and 3.5) brought out the similarity in terms of operation, participation of ordinary people from different walks of life and the nature of smuggled goods which comprise a wide range of commodities of mass consumption. This feature of smuggling on this border and its rampant nature reflected in regular movement of goods (in most cases on daily/weekly basis) across the entire (porous) land border makes the exercise of estimating (quantifying) commoditywise annual volume of illegal exports a complex and somewhat imprecise one. However, involvement of ordinary people as couriers and traders nearer the border entry/exit points as suppliers (trading partners) as well as the perception of smuggling being a part of normal business activity are also the features that made it possible to elicit information on commoditywise flow of goods on daily/weekly or monthly basis (as the case may be) from respondents. This data base provided the basis for estimation of commoditywise total smuggled volume involved in cross-border trade flows at each selected smuggling centre. For the purposes of estimation of commoditywise volumes at smuggling centre levels, as a first step, frequency of border crossing with smuggled goods and the quantity carried on each occasion, the number of carriers involved each time and quantity per head carried, was tabulated separately respondentwise for each centre. More often than not, the figures reported by a cross section of carriers and traders participating in this activity were considerably close to each other. This reflected the reliability level of the information. At any rate a widely divergent perception of a respondent in this context was further probed with others and if found unreliable or based on inadequate understanding of the operation, i.e., if the person was unlikely to be knowledgeable, such a response was excluded from the quantification process. In the case of all those satisfying the test of being knowledgeable, an AVERAGE of each parameter (i.e., number of trips per day, week, month, etc., quantity per trip, number of carriers per trip and

quantity per carrier) provided the basis to arrive at an estimate of commodity volumes at each smuggling centre. This was then extrapolated to yearly (annual) flow of smuggled goods at each centre by multiplying the figures appropriately after ascertaining the average number of days/weeks/months, etc., for which smuggling takes place in a year. Elaborate procedure adopted for generating information in the form it is perceived by respondents keeping in view actual functioning, on the one hand and collation of this information using statistically appropriate methods on the other led to quantifying the annual volume (physical units) of smuggled commodities at each selected centre.

3.6.2 All estimates of physical units were converted in values (Indian Rupee) using prices reported at collection/distribution centres close to selected smuggling centres during the period. This facilitated aggregation of commoditywise volumes as well as deriving the relative shares of smuggled goods in total volume. Since physical units, viz., kilograms, litres and numbers (of live animals, sarees etc.), are not additive, only volumes in terms of rupee value were estimated at district levels.

3.6.3 Chapter 2 (Section 2.8) presented the procedure adopted for establishing relative shares of smuggling centres in each district. Since on an average one centre per district was selected for detailed probe, except for centre specific major smuggled commodities for which some additional centres were also picked up, district level estimation of total volume of smuggling was done by extrapolating smuggling centre level figures on the basis of relative share of the selected centre(s) using the following mathematical formula:¹

$$\frac{Y \times 100}{y} \quad \text{where } Y = \text{Total volume at selected centre and} \\ y = \text{Selected centre's relative share in the district level volume of smuggled goods.}$$

3.6.4 After estimating total volume of smuggled goods at district level, relative shares of the commodities featuring in the selected centre's total volume was assumed as applicable to the district level commoditywise volume of unofficial trade flows except in the case of some centre specific commodities where appropriate adjustments were made. On this basis, district level commodity

¹ In the case of two nearly or equally important centres within a district, the combined relative share and combined estimated total volume can be used as parameter values in the formula.

volumes were estimated by working backwards from total volume of smuggling at district level. Figures emerging from these exercises were discussed with high level officials in the categories indicated earlier in subsequent iterations/discussion sessions. The state level volume of illegal exports were worked out by aggregating district level volume of smuggling in respective states.

3.6.5 In the case of centre specific commodities, additional centres were selected for detailed probes. Such centres accounted for higher relative share for specific commodities. The estimation procedure took into account the volume smuggled from such centres for estimation of district level smuggled quantity of such commodities to arrive at a proper estimate, and their relative shares at the main and specific centres were used to arrive at the district level estimate of such commodities with necessary adjustments if required.

3.6.6 It was earlier ascertained from high level customs and state government officials and persons involved in Indo-Bangladesh studies/relations in the first round of discussions whether illegal commodity trade takes place using air cargo traffic mode. These discussions indicated that the land border being long and easy to operate as well as economical, commodity trade using air cargo route hardly exists in this sector. There is a small sea corridor through Sunderbans area of South 24-Parganas district in West Bengal from which some smuggling seems to go on but this sector is unimportant as far as smuggling across India-Bangladesh border is concerned according to the 1990-BIDS study. In view of this, the volumes of illegal commodity exports to Bangladesh from Indian borders presented in this study pertain to cross border trade flows across land border between the two neighbours and it reflects a very high proportion of total illegal trade.

3.7 Volume of Illegal Exports

3.7.1 The data on illegal exports from India to Bangladesh presented in Table 3.4 show that the volume of exports to Bangladesh through parallel trade is of the order of Rs. 1165 crores. This figure is little higher than the 1992-93 official exports (Rs.1050 crores) to Bangladesh and somewhat below the 1993-94 provisional official exports figure of Rs.1350 crores. It thus appears that the overall unofficial Indian (commodity) exports volume to Bangladesh is as much as the level of official exports. Therefore, the potential for

bilateral trade between the two neighbours with regard to Indian exports to Bangladesh is perhaps twice as much. This calls for an introspection with regard to trade policies of both the neighbours.

3.7.2 Data in Table 3.4 provide further insights into the structure of illegal commodity exports to Bangladesh. Among major commodity groups, food and live animals as a group account for a lion's share of nearly three-fifths of the total illegal exports from Indian borders to Bangladesh. Commodities making up non-food (other) consumer goods account for the next largest share of smuggled out volume. Commodities featuring in Groups 2 to 4 of Table 3.4 broadly correspond to items included in Basic Manufactures (SITC code 6) and together contribute a little over one-fourth of the total illegal exports to Bangladesh. As compared to this, the share of basic manufactures as a group (SITC code 6), which includes textiles rubber and paper manufactures, non-metal mineral and metal manufactures, etc., is the highest (ranging from over 55% to nearly 68% in recent years) among all commodity groups officially exported from India to Bangladesh. Food and live animals on the other hand accounted for under 10% of the official exports upto 1990-91, shot up to 16.42% in 1991-92 and sharply fell to a little over 5% in 1992-93. It is therefore evident that the legal and illegal exports are dominated by different sets of commodity groups. While unofficial exports are largely made of essential commodities (food) and commodities of mass consumption like kerosene, medicines, etc., the official exports are dominated by industrial manufactures among which textiles are major consumer items. Thus the nature of unofficial and official exports is entirely different from each other and perhaps non- competitive.

3.7.3 Among the states, West Bengal accounts for as much as 96% of illegal exports and the balance is shared by Assam (3%) and Tripura (1%). Except for timber, cotton printed sarees and sugar, smuggling of other goods from the north-eastern states appears to be in a low key and border districts of West Bengal are the major smuggling centres along the Indo-Bangladesh land border.

3.7.4 The most important commodities in the food and live animals group being smuggled out are live animals (mainly cattle), sugar, common salt, rice (coarse), pulses (mainly lentil) and fruits and vegetables. Apart from this, cotton printed sarees among textile manufactures, bicycles and bicycle parts and machinery/equipments in other industrial manufactures, cement and iron & steel in industrial raw materials and timber/bamboo, kerosene/

Table 3.4: Volume of Illegal Exports to Bangladesh Across Indo-Bangladesh Border
(Million rupees)

Major Commodities	Statewise Illegal Exports					
	West Bengal		Assam		Tripura	
	Volume	Per Cent	Volume	Per Cent	Volume	Per Cent
I. Food & Live Animals	6677.3	59.6	142.2	40.1	18.1	22.3
(a) Live animals	3101.0	27.8	12.0	3.4	1.7	2.1
(b) Sugar	2241.4	20.0	90.7	25.5	13.6	16.8
II. Textiles Manufactures	1676.4	14.9	91.4	25.8	2.3	2.8
(a) Sarees	1468.9	13.1	85.0	24.0	2.3	2.8
III. Other Industrial Manufactures	1092.8	9.7	6.5	1.8	1.3	1.6
(a) Bicycles & its parts	693.2	6.2	0.2	Neg	0.9	1.1
(b) Machinery & equipment	300.0	2.7	(3)	—	(69)	—
IV. Industrial Raw Materials	121.5	1.1	1.5	0.4	—	—
(a) Cement	94.0	0.8	—	—	—	—
(b) Iron & steel	22.0	0.2	—	—	—	—
V. Other Consumer Goods	1642.9	14.7	113.4	31.9	59.3	73.3
(a) Miscellaneous goods	1473.5	13.1	18.9	5.3	14.7	18.2
(Cosmetics, plastics, razor blades, etc.)	(90)	—	(17)	—	(25)	—
(b) Timber/Bamboo	—	—	88.0	24.8	42.5	52.5
(c) Medicines	47.1	0.4	(72)	—	(7)	—
(d) Kerosene	28.7	0.3	6.5	1.8	2.1	2.6
(e) Diesel	29.8	0.3	(6)	—	(4)	—
GRAND TOTAL	11210.9	100.0	355.0	100.0	81.0	100.0
					11646.9	100.0

Notes: 1. Figures in parenthesis are percentages to respective group totals.
2. See Annexure 3.2 for further breakup of commodity groups

diesel among other consumer goods are also smuggled out in sizable quantities. Data presented in Table 3.4. and Annexure 3.2 show that essential goods of mass consumption are largely smuggled out to Bangladesh from Indian borders and these goods do not form a significant proportion of official exports. Though unofficial trade flows constitute a high volume of smuggled-out goods, in Indo-Bangladesh bilateral trade context, these parallel trade flows do not appear competitive (can be viewed as complementary) to official trade flows, especially from Bangladesh's view point, given the unfavourable BOP position Bangladesh has with India. Rampant smuggling of essential commodities seems to fulfill demand for such commodities in Bangladesh and provide the market for seasonal surpluses in Indian border areas. Perhaps, for this reason and also due to unidirectional flow of essential commodities and consumer goods of mass consumption, Bangladesh economy is not in a position to bridge the demand/supply gap through legal imports. Therefore, smuggling on the Indo-Bangladesh land border flourishes.

3.7.5 Among the smuggling prone border districts two from South Bengal, namely North 24-Parganas and Nadia, together account for over 50% of the total export volume of smuggling and top five smuggling prone districts (all in West Bengal) together account for 83% volume of smuggled exports to Bangladesh. The other three districts, apart from two above, are Murshidabad, Cooch-Behar and South Dinajpur.

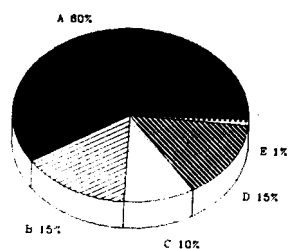
3.7.6 Among major smuggled-out items, live animals (mainly cattle) is the single most important smuggled item in four districts of West Bengal contributing 40 to 65% of the respective district's total volume of smuggled goods. Illegal exports of sugar take first rank in smuggled-out commodities in Murshidabad (West Bengal) and Karimganj (Assam) contributing 22.6% and 32.7% of the smuggled volume respectively. Cotton printed sarees constitute the single most important smuggled item only in South Dinajpur district accounting for nearly 40% of the district's volume of smuggled goods. In the north-eastern district of Dhubri (Assam) and all the districts of Tripura 'wood & timber' constitute the single most important smuggled out item which accounts for 49 to 64% of the smuggled volume of each district.

3.7.7 The North 24-Parganas in West Bengal is the only district which takes the first position in terms of the highest contribution to the total volume of five individual items smuggled-out. The five commodities are sugar, bicycle & bicycle parts, fertilisers/pesticides,

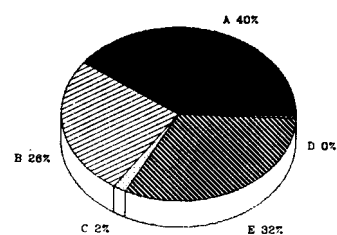
Figure 3.1

Composition of Illegal Exports to Bangladesh
(All Illegal Exports)

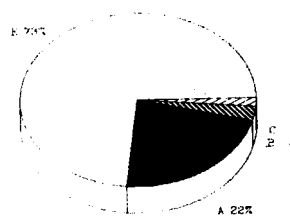
West Bengal Border



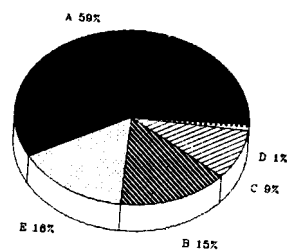
Assam Border



Tripura Border



All

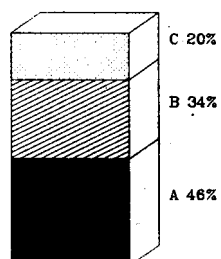


A. Food & Live Animals
 C. Other Industrial Manufactures
 E. Other Consumer Goods

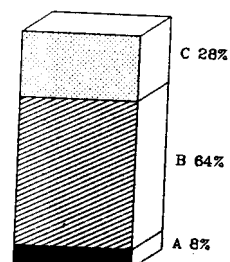
B. Textiles & Manufactures
 D. Industrial Raw Materials

Figure 3.2
Composition of Illegal Exports to Bangladesh
(Food & Live Animals)

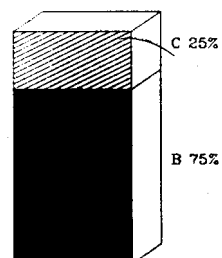
West Bengal Border



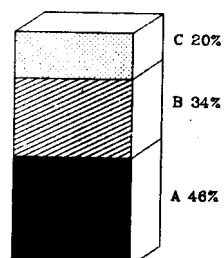
Assam Border



Tripura Border



All

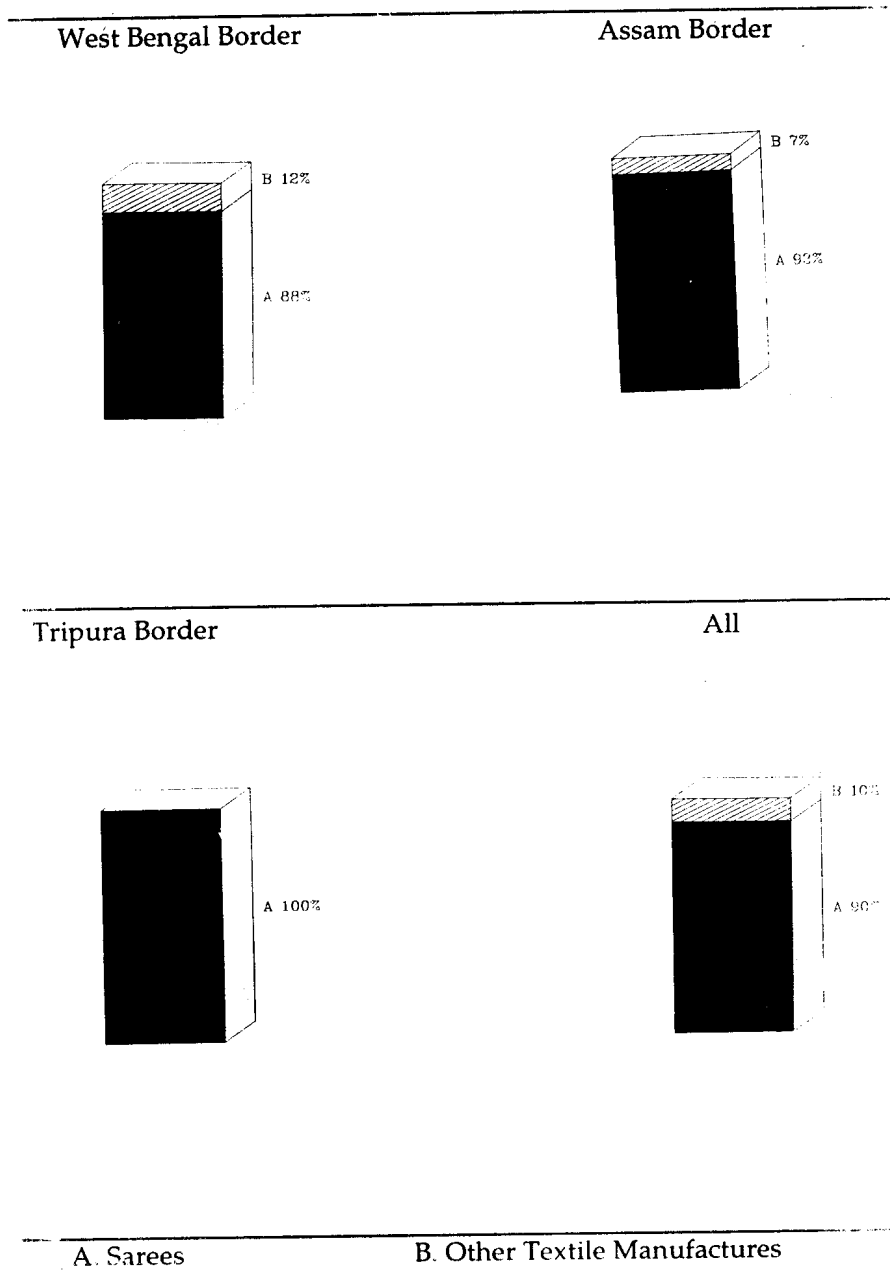


A. Live animals

B. Sugar

C. Others

Figure 3.3

**Composition of Illegal Exports to Bangladesh
(Textile Manufactures)**

spices and others as a group. Among the other smuggling prone districts Nadia, Murshidabad, Cooch-Behar and South Dinajpur (all in West Bengal) get first rank for contributing the highest share of smuggled volume for two commodities each. As regards the north-east, Dhubri in Assam and all (three) districts of Tripura largely send out timber/wood logs and bamboo illegally through adjoining districts in Bangladesh while Karimganj smuggles out mostly sugar and cotton printed sarees.

3.7.8 Data presented in Tables 3.3 and 3.4 and the discussion in Sections 3.5.1 to 3.7.6 above clearly bring out that five districts on the West Bengal-Bangladesh border are the most smuggling prone areas from where very high intensity of smuggling activity has been reported during the field survey. These five districts together contribute 83% of the total volume of illegal trade flows along the Indo-Bangladesh border. The total length of the border with Bangladesh along these five districts is said to be around 960 kilometres.¹ This means that about 9.5 million rupees worth of goods per kilometre of the border are smuggled out from this sector annually. There will be large additional costs on both sides of the border if this illegal trade is to become legal. These costs will be on increased vigilance on all borders. If the costs of stepping up vigilance network outweigh the volume (in monetary terms) of smuggled goods then it is not worthwhile to obstruct unofficial cross border trade. It may perhaps be in the interest of both the economies to go in for free trade along this border. However, there may be other sensitive issues and security concerns which need to be considered before such moves could be thought of.

3.8 Volume of Illegal Imports

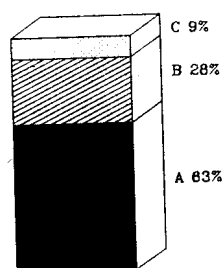
3.8.1 Illegal trade flows from Bangladesh to India, i.e., unofficial imports are by and large confined to a narrow band of commodities (Table 3.3). It is also likely that the movement of smuggled goods in general and that of high value items (gold/silver, etc.) and currency in particular may be entrusted to trusted agents/sub-agents by big operators on both sides of the border and the nationality of such agents and big operators is likely to be the same. Therefore, while a greater proportion of Indian operators/carriers may be directly handling smuggled-out goods, the reverse would be the case with regard to smuggled-in goods. This perception is based on reports emerging from the field visits of

¹ Based on information supplied by Distt. Magistrate's Office of respective districts.

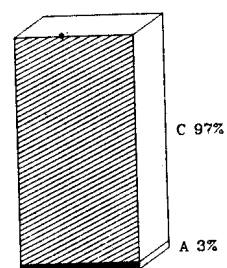
Figure 3.4

**Composition of Illegal Exports to Bangladesh
(Other Industrial Manufactures)**

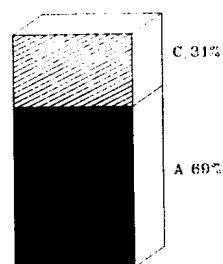
West Bengal Border



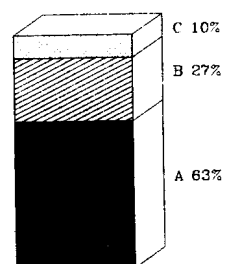
Assam Border



Tripura Border



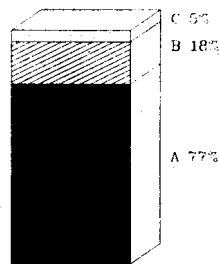
All



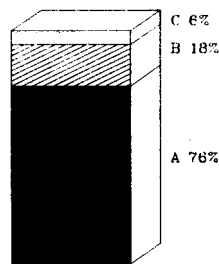
A. Bicycles & Its Parts B. Machinery & Equipment C. Others

Figure 3.5
Composition of Illegal Exports to Bangladesh
(Industrial Raw Materials)

West Bengal Border



All



A. Cement

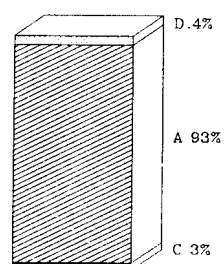
B. Iron & Steel

C. Others

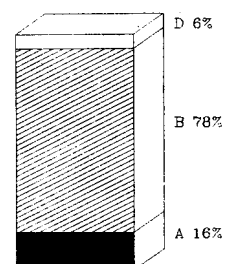
Figure 3.6

**Composition of Illegal Exports to Bangladesh
(Other Consumer Goods)**

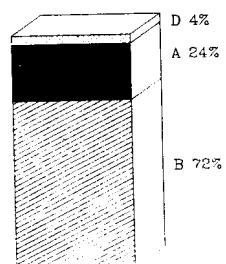
West Bengal Border



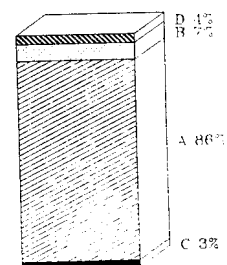
Assam Border



Tripura Border



All



A. Misc Goods (Cosmetics, Plastics, Razors, etc.)

B. Timber/Bamboo

C. Medicines

D. Kerosene/Diesel

investigating teams. Except for those operating on outgoing as well as incoming channels and residing on Indian side of the border, it was relatively easy to locate operators/carriers handling outgoing goods as compared to the ones handling incoming goods which is perhaps handled by a greater proportion of Bangladeshi nationals. For this reason, while it was possible to elicit information on composition of the smuggled-out goods relatively easily from responding traders and carriers on the Indian side, a somewhat smaller proportion of carriers of smuggled-in goods could provide details on frequency, load per trip and other details of incoming goods for commoditywise volume estimation of unofficial imports. It needs to be borne in mind in this context, that in totality, smuggling operations are dominated by the composition and quantum of outgoing goods, which is also reflected in customs seizure figures, presented in later sections. For this reason selected respondents in the category of carriers/traders could relatively quickly recall details regarding smuggled-out quantities per trip, number of trips, etc., for nearly all smuggled-out commodities as compared to smuggled-in goods. The volume estimation procedure was the same for outgoing and incoming goods. However, selected centres represented the highest share of the total volume of smuggling-in a district (which mainly was made of unofficial exports). The data presented in Table 3.5 is subject to the circumstantial limitations of this nature. Apart from this it would be important to bear in mind at this stage, that a significant quantum of smuggled-in goods enter India via the Indo-Nepal border in Darjeeling district of West Bengal. A part of the unofficial imports originating from Bangladesh reportedly follow this route to enter India via Nepal. This makes it difficult to identify the country of origin of goods coming in through the Indo-Nepal border points—specially electronic consumer durables and synthetic fabrics. On this count also data presented in Table 3.5 needs to be viewed (used) with caution.

3.8.2 Among smuggled-in goods only three major items of mass consumption namely synthetic fabrics, spices and Hilsa fish are brought in from Bangladesh apart from electronic goods like calculators, rechargeable emergency lights/torch lights, watch movements, toys, etc., as well as some VCPs and VCRs. It is noteworthy that as much as 44.3% of incoming items represent exchange payments towards costs of illegally exported goods. Though gold is smuggled-in mainly for the purposes of exchange payments, a part of it is reportedly converted into gold ornaments and some part finds its way in Hawala deals. Smuggled-in silver almost entirely gets converted into silver ornaments. Although part

Table 3.5: Volume of Illegal Imports in India Across Indo-Bangladesh Border

Commodity Particulars	(Million rupees)									
	Statewise Illegal Imports									
	West-Bengal		Assam		Tripura		Total			
	Volume	Per Cent	Volume	Per Cent	Volume	Per Cent	Volume	Per Cent	Volume	Per Cent
A. Traded Items										
1. Synthetic Fabrics	135	28.9	9	18.7	10	28.6	154	28.0		
2. Spices	38	8.2	—	—	—	—	38	6.9		
3. VCPs/VCRs	12	2.6	2	4.2	2	5.7	16	2.9		
4. Other Electronic Goods	41	8.8	5	10.4	6	17.1	52	9.5		
5. Ball Bearings	6	1.3	—	—	—	—	6	1.1		
6. Metal Scrap	7	1.5	—	—	—	—	7	1.3		
7. Miscellaneous Goods (Mainly Hilsa fish)	31	6.6	2	4.2	—	—	33	6.0		
<i>Sub-Total</i>	270	57.9	18	37.5	18	51.4	306	55.7		
B. Exchange (Payment) Items										
1. Gold	130	27.9	10	20.8	130	37.2	153	27.9		
2. Silver	9	1.9	—	—	4	11.4	13	2.4		
3. Bangladeshi Taka	50	10.8	20	41.7	—	—	70	12.7		
4. Indian rupee	7	1.5	—	—	—	—	7	1.3		
<i>Sub-Total</i>	196	42.1	30	62.5	17	48.6	243	44.3		
GRAND TOTAL	466	100.0	48	100.0	35	100.0	549	100.0		

of the gold/silver ornaments get smuggled back to Bangladesh (value-added form) these have not formed part of commodities included in Table 3.4 since gold & silver (high value) items were outside the purview of this study.

3.8.3 The scale of illegal imports of Bangladeshi currency (Taka) being high, it called for a probe. Informal discussions with some exchange brokers in border districts revealed that roughly about a quarter of exchange payments are in the form of Bangladeshi Taka and nearly two-thirds in the form of gold biscuits. Some of the payments are also made through Hawala transactions and the rest in Indian rupees. As far as end-use of Taka is concerned, most of it is channeled back into smuggling by way of payments towards illegal imports and repatriation to those based in Bangladesh through unofficial exchange markets and Hawala transactions. A part of the Taka is made available by a number of brokers in unofficial exchange markets, to immigrant Bangladeshi nationals/tourists at 15 to 17% commission. Informal discussions at Calcutta bullion and Sealdah Railway Station Rupee/Taka exchange centre also reveal that unofficial exchange rates are 3% to 5% higher over the official exchange rates. A part of the smuggled-in Taka reportedly reaches brokers for transactions in unofficial money exchange markets. Bangladeshi Taka (and gold) are also reportedly used for exchange payments for smuggled-in narcotics/drugs and arms/ammunition.

3.9 Customs Seizures on West Bengal-Bangladesh Border

3.9.1 It is generally accepted in official circles charged with anti-smuggling activities, that customs seizures of illegally traded goods hover around 10% of the total volume of smuggling in value terms. This norm was stressed by customs officials during our discussion sessions at Calcutta in the context of assessing the overall scale of smuggling. However, it seems illogical to expect the proportion of seizures to total volume to be uniform in all situations for all types of commodities and personnel managing the anti-smuggling entry/exit points. Variations in the proportion of seizures to smuggled commodity volumes will be contingent on the nature of the commodity seized, personnel involved and socio-economic environment prevailing on the borders. A sort of consensus emerged in this regard in discussions with other law enforcing agencies, viz., BSF, state border police, civil officials, etc., which suggests a lower limit of 5% seizures in the case of commodities of mass consumption as against the customs norm of 10% upper limit for high value durable and/or banned goods. Apart from this, the relative

importance of seized commodities in the annual volume of seizures is expected to get reflected in the total volume of exported/imported smuggled goods.

3.9.2 Data on combined average customs seizures by commodities smuggled across West Bengal-Bangladesh border during 1992-93 and 1993-94 (financial years) presented in Table 3.6 and of the smuggled commodity volumes in Tables 3.4 & 3.5 show that the relative importance of major commodities in both data sets depict more or less similar patterns. This may be so because commodities smuggled in large volumes are likely to be seized more often despite the customs staff bias in favour of interception of high value and banned items. This is indicative of the high reliability level of the data presented in Tables 3.4 and 3.5. Differences in the level of percentage shares in the two data sets can be partly attributed to differing valuation methods adopted for the seizures and trading

Table 3.6: Customs Seizures on West Bengal-Bangladesh Border

(Rs. '000)

<i>Illegal Export Commodities</i>	<i>Average* Volume of 1992-93 & 1993-94</i>	<i>Percent- age</i>	<i>Illegal Import Commodities</i>	<i>Average* Volume of 1992-93 & 1993-94</i>	<i>Percent- age</i>
1. Livestock	17708.5	33.3	1. Gold	8181.5	14.5
2. Indian Currency	596.5	1.1	2. Silver	759.0	1.3
3. Foreign Currency	2183.5	4.1	3. Indian Currency	678.0	1.2
4. Salt	561.0	1.1	4. Foreign Currency	5584.0	10.1
5. Sugar	3033.5	5.7	5. Syn. Fabrics	15638.5	27.8
6. Rice/Paddy	611.0	1.1	6. VCPs/VCRs	3314.5	5.9
7. Electrical Goods	48.0	0.1	7. Electronic Goods	2802.5	5.0
8. Cotton Cloths/Sarees	4101.5	7.7	8. Watch Movements	799.0	1.4
9. Cycle/Parts	385.0	0.7	9. Edible Oil	11.0	Neg.
10. Petroleum Products	63.0	0.1	10. Spices	1304.0	2.3
11. Raw Hides	152.0	0.3	11. Ball Bearings	168.0	0.3
12. Gold (Ornaments)	78.5	0.1	12. Metal Scrap	1490.5	2.6
13. Silver (Ornaments)	16.0	Neg.	13. Miscellaneous Goods	15564.5	27.6
14. Pulses	29.0	0.1			
15. Spices	40.0	0.1	TOTAL	56295.0	100.0
16. Readymade Garments	573.0	1.1			
17. Auto Parts	101.0	0.2			
18. Miscellaneous Goods	22942.0	43.1			
TOTAL	53223.0	100.0			

* Two years combined data average.

Source : Customs Collectorate, West Bengal Zone, Calcutta.

purposes and partly due to the declining shares of commodities like VCPs/VCRs. On the whole, the volumes of unofficial exports and imports along the land border in the study area appear reasonably close to the seizure figures lending credence to estimated quantum of smuggling taking place along this border. Similar data for the north-eastern states was not readily available. However, West Bengal accounts for 96% of illegal trade flows and, therefore, the patterns discussed above are reflective of the overall patterns.

3.10 Border Price Differentials

3.10.1 Maximisation of profit is the objective function at individual level in all trading activities, whether legal or illegal and under free or restrictive trade regimes. This being so, prevalence of asymmetric relative prices for tradable commodities on both sides of the India-Bangladesh border is the main driving force which sustains rampant smuggling activity. In view of this, data was elicited in the field survey on minimum and maximum price regimes at major marketing centres in the border districts at the time of the survey. Tables 3.7A to 3.7C present data on relative prices on both sides of the border, as reported by traders participating in illegal trade flows across the border, for major traded goods.

3.10.2 Data on commodity-wise relative prices and the nature/ extent of price differentials on both sides of the border are expressed in percentage terms at minimum, maximum and mid-value levels which are indicative of the lowest, highest and average profit margins (*minus* smuggling costs) traders may expect to earn. Data in Table 3.7A show that broadly, on an average, border prices in Bangladesh were significantly higher for most of the smuggled commodities at the time of the field survey. For example, in the food and live animals category comprising primarily agro-based essential items of consumption, Bangladesh mid-value prices were higher by 32% at the minimum (edible oils) and 187% at the maximum (common salt). The most important smuggled items (in terms of volume) of this category, i.e., cattle and sugar also fetch price higher by 104% and 77% respectively. Similarly sarees, especially cotton printed sarees in the textiles group, fetch 61% to 65% higher prices in Bangladesh as compared to about 37% fetched by other textile fabrics. No wonder the bulk of textiles smuggled-out comprise cotton printed sarees. Though fertiliser prices in Bangladesh seem to be much higher fetching second highest premium (after common salt) in terms of price differentials, its demand pattern is subject to seasonal peaks which is conditioned by the cropping seasons.

Table 3.7 A: Border Price Differentials of Various Smuggled-out Goods on West Bengal-Bangladesh Border

Sl. No.	Commodity	Unit	Border Prices (Rupees)*						Per Cent Price Differentials		
			India			Bangladesh			At		
			Minimum	Maximum	Mid-Value	Minimum	Maximum	Mid-Value	Minimum	Maximum	Mid-Value
I. Food and Live Animals											
1.	Cattle	per cattle	1000	4000	2500	2200	8000	5100	120	100	104
2.	Sugar	kg	16	18	17	25	35	30	56	94	77
3.	Common Salt	kg	1.25	2.50	1.88	2.8	8	5.40	124	220	187
4.	Rice	kg	6	10	8	10	15	12.50	67	50	56
5.	Pulses	kg	15	15	15	22	25	23.50	47	67	57
6.	Vegetable Oil (Edible)	kg	28	35	31.50	35.1	48	41.55	25	37	32
7.	Spices	kg	1	1	1	1.40	1.40	1.40	40	40	40
8.	Wheat Flour (Atta)	kg	6	6	6	10	10	10	67	67	67
9.	Goat	per goat	300	300	300	468	468	468	56	56	56
10.	Fish (Ruhi)	kg	35	40	37.50	50	100	75	43	150	100
II. Textile Manufactures											
11.	Cloth/Fabrics	metre	20	20	20	27.30	27.30	27.30	37	37	37
12.	Cotton Saree	per saree	70	80	75	117	130	123.50	67	63	65
13.	Costly Saree	per saree	900	900	900	1400	1500	1450	56	67	61
III. Other Industrial Manufactures											
14.	Bicycle	per cycle	600	1000	800	1200	1800	1500	100	80	88
15.	Bicycle Parts	piece	40	50	45	58	62	60	45	24	33
16.	Fertilizer	kg	2.50	2.50	2.50	6	8	7	140	220	180
IV. Industrial Raw Materials											
17.	Cement	bag	23	23	23	N.A.	N.A.	N.A.	—	—	—
18.	Skins/Hides	size	300	300	300	546	546	546	82	82	82
19.	Iron & Steel	kg	13	14	13.50	N.A.	N.A.	N.A.	—	—	—
V. Other Consumer Goods											
20.	Baby Food	tin	60	60	60	70	70	70	17	17	17
21.	Diesel	lit	6	7.42	6.71	9	16	12.50	50	116	86
22.	Kerosene	lit	3	7	5	6	9	7.50	100	29	50
23.	Radio	per piece	200	200	200	300	350	325	50	75	63

* Prices on both sides of the border as reported by respondents on Indian side.

Source: Primary data from Field Survey.

Therefore, despite relatively lower premium than fertilisers being assured, bicycles and bicycle parts in the industrial manufactures category fetch the best profit with year round demand raising the quantum of earnings. Therefore, dominance of bicycles & its parts in the industrial manufactures category in terms of smuggled volume appears natural in a marketing sense. Among the industrial raw materials, cement and iron/steel are two important items of unofficial exports on this border. Efforts to seek relative prices of these items across the border from respondent traders (generally exporters of these items are big operators) doing unofficial business did not bear fruit as they pleaded ignorance. Therefore, though price differentials for these items could not be ascertained, Bangladesh prices may be obviously higher for these items to get smuggled-out. The non-food mass consumption items like kerosene and diesel fetch over 50% higher prices in Bangladesh as compared to the Indian border prices. The least price differential observed in the case of baby-food/milk powders (Shakti brand) is consistent with the negligible volume of these items being smuggled-out of Indian borders. However, these items get smuggled-out nowadays whereas they were smuggled-in a few years back.

3.10.3 The West Bengal-Bangladesh border price differentials pattern discussed above can also be observed along the Assam/Tripura-Bangladesh border (Tables 3.7B and 3.7C). However, it is interesting to observe that price differentials along this border in the case of common salt and kerosene rise sharply as compared to the ones observed along the West Bengal-Bangladesh border. Firstly, these items largely originate within the north-eastern region itself and secondly difficult road/rail communications on both sides of the border (with the rest of the areas in the respective countries) generate cross-border trade flows fetching a hefty margin. While the price differentials in the case of live animals can be said to be comparable with the West Bengal-Bangladesh border, it is pertinent to observe that cattle are mostly smuggled-out from the West Bengal border whereas other live animals are smuggled-out from north-eastern border points. It is interesting to note that price differentials for some of the other commodities brought to the north-eastern states through West Bengal and/or from other parts of India involve high transportation costs which narrows price differentials for the same items in comparison with the West Bengal border. Illegal exports of timber/logs of wood is a special feature of smuggling centres of Tripura. Relatively big operators (contractors) seem to be involved in this trade and our attempts to seek relative price differentials on the other side failed as was the case with regard to

Table 3.7 B : Border Price Differentials of Various Smuggled-out Goods on Assam-Bangladesh Border

Sl. No.	Commodity	Unit	Border Prices (Rupees)				Per Cent Price Differentials		
			India		Bangladesh		At		
			Minimum	Maximum	Mid-Value	Minimum	Maximum	Mid-Value	Minimum Maximum Mid-Value
I. Food and Live Animals									
1.	Cattle	per cattle	1200	1500	1350	2500	3500	3000	108 133 122
2.	Sugar	kg	14	20	17	22	26	24	57 30 41
3.	Common Salt	kg	2	2	2	5	8	6.50	150 400 225
4.	Rice	kg	6	9	7.50	8	15	11.50	33 67 53
5.	Pulses	kg	15	20	17.50	20	25	22.50	33 25 29
6.	Fruits	kg	8	25	11.50	12	40	26.00	50 60 126
7.	Dry Chillies	kg	20	20	20	25	30	27.50	25 50 38
II. Textile Manufacture									
8.	Cotton Saree	per saree	70	80	75	100	120	110	43 50 47
III. Other Consumer Goods									
9.	Kerosene	litre	3	5	4	10	15	12.50	233 200 213
10.	Electric Fan	per piece	600	1000	800	800	1500	1150	33 50 44
11.	Bidi	bundle	75	80	77.50	80	100	90	7 25 16

Table 3.7 C: Border Price Differentials of Various Smuggled-out Goods on Tripura-Bangladesh Border

Table 3.7 C: Border Price Differentials of Various Com-86											
Sl. No.	Commodity	Unit	Border Prices (Rupees)						Per Cent Price Differentials		
			India			Bangladesh			Minimum	Maximum	Mid-Value
			Minimum	Maximum	Mid-Value	Minimum	Maximum	Mid-Value			
I. Food and Live Animals											
1.	Cattle	per cattle	1500	1500	1500	3000	4000	3500	100	167	133
2.	Sugar	kg	15	20	17.50	22	25	23.50	47	25	34
3.	Common Salt	kg	2	2	2	5	8	6.50	150	300	225
4.	Pulses	kg	15	18	16.50	20	25	22.50	33	39	36
II. Textile Manufactures											
5.	Cotton Saree	per saree	70	80	75	120	140	130	71	75	73
III. Other Industrial Manufactures											
6.	Bicycle	per cycle	800	1000	900	1000	1300	1150	25	30	28
IV. Other Consumer Goods											
7.	Kerosene	litre	3	5	4	10	15	12.50	233	200	213
8.	Bidi	bundle	40	45	42.50	50	60	55	25	33	29

cement and iron/steel. On the whole higher prices prevailing in the Bangladesh border districts seem to be consistent with the smuggling pattern observed along the entire Indo-Bangladesh land border.

3.10.4 That very few unofficial imports are smuggled-in from Bangladesh is evident from data presented in Table 3.5. Among the items smuggled-in, gold, silver and Bangladeshi currency (Taka) come in for exchange payments. Among other goods synthetic fabrics, VCPs, VCRs and other electronic durables are the important items that are smuggled-in from Bangladesh. It was indicated earlier, that a part of the smuggled-in goods originating from Bangladesh come through the India-Nepal border in Darjeeling district and identification of its proportion coming from Bangladesh is somewhat difficult. Nevertheless since some parts of such items are smuggled-in, relative prices of some of these items were collected from border districts which are presented in Table 3.8.

Table 3.8: Border Price Differentials of Major Smuggled-in Goods

(In rupees)							
Items	Indian Border Price			Bangladesh Border Price			Per Cent Price Differ- ential at Mid-Value
	Minimum	Maximum	Mid- Value	Minimum	Maximum	Mid- Value	
1. VCP per piece	10500	13000	11750	8500	11000	9,750	21
2. VCR per piece	13500	16000	14750	10000	14000	12,000	23
3. Emergency light per piece	850	1000	925	700	850	775	19
4. Hilsa Fish/kg	80	120	100	40	60	50	100

3.10.5 The data show that Indian prices of electronic goods and Hilsa fish are higher than the Bangladeshi prices, therefore, these items are smuggled-in. However, it is noteworthy that VCPs/VCRs (Japanese brands) enjoy just about 20% to 25% higher price in India as compared to Bangladeshi prices and emergency (rechargeable) lights enjoy relatively similar price differential in India. Prior to 1990 VCPs/VCRs commanded a very high price in the Indian market and were smuggled-in in large numbers. However, after initiation of economic reforms and lowering of duties in India, the price differential for all electronic goods, specially VCPs/VCRs has sharply declined which is reflected in low margins. Declining trend in smuggling of electronic items, particularly VCPs/VCRs is also

evident in the customs seizures figures over the past few years.

3.10.6 Synthetic fabrics of varying quality and several types of textiles, viz., used readymade garments, shirting/suiting, long cloth, cut pieces, etc., get smuggled-in and it was not possible to ascertain prices of a variety of such goods on both sides of the border apart from these being subject to large fluctuations. Hilsa fish has a special place in the average Bengali's diet and commands a high price among all types of fish, particularly during the Puja festival. It also has the highest premium among the smuggled-in items.

3.11 Direction of Illegal Trade Flows

3.11.1 Data presented in Tables 3.1 to 3.8 and discussion in the preceding sections clearly show that the direction of illegal trade flows across the India-Bangladesh land border is more or less unidirectional, i.e., from India to Bangladesh. This is clearly established by a wide-range of commodities totalling to a volume of Rs.1165 crores as against a few items being brought into India. If gold, Bangladeshi Taka which comes in as exchange payment is excluded from the volume of smuggled-in goods, illegal trade flows emerge as nearly totally unidirectional. The trends emerging from the field survey are strongly supported by the evidence emerging from data on border prices as well as official customs seizures data. The composition of illegal exports to Bangladesh is geared towards meeting the unfulfilled demand for essential commodities in the border districts of Bangladesh. The level of unofficial transactions is also similar to that of official bilateral trade between the two neighbours.

3.12. Illegal Trade Flows : Change in Volume and Direction

3.12.1 India initiated economic reforms in 1990 and began adopting liberal trade policies by scaling down customs tariffs and pruning negative lists of imports and exports. Liberalisation of trade is expected to influence the structure of India's foreign trade. Changes in trade related policies, as years roll by, are going to influence the illegal trade flows as well. Keeping this in view, the respondents and officials connected with anti-smuggling duties were asked to indicate changes noticed, if any, in the volume and direction of illegal exports/imports across the India-Bangladesh border since India embarked on economic reforms.

3.12.2 In response to questions with regard to changes occurring

in commodity-wise flow of smuggled goods, there was nearly uniform response of respondents in all categories indicating a rise in the volume of illegal exports of essential commodities except rice in the foodgrains category and divided opinion with regard to unofficial exports of diesel, costly sarees, medicines and fertilisers. Table 3.9 presents the divided and decline related response with regard to volume or change in direction of illegal trade flows of some commodities. In the case of the other smuggled-out commodities uniformly rising trends of unidirectional exports were reported.

Table 3.9: Changes in Illegal Trade Flows Since 1990

Commodity	(Reporting Percentage)				
	Changes in Volume			Change in Direction	
	Increase	No Change	Decrease	No Change	Reverse
A. Out-going					
Rice	20	40	40	100	0
Diesel	40	40	20	100	0
Costly sarees	33	34	33	50	50
Machinery	67	33	0	100	0
Medicines	0	50	50	100	0
Fertilisers	50	17	33	100	0
Cattle	100	0	0	100	0
B. Incoming					
Gold	100	0	0	100	0
Bangladeshi Taka	50	50	0	100	0
Synthetic fabrics	0	50	50	100	0
Electronic goods	0	09	91	100	0
Watch movements	33	50	17	100	0
Fish (Hilsa)	60	40	0	100	0

3.12.3 Among the outgoing commodities in Table 3.9, except for cattle and machinery, the overwhelming response is indicating either decrease or no change in the volume. Among incoming goods sharp decline in electronics inflow is perceived, whereas arrival of watch movements (integrated circuits for watches) has not much changed or a slight increase is perceived. Reported increase in the volume of gold arrivals is in line with rise in the volume of smuggled-out commodities calling for rise in exchange payments. Opinion is divided with regard to smuggling-in of Bangladeshi currency (Taka). As far as changes in direction of unofficial trade flows are concerned the opinion is divided with regard to change in

the direction of smuggling of costly sarees. All other outgoing commodity volumes have increased and the direction remains the same, i.e., from India to Bangladesh in the opinion of nearly all respondents.

3.13 Concluding Observations

3.13.1 Empirical data presented in this chapter show that the volume of illegal trade flows are at the level of Rs. 1165 crores which is very close to that of official trade flows. Since the estimation of volume in this study was based on a sample of selected centres which account for a major share of illegal exports in each district, the total volume of 1165 crore rupees is likely to be close to the real illegal exports. However, inclusion of some more centres would have led to inclusion of some more centre specific commodities that are perhaps smuggled. Secondly, inclusion of high value goods (diamonds, gold/silver jewellery) and banned goods like narcotics, drugs, arms, etc., would also raise the total volume of illegal trade flows. If illegal trade flows related to above factors are also estimated and added to above estimates, unofficial exports to Bangladesh would overtake the official exports volume.

3.13.2 The official and unofficial Rupee/Taka exchange rates have almost reached parity. Survey data reveals that Bangladeshi Taka was exchanged at several smuggling/marketing centres by unofficial brokers at the rate of Rs. 75 to Rs. 77 per 100 Takas while the official exchange at that time hovered around 77 to 79 rupees per 100 Takas. Near parity in official and illegal Rupee/Taka exchange rates and the unilateral nature of unofficial trade flows (from India to Bangladesh) together show that the BOP position on non-governmental account of the unofficial trade flows between the two neighbours would be similar to the official foreign trade BOP situation, i.e., unfavourable to Bangladesh. This suggests a high degree of flight of capital taking place between the two neighbours. Some of the BOP imbalance on private account appears to be met through smuggling of gold and Bangladeshi Taka which get diverted to different end-uses as indicated earlier. The volume, composition and direction of illegal trade flows estimated in this study appear to be reliable on examination from several angles, viz., import dependence of Bangladesh economy coupled with unfavourable BOP situation, customs seizures pattern, commodity-wise price differentials on both sides of the border and finally Rupee/Taka exchange parity in unofficial and official exchange markets.

Chapter 4

Features of Smuggling and Border Physiography

4.1 Introduction

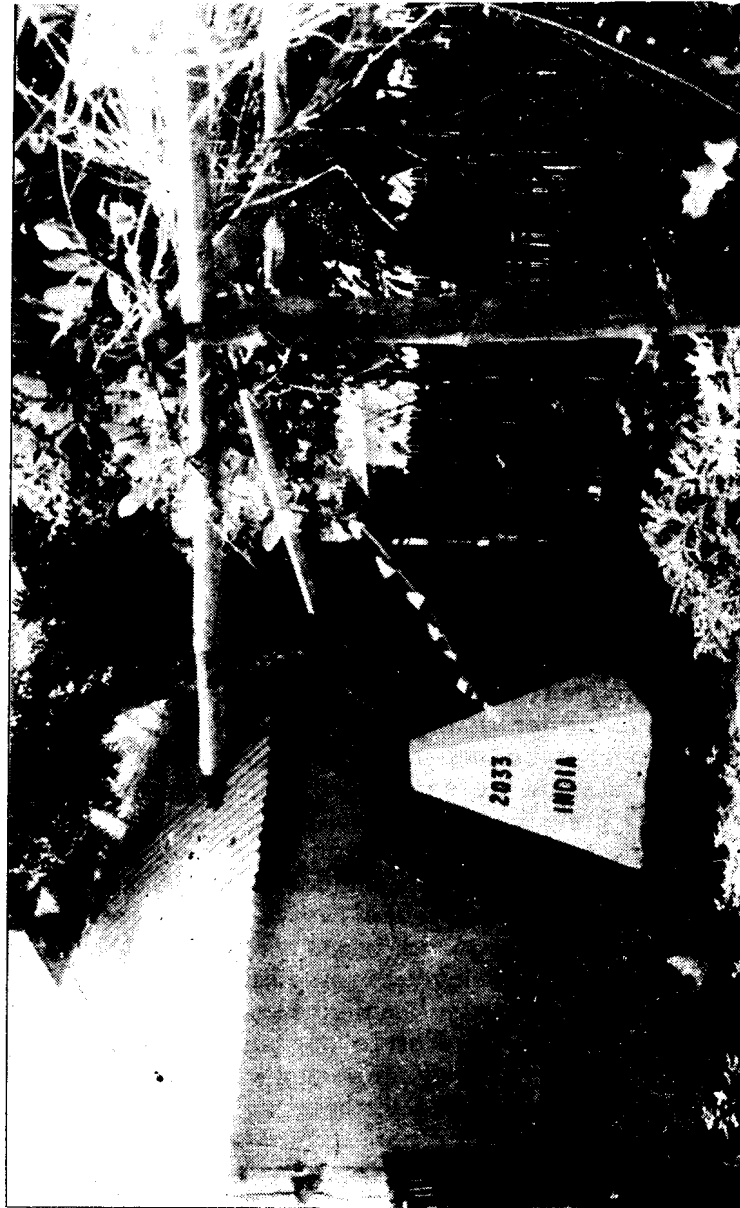
4.1.1 Smuggling seems to be a part of day to day activity of the people living along both sides of the Indo-Bangladesh border. This phenomenon extends far beyond the border villages to those who operate at collection/distribution centres as well as in metropolitan cities like Calcutta and Dhaka. It attracts big operators/wholesalers in big cities, small and medium traders of towns/medium sized cities in border districts and ordinary men, women and children of the border villages who participate in smuggling operations as couriers, porters, rikshaw van pullers, etc. It is not possible for such widespread involvement of people and goods unless there is active support from enforcement authorities at every level. "Goods coming from near and far (Haryana, Uttar Pradesh, Rajasthan, etc.,) form part of the contraband which gives this trade an inter-state dimension" (*The Statesman*, 1992-1). The outflow of essential commodities from virtually all districts on the long and porous West Bengal-Bangladesh border not only raises prices but also affects the functioning of the Public Distribution System (PDS) and the social environment in the border villages.

4.1.2 To couriers and traders trading in smuggled goods, the zero-line (border) is an artificial restriction. Barring the presence of the stone/pillar indicating the frontier (see Photograph 1) distinctive border demarcation does not exist. Indian rice or Bangladeshi VCPs, are meaningless distinctions to a vast section of the border population that perceives smuggling as a normal business or occupation guided by the demand/supply forces offering hefty margins/gains and employment. Apart from the scenario described above, the socio-cultural bonds and age old affinity among people on both sides of the border (discussed in Section 3.1.2) also play a significant part in conditioning the psychology of the people in border areas which aids and abets the phenomenon of smuggling. The extent and scale (volume) of smuggling, its composition and unilateral character of

Photograph I

The Statesman

16 THE STATESMAN, THURSDAY SEPTEMBER 1, 1994



A house literally divided by the international boundary line at Mohinagar in West Tripura district. — The Statesman.

its movement towards Bangladeshi territory is an indication of the inability of the Bangladesh economy to meet the demand for the goods which are smuggled into its borders. Illegal trade flourishes inevitably under such conditions.

4.2 Distinctive Features of Smuggling

4.2.1 While a common thread runs through the activity of smuggling on the Indo-Bangladesh border, variations occur in line with conditions encountered in the southern, northern and north-eastern parts of the study area. The south-eastern part of the West Bengal-Bangladesh border comprising the North 24-Parganas, Nadia and Murshidabad districts is the most active sector with regard to illegal trade flows between the two neighbours. This belt is industrially well developed and has a developed transport and communication system on both sides of the border. The location of Petrapole/Bongaon land port in the North 24-Parganas district (Benapole on the Bangladesh side) provides a useful legal cover for illegal trade flows, a major share of which is accounted for by this district alone. These three districts in the southern part of West Bengal together account for a major share of all commodities smuggled out from India, specially cotton printed sarees, cattle, sugar, salt, bicycles & bicycle parts, fertilisers, machinery and spare parts, medicines, cosmetics, etc. In most of the villages along this border, smuggling has been rampant for over a decade. Normally goods are smuggled through paddy/jute fields. Goods are generally transported to border villages in trucks and to the zero-line using cycle rikshaw vans, bullock carts, tongas, etc. Transshipment across the border is done by head-load carriers/porters. Calcutta, Krishnanagar, Bongaon, Karimpur, Behrampur, Jiaganj, Lalgola are the main collection and distribution centres for smuggled items south of the Ganges. "On the Bangladesh side Jessore is the nerve centre of smuggling" (Ghafur et.al., 1990). "Petrapole and Bongaon are known as 'smugglers towns' where nearly four-fifths of the local population reportedly depend on smuggling" (*The Statesman*, 1992-1). Being one of the important land port immigration points, a large number of travellers who resort to 'baggage smuggling' as a means for transshipment of goods under baggage rules pass through from here. A major proportion of electronic goods and high value items like gold are smuggled into India from these points.

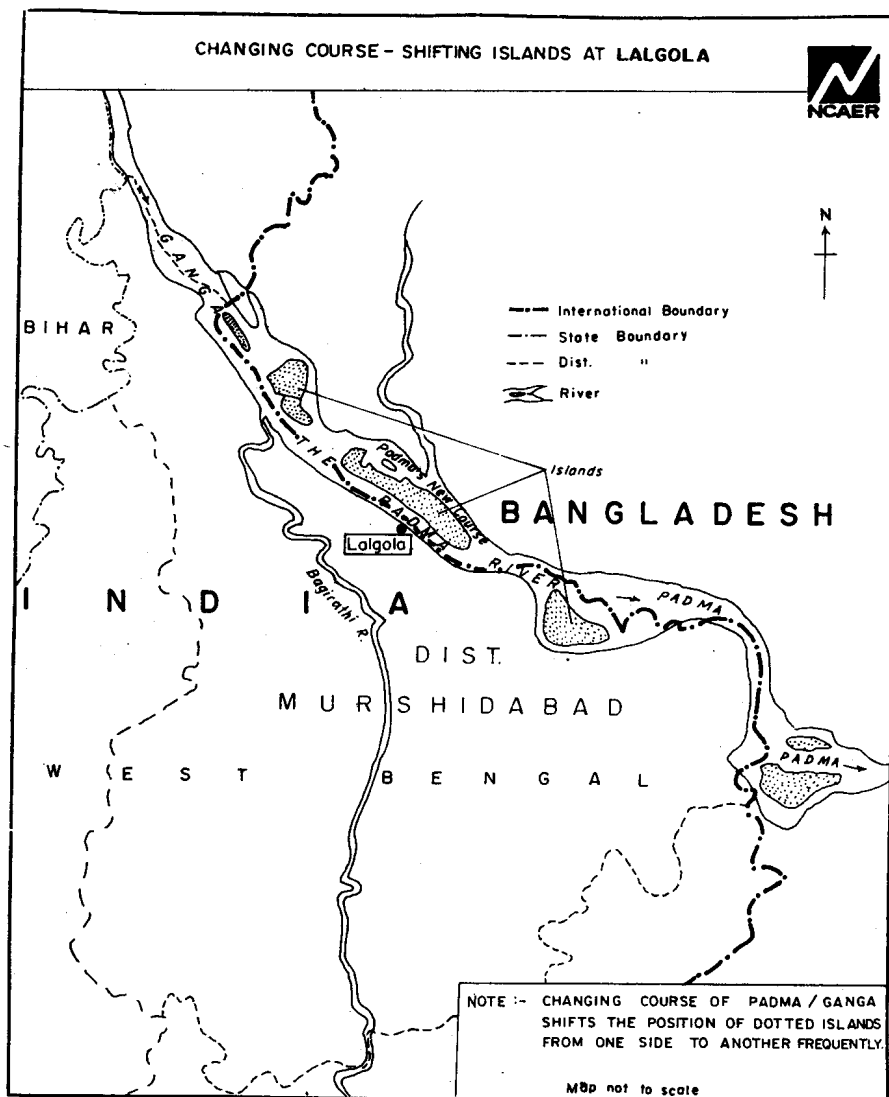
4.2.2 Smuggling centres in the districts of North Bengal (north of the Ganges) and on the Assam/Tripura-Bangladesh border depict the same modes though there are some distinctive features

conditioned by the geography/terrain and the undeveloped and difficult road/rail communications network with the rest of India. Inclusion of some of the forestry/mineral goods in the composition of smuggled goods also calls for adopting different methods. Although this sector mainly comprises land routes, rail and riverine routes are also used for smuggling purposes in these areas. Goods smuggled across South Bengal-Bangladesh border also feature in the composition of smuggled goods (albeit in smaller proportion) at smuggling centres in these areas. Additionally these centres handle some stationery items, hides and skins, jute fibre/seed, milk powder, betel leaf and betel-nut, tobacco stem and bidi, stone chips/boulders, coal, limestone, timber/bamboo, etc. Smuggling activity in this sector is dominated by small and medium sized traders and petty operators. Illegal trade across the border in this area primarily caters to the demand on the other side also as it helps in providing the market for seasonal surpluses (glut) of some items. Severe unemployment and the economic deprivation of the masses has turned smuggling into a sought after pursuit for the young and old men, women and children in the border villages. Important trading (collection/distribution) centres north of the Ganges are Malda, English Bazaar, Kaliachak, Raiganj, Islampur, Radhikapur, Balurghat, Hilli town, Jalpaiguri, Cooch-Behar, Dinhata, Siliguri, Fancy Bazaar, Silchar, Karimganj, Dhubri, Agartala, Bilonia and Kailash Sahar. On the Bangladesh side important trading centres are Comilla, Akhaura, Jakiganj, Feni, Sylhet, Iswardi, Hilli, Birol, Nababganj and Rangpur.

4.2.3 The criss crossing of river and frequent changes in river courses are exploited by the smugglers. At *Lalgola* in Murshidabad, the Padma changes course often shifting islands from one side to the other (Map 2). These islands are used as dumping places by smugglers. Law-enforcing personnel on both sides consider the river as the recognised boundary and get confused about the status of the shifted islands from the middle of the river. Smugglers take full advantage of the conditions. In Cooch-Behar district on the contrary, traditionally several small enclaves (nearly 100) used to change hands between Nawabs and Zamindars (Landlords) in the pre-partition days. An element of uncertainty about the status of these enclaves and the position of the Teen-Bigha corridor between the two neighbours are the other factors which are conducive to smuggling in this area.

4.2.4 An interesting feature of smuggling at Hilli calls for a special mention. A Bangladesh Railway track passes along the border at Hilli. While the railway station of Hilli is in Bangladesh

Map 2



territory, a part of the railway line forms the border with the Indian side. Interestingly the Bangladeshi train passes this point at dusk; smugglers take up positions close to the railway track and put down bundles. These bundles generally contain Indian sarees, cloth, cheap cosmetics, etc., and are secured by wire which ends in wide loops at the top. The Bangladesh carrier, secures himself with a rope tied around his waist to the train, leans out and puts out his hand through the awaiting loops and the bundles disappear as the train slowly rumbles by. (Photograph 2, from *The Statesman*, 1992-I).

4.2.5 An important aspect connected with smuggling in South Dinajpur, Jalpaiguri and Darjeeling districts relates to a corridor provided by India under the tripartite agreement for Nepal and Bangladesh to carry out their official (legal) foreign trade, Nepal being a land locked country. Radhikapur is the customs land port from where Bangladeshi goods are allowed to pass for onward movement towards Nepal through Bihar (Kishanganj-Raxol route). These consignments cannot be examined at Radhikapur by Indian customs. Only papers are checked and the number of boxes counted. Thus the Hilli-Radhikapur rail route becomes a useful conduit and electronics goods, gold, narcotics, etc., get smuggled into India through the Indo-Nepal border in Darjeeling (as well as through the Bihar-Nepal border) as was mentioned in Chapter 3, Section 3.8.1 earlier.

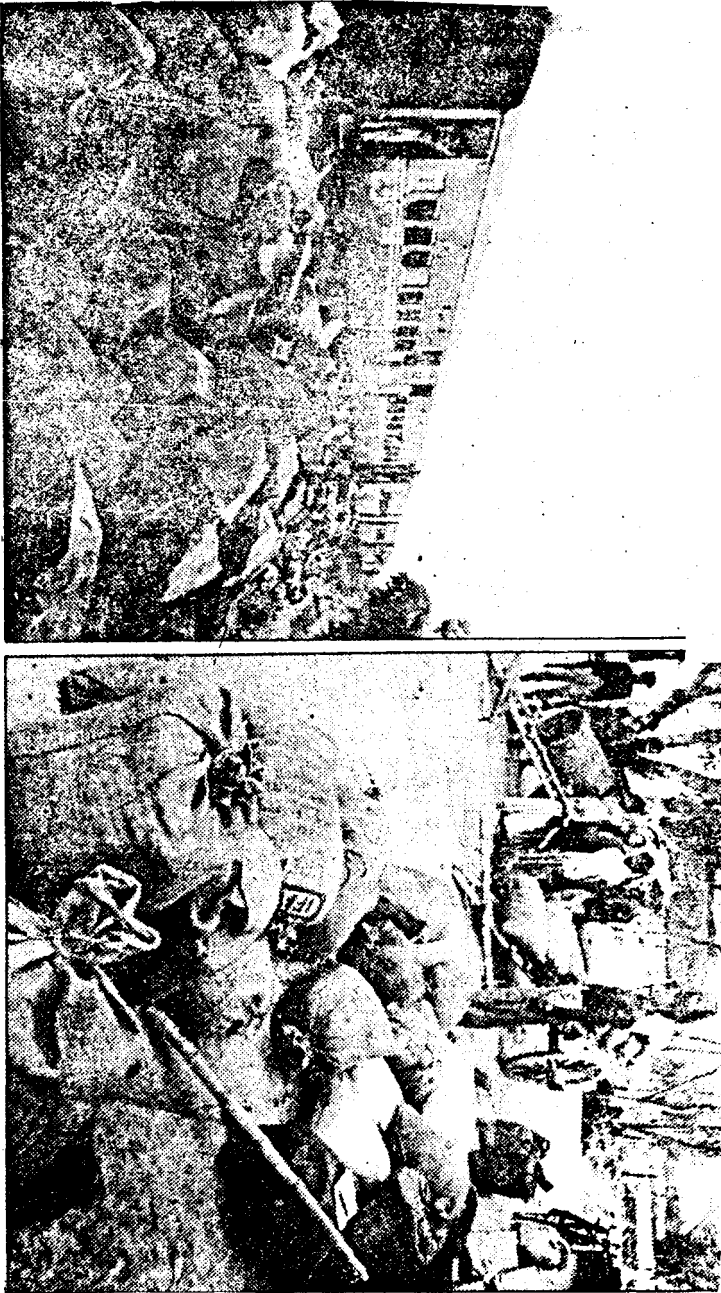
4.2.6 Riverine routes on the border, display leisurely movement of country boats. Vigilance on the river front is not sharp. "The zero-line is imaginary. At one point it supposedly passes through the middle of the stream while elsewhere it is demarcated by the river banks. Most of the boats ply without permits. Leaving fishermen out of the purview of the prohibitory orders in force from dusk to dawn facilitates the smuggling operation after nightfall in the garb of fishermen" (*The Statesman*, 1992-II).

4.2.7 The account of some special features described above bring out the characteristics of smuggling operations in different sectors depending upon the terrain, proximity to the border and available cover. Methods are innovative and meticulously planned so as to dodge the enforcement agencies. Country boats, tongas/tom-toms, rickshaw vans, trucks, buses, trains and human beings are put to optimal use to smuggle goods to and from the Indo-Bangladesh frontier.

Photograph II

THE STATEMAN

3rd MARCH, 1992



EASY ACCESS FOR SMUGGLERS — A Bangladesh Railway train passes along the border at Hilli in West Dinajpur (left) and large quantities of foodgrain, sugar and salt seized by the BSF near the border in West Dinajpur. Three smugglers can be seen standing between the bullock-carts. — Ashis Basu.

4.3 Modes of Collection (Assembly) of Goods Near Border

4.3.1 The goods on the smugglers' lists are procured and transferred closer to border points through a network of dealers and wholesalers operating in the markets of the border districts. Wholesalers/dealers act as main suppliers by procuring goods from big cities like Calcutta and supply the same to local medium — sized traders who act as storing agents. Petty traders of border villages procure these goods from local traders/storing agents. Petty traders at the village level hold goods till all clear signal is received whereupon carriers of goods troop in to carry the goods across the border for leaving them with agents on the other side. Incoming goods reach the main markets in the reverse direction. Most of the essential commodities are largely collected and distributed in this fashion. For transporting the goods, usual transport network/modes are used since until goods reach border villages, the movement of goods is considered legitimate business activity. The problem arises only when movement towards the zero-line begins.

4.3.2 A unique system of "licensing" for purchases of foodgrain, fuel and cattle helps to maintain stocks close to border points. They are misused because most of the goods carried in bulk quantities are accompanied by licences or storage permits issued by a cross-section of the district officials or village panchayats. The BSF authorities have been seeking curbs on the practice of permits/licences being issued by local bodies which enables traders to bring in commodities disproportionate to the legitimate needs of the local population. Lack of assessment of local requirements before issuing licences, and mismatched licensing of wholesalers and retail dealers takes place all the time. "For example, in Bongaon there are reportedly 30 rice wholesalers supplying rice to about 50 authorised retailers, whereas in adjoining Bagda five wholesalers supply their stock to more than 200 retailers. In Murshidabad at one place, as many as 300 licences were reportedly issued whereas in Malda, the period for which stocks could be held were not specified on licences" (*The Statesman*, 1992-II).

4.3.3 Smuggling becomes easy with a large number of 'haats' (village bazars held on specified days) functioning regularly within a few kilometres of the border. "In border areas of Lalgola (Murshidabad) five big 'haats' including two which trade exclusively in cattle, function regularly and goods/cattle are bought and sold with impunity" (*The Statesman*, 1992-I). Even auction of seized goods, particularly cattle, are held very close to border points and sometimes every week. Village markets, dealing exclusively in

cattle, have mushroomed in the districts, from where cattle are taken towards the border. Bullocks fetch fabulous prices in Bangladesh and the temptation to sell off even draught animals creates a crisis situation for small/marginal farmers. Good Haryana and Punjab cattle breeds are brought by animal traders all the way from North Indian states through Bihar and sold at very high prices in, haats, on the border. Even local West-Bengal cattle breeds are under pressure due to rampant smuggling of cattle from India to Bangladesh. Village Panchayats issue permits, now and then, for purchasing cattle for cultivation purposes which are kept for a while and smuggled out. This arrangement sustains the vicious circle of buying and selling of cattle in border areas which are eventually smuggled into Bangladesh.

4.3.4 Licensing of rickshaw vans, tom-toms, horse carriages (tonga), etc., by civic bodies also follows the pattern discussed above. The number of such means of transportation have no relevance to the size of the town/place. "For example, in the Bongaon (North 24-Parganas) municipal limits there is a registered fleet of over 8000 tom-toms. Similarly, the number of rickshaw vans plying on Bongaon-Petrapole road is baffling to a casual visitor" (*The Statesman*, 1992-III). On the whole, the socio-economic and politico-cultural environment in border areas is conducive to cross border trade.

4.4 Some Common Smuggling Features

4.4.1 Some of the common features of unofficial trade in all border districts revealed by the field survey are as follows:

- (i) Generally the goods are moved for storage (close to border) during day time under the pretext of rural marketing and border crossing takes place after night fall. *Peak* smuggling hours are 6 to 10 p.m. and 4.30 to 6.30 a.m. for essential commodities and other consumer goods. Cattle and other high value contraband are moved late in the night. Women/children cross border point largely in the forenoon or evening hours.
- (ii) Commodities subject to seasonal smuggling changes are (a) *Sugar/salt*: less in rainy season—normal during rest of the year with festival months/weeks registering peaks; (b) *fresh vegetables/fruit*: composition as per seasonal production but no seasonal change; (c) *lentil (pulse)*: more in winter months; (d) *fertilisers*: more during pre-sowing periods and during rabi season; (e) *cattle*: no seasonal change—peak during

Muslim festival months; and (f) for rest of the commodities all round the year smuggling goes on. Generally peaks are registered during pre-festival weeks and lean period occurs during the monsoon period when road/river communications get disrupted.

- (iii) *Courier Wages:* (a) Mens' Head Loads: Rs. 15 to 20 per trip for carrying a quintal material, (b) Women: Rs. 15 to 25 per trip to carry 6 to 8 sarees and some other light goods. For gold and currency, rates are substantially up but negotiable; and (c) Children: Rs. 5 per trip for carrying 10 to 15 kg. of sugar/salt and a 5 litre can of kerosene. Rs. 5 per bottle of Phensedyl cough syrup. Generally payment rates vary around these mini-max bounds.
- (iv) Whenever pre-arranged arrests are contemplated additional amount (depends upon the number of days in custody) is paid to couriers.
- (v) *Rickshaw Van:* About Rs. 20-25 per trip to carry 5 quintal material on an average. Less than 5 km. per trip - Rs. 20; 5 to 10 km. - Rs. 50.
- (vi) If couriers are required to make a trip to Calcutta - Food/rail-road travel costs plus Rs.100.
- (vii) In unofficial exchange markets/person carrying Transfer Ticket (TT) is paid the exchange by brokers by charging 1.5% from the TT slip holder. Rest of the brokerage is recovered from TT slip issuing group/persons.

4.5 Anti-Smuggling Agencies : Handicaps Faced

4.5.1 Border Security Force is the principal force manning the border to curb illegal trade and securitywise undesirable activity (illegal immigration). To minimise possibility of strong links between the BSF jawans and smugglers, BSF companies are regularly shifted from one site to another. Nevertheless, smugglers manage to establish links quite fast. However, the handicaps faced by the BSF and recounted by BSF Commandants as well as IGs of South/North Bengal and North-eastern sectors are as follows:

- (i) Inadequate force to man long and porous border for patrolling all hours of the day. Financial constraints and demand from other borders does not permit raising the force level. For example, in Malda a BSF company of 120 men patrols border of 125 kms. Given the porous and zig zag nature of the

border, jawans are stretched and failures occur mostly unwittingly.

- (ii) Border not fully and properly demarcated—enforcement becomes difficult.
- (iii) No power to arrest. BSF can apprehend and hand over smugglers to customs and illegal immigrants to Civil Authorities/State Police but can't arrest.
- (iv) Women carriers of smuggled goods can be detained but not searched under the law because BSF does not have women cadres. Local help is rarely forthcoming.
- (v) People moving close to border, particularly women, carrying small quantities of essential commodities, on challenging, argue that the goods are for family consumption purposes—in such cases detention can't be resorted to.
- (vi) Women with infants in arms can't be fired at, lest local people raise hue and cry leaving BSF jawans at the receiving end.
- (vii) In border villages panchayats, the democratically elected local body, issue grocery trade licences—much more than the local need, invariably without specifying quantity and period leading to huge stocks accumulation available for transshipment. Until these goods reach the borders, the activity is legal. Potential trouble needs to be crubed prior to reaching borders but this does not happen.
- (viii) Seized goods are required to be measured and properly listed and handed over to Customs for further action. The valuation at the BSF and Customs end do not match. Many problems crop up while handing over the goods to the Customs. Without power to prosecute BSF has no teeth to enforce the law. It only remains a force to apprehend culprits and that too when they cross the border—not till then. It becomes too late by the time the border is crossed. It also goes against the training of the BSF.

4.5.2 Customs smuggling prevention outpost is the other arm of anti-smuggling agencies of the Central Government. The handicaps faced by them are of somewhat different nature.

- (i) Firstly, like BSF paucity of staff and inadequate women cadres in the preventive wing (for field duties) considerably affects its functioning.

- (ii) Secondly, at many land ports (legal import/export outposts) weigh-bridges to weigh trucks are not provided. One has to go by whatever the invoices and export licences state. Illegal exports, through legal channels may be occurring due to this.
- (iii) Thirdly, rapid changes in tariffs and quotas do not percolate to small land ports as rapidly.
- (iv) Fourthly, Customs are charged with prosecution duties. Till court decision is delivered, seized goods have to be kept in safe custody in seized condition. Decisions take a long time to come and it becomes difficult to hold such goods.
- (v) Fifthly, storage space in border districts is inadequate. Given the scale of smuggling and its composition, delays in court verdicts, etc., make it difficult to hold seized goods.
- (vi) Sixthly, paucity of transport/jeeps in-general and high powered vehicles in particular, makes it difficult to go in pursuit of smugglers.
- (vii) Finally political interference, lack of adequate support from Civil and Police authorities and dearth of informers (general apathy) all add up to make anti-smuggling duties tough.

4.5.3 Civil and Police administration at district levels is by and large only concerned with law and order issues. If law and order cases multiply they raise alarm and advise BSF to go slow on apprehending the culprits. BSF is advised to push back illegal immigrants rather than catch them and hand them over to the police for prosecution. The process does not deter those pushed back to try again and again so as to succeed some day.

4.6 Concluding Observations

Distinctive features, innovative methods of smuggling and collection/distribution of goods along with physical features of land border presented in Sections 4.2 to 4.5 clearly bring out the factors that promote unofficial trade along the Indo-Bangladesh border. Section 4.6 dealt with the limitations within which the law enforcing agencies are obliged to operate to curb illegal activity on the frontier and also revealed the factors that affect the efficiency of the personnel charged with anti-smuggling duties. The nature of the goods traded (commodities of mass consumption), the existing poverty levels, unemployment and illiteracy of the field operators

coupled with strong age old ties among people on both sides of the border make it difficult for the BSF jawans to resort to strong measures. Apart from this, large scale presence of immigrants in the border villages makes it doubly difficult to check any illegal activity on the frontier. Under these conditions, inadequate anti-smuggling effort of the law enforcing agencies is geared towards preventing illegal immigration and reduction of smuggling in important items, viz., cattle, contraband goods of high value (gold/silver, etc.) and banned items like narcotics/drugs, arms and ammunition.

Chapter 5

Indo-Bangladesh Bilateral (Official) Trade

(Partner Country Data Comparisons and Post-Liberalisation Trends)

5.1 Preamble

5.1.1 Both India and Bangladesh, as a legacy of colonial domination, inherited trade patterns with overwhelming dependence on the developed and industrialised world economies. Economies of the two neighbours are susceptible to severe impact resulting from minute trade related changes in policies of the developed economies. Recognising the need to promote regional cooperation and following the initiative taken by the late President Zia-ur-Rehman of Bangladesh in 1979, the seven countries of South Asia (India, Bangladesh, Pakistan, Sri Lanka, Nepal, Bhutan and Maldives) formed a loose organisation under the banner of the South Asian Association for Regional Cooperation (SAARC)¹. The SAARC was formally launched in 1983 (Delhi Declaration) and was converted into an Association at the end of the summit of the Heads of States of seven member countries at Dhaka (Dhaka Declaration, 1985).

5.1.2 Despite differences in the levels of economic development and contentious bilateral issues, mainly involving the largest country namely India, the member countries formally agreed to keep purely bilateral issues out of the formal agenda and work for regional cooperation to promote the welfare of the people of South Asia so as to improve the quality of their lives. The approach at the nascent stage, excluded core areas of economic cooperation in trade, joint industrial ventures, energy and other economic sectors. Though over the years an advance in expanding the areas of cooperation has been made, the areas of trade and joint investment ventures remain outside the ambit of SAARC activities. However, moves made in recent years to extend the scope of regional cooperation to the economic fields are reflected in the programme of conducting detailed analytical studies for identifying areas of cooperation in the sphere of trade, manufactures and services. While gradual movement towards an integrated economic grouping and carving out of a free trade zone are welcome moves, perhaps inevitable too in the post-GATT context, the creation of the free trade zone in the sub-

continent may eventually lead to elimination of the omnipresent phenomenon of illegal trade carried through legal channels or outside of it. Chapters 3 and 4, in the context of Indo-Bangladesh illegal (bilateral) trade flows, brought out the direction, composition and volume of trade, smuggling related socio-economic conditions, and handicaps faced by law-enforcing agencies. An attempt is made in this chapter to assess/evaluate the scale of illegal transactions via legal channels by resorting to faked invoicing practices. It may be noted that the effort in this study has been confined to gauging the scale of overall faked over/under invoicing so as to supplement the assessment of the illegal volume of trade flows presented in Chapter 3.

5.2 Data Sources

5.2.1 Chapter 2, Sections 2.10.1 to 2.10.3 earlier outlined the procedure adopted for detecting unrecorded trade (smuggling) through legal channels via faked over/under invoicing. The methodology adopted for this study drew heavily from the works of Bhagwati, Simkin, Naya and Theodore, Richter and Cooper presented in the theory and measurement of 'Illegal Transactions in International Trade' edited by Prof. Jagdish Bhagwati (1974).

5.2.2 The approach for analytical purposes basically adopted the technique of 'Partner Country Data Comparisons'. For this purpose foreign trade statistics for India and Bangladesh were collected from 'Commodity Trade Statistics' published in UN Statistical Publications for the latest available years. This data source was preferred over Foreign Trade Statistics of India and Bangladesh firstly because import/export data for recent years were not readily available for Bangladesh and secondly to avoid difficulties emanating from differences in classification, valuation methods, exchange rates, etc. Since trade related UN statistics follow SITC (Rev-3) based commodity classification for all countries and trade volumes are presented in US dollars, it was possible to obtain import/export statistics from the two countries more or less in a standardised form.

5.2.3 Data presented in the UN Statistical Publications adopt reference periods for country specific trade statistics in accordance with each country's fiscal year. Therefore, India related statistics is for April-March period whereas that of Bangladesh is for July-June cycle. Before going-in for comparisons, data on India's exports to and imports from Bangladesh were adjusted to the July-June cycle

so as to match the reference periods of the two data sets. This was done using India's foreign trade statistics for the April-June quarter published by the Directorate of Commercial Intelligence and Statistics, Calcutta which was regrouped in accordance with the SITC (Rev. 3) classification. Thereafter, all rupee values were converted into US dollars applying the Reserve Bank of India rupee/dollar exchange rates of the relevant period. Data compiled for the April-June quarter in accordance with the aforesaid procedure was used to make necessary adjustment in India related Commodity Trade Statistics from the UN Statistical Publications to bring it to the July-June reference period for the relevant years to enable partner country data comparisons.

5.3 Partner Country Data Comparisons

5.3.1 Conceptually as mentioned earlier, exports and imports of India and Bangladesh to each other should match after making necessary adjustments of the nature discussed in the preceding sections except for the differences attributable to the f.o.b. and c.i.f. discrepancies. As is well known, c.i.f. charges included in import values are the costs incurred between frontiers or ports of the importing and exporting countries (Morgenstern, 1950). Therefore, import values of partner country statistics are usually purged of c.i.f. discrepancies to bring them on par with f.o.b. (export) values for comparison purposes. India and Bangladesh share a long land border and over four-fifths of the bilateral (official) trade volume pass through land ports. This mode of trade flows using land/river routes cuts down delays in deliveries and leads to savings in c.i.f. costs. In this context, it is pertinent to consider whether bilateral trade flows of neighbouring countries without touching third country territory, call for purging import values of c.i.f. charges. In the present case, as third country territory is not involved for shipment of traded goods, c.i.f. element in value of imports of both the countries are expected to be negligible, at least with regard to goods traded through land ports. Therefore, for the purposes of this exercise, it is assumed that import values of goods (mostly essential commodities and consumer goods) transported through land ports need not be subjected to the usual procedure of purging of c.i.f. values. However, in the case of the remaining proportion of the bilateral trade between the two neighbours carried through sea ports located on India's east coast, specially Calcutta and Madras would have some c.i.f. costs which would be part of import values. The distance between Chittagong (Bangladesh) and the Indian sea

ports mentioned above being relatively small, c.i.f. margin for adjustment would also be smaller than otherwise usually applicable in the case of distant trading partners. The latest statistics on shipping costs show that the proportion of shipping costs to f.o.b. values constitutes about 8% for developing countries in Asia and 5% for developed countries (*Annual Review, 1993-94 INSA*). In the context of Indo-Bangladesh bilateral trade and for the purposes of this exercise c.i.f. costs are assumed to be around 5% of f.o.b. value of exports for goods largely shipped through sea ports and negligible for goods imported through land ports in view of the proximity of the exporting/importing countries.

5.3.2 Before taking a decision with regard to the commodity groups reflecting c.i.f. inclusive import values calling for adjustment, it is imperative firstly to rule out the possibility of perverse discrepancies between c.i.f. and f.o.b. statistics. Prof. Bhagwati considers this the most difficult task to fulfill. Four major reasons which explain discrepancies (errors) are,

- (i) misgrouping/misclassification of commodities,
- (ii) mis-allocation of imports, i.e., inclusion of imports from 'A' in imports from 'B'.
- (iii) mis-recording of the year of import (due to delivery delays), and
- (iv) over-invoicing at the partner country's end.

In the present case, mis-allocation and mis-recording errors can be more or less ruled out because enroute third country involvement is not possible and proximity of trading partners minimises delays in deliveries. However, the export/import values of partner countries (Tables 5.1 and 5.2) strongly indicate possibilities of a considerable level of mis-classification (misgrouping) as well as under-statement of import values. Tables 5.1 and 5.2 also point to the under/over-invoicing possibilities of imports and exports at both ends. Therefore, export/import volumes appear to be a mix of both misclassification and faked invoicing. Consequently, as Bhagwati puts it, the task of evaluating the level of faked invoicing becomes very difficult in the context of Indo-Bangladesh bilateral trade.

5.3.3 India-Bangladesh bilateral trade statistics (Tables 5.1 & 5.2) point to three distinct phenomena. Firstly, export/import values differ widely in some cases indicating simultaneous occurrence of mis-classification and faked invoicing at both ends. In such cases the degree of faked invoicing cannot be detected or isolated properly.

Indo-Bangladesh Bilateral (Official) Trade

Table 5.1: India -Bangladesh Partner Country Data Comparison (Indian Exports)

SITC Code	Commodity Class	(Value in 000 ' US \$)							
		Exports of India*		Imports of B' d'esh		Discrepancy		Degree of faked invoicing (%)	
		(1)	(2)	(3)**	(4)**	(5)**	(6)**	(7)**	(8)**
		1991-92	1992-93	1991-92	1992-93	1991-92	1992-93	1991-92	1992-93
0	Food & Live Animals	46927	26478	21809	22253	25118	4225	—	19
1	Beverages & Tobacco	1373	2885	1093	3385	332	-339	32	-11
2	Crude Materials Excl. Fuels	9968	15716	113650	37599	-98270	-20093	—	—
3	Mineral Fuels, etc.	4465	17718	3727	0	915	17718	26	—
4	Animal/Veg. Oil Fat	0	0	0	26	0	-26	0	—
5	Chemicals, Related Products NES	24843	24271	12541	21660	12899	3642	—	18
6	Basic Manufactures	180172	290536	44954	222070	137359	79041	—	37
7	Machines, Transportation Equipment	40629	49588	25439	26170	16401	24664	68	99
8	Miscellaneous Manufactured Goods	3824	5116	7846	1030	-3648	4135	—	—
9	Goods Not Classified by Kind	4799	—	205	4368	—	—	—	—
TOTAL		317000	432308	231264	338561	96749	109869	44	34

** Data presented here refer to the reference period of July to June. Original April to March figures are suitably adjusted.

For data pairs appearing under (3) & (4), - sign indicates under-invoicing and + sign indicates over-invoicing.

Sign indicates, not estimated due to wide f.o.b./c.i.f. value differences.

Notes : Col.(3) = Col.(1) - Col.(2)/k, where k is 1.00 for commodity group 0 and 1.05 for others.

Col.(4) = Col.(3)/Col.(2) * k * 100, is the degree of faked invoicing of exports [Col.(3) as percentage of Col.(2)]

Data Sources : Commodity Trade Statistics, UN Publications.

: Monthly Statistics of Foreign Trade, DGC&S, Calcutta.

: Import Payments, 1992, Bangladesh Bank.

: Currency & Finance, Reserve Bank of India publications.

Table 5.2: India-Bangladesh Partner Country Data Comparison (Indian Imports)

SITC Code	Commodity Class	(Value in 000' US \$)					
		Imports of India*		Exports of B'desh		Discrepancy	
		(1)	(2)	(3)**	(4)**	(5)**	(6)**
		1991-92	1992-93	1991-92	1992-93	1991-92	1992-93
0	Food & Live Animals	42	2499	209	2167	-167	332
2	Crude Materials Excl. Fuels	236	4009	3539	2691	-3480	1183
4	Animal/Veg. Oil Fat	0	114	0	561	0	-475
5	Chemicals, Related Products NIES	145	2162	177	1473	-41	615
6	Basic Manufacturers	1028	918	3636	554	-2790	336
	TOTAL	1451	9742	7561	7453	-6488	1916
							25

* Data presented here refer to the reference period July to June. Original April to March figures are suitably adjusted.

** For data pairs appearing under cols. (3) and (4), - sign indicates under-invoicing and + sign indicates over-invoicing.

— Sign indicates, not estimated due to wide f.o.b./c.i.f. value differences.

Notes: Col.(3) = Col.(1) - Col.(2)*k, where k is 1.00 for commodity group 0 and 1.05 for others.

Col.(4) = Col.(3) / (Col.(2)*k) * 100 is the degree of faked invoicing of imports [Col.(3) as percentage of Col.(2)]

Data Sources: *Commodity Trade Statistics*, UN Publications.

: *Monthly Statistics of Foreign Trade*, DGCI&S, Calcutta.

: *Import Payments*, 1992, Bangladesh Bank.

: *Currency & Finance*, Reserve Bank of India publications.

Secondly, in some (other) cases reasonable under-statement of import values after adjusting for c.i.f. costs of import values becomes apparent. Thirdly, normal (and expected) occurrence of import values reasonably exceeding export values after allowing for c.i.f. costs (if any) is also evident for some of the commodity groups.

5.3.4 Data on Indian exports to Bangladesh and Bangladesh's imports from India (Table 5.1) need to be examined in the light of the above factors (Section 5.3.3). Assuming that over one half (50%) divergence with respect to exports between f.o.b. (exports) and c.i.f. (imports) adjusted values constitutes a wide variation, data (Table 5.1) reveal that commodities classified under SITC codes 0, 2, 5, 6 and 8 in 1991-92 and SITC codes 2 and 8 during 1992-93 seem to suffer from a combined influence of discrepancies emanating from misclassification (misgrouping) as well as under/over-invoicing of imports and exports at both ends and estimation of the degree of faked invoicing in the case of these commodity groups may lead to erroneous inferences. Since the data *prima facie* point to perverse discrepancies in the statistics of the aforesaid commodity groups as well as presence of statistical errors and faked invoicing of imports and exports, it would be improper to estimate the degree of faked invoicing for the commodity groups mentioned above. As regards commodity groups of SITC codes 1, 3 and 7 import values being lower than export values (even without c.i.f. adjustment) it is reasonable to infer that over-invoicing of exports in these categories during 1991-92 may have occurred ranging from a low of 26% in the case of mineral fuels to a high of 68% in the case of machinery and transport equipments. While goods under SITC code 4 were not traded at all in 1991-92, SITC code 9 covered all unclassified goods that are not amenable to assessment of faked invoicing. In 1992-93, faked invoicing took place in the case of more commodity groups. For example, commodities forming part of SITC codes 0 and 5 to 7 with import values lower than corresponding export values point to the occurrence of over-invoicing of exports with its degree ranging from a low of 18% (chemicals related products) to a high of 99% in the case of machinery and transportation equipments during 1992-93. Commodities under SITC code 1 are the only ones depicting reasonably excessive import values over corresponding export values indicating about 11% of under-invoicing of exports in 1992-93. In the case of commodity groups of SITC codes 3 and 4, clearly the goods were misclassified at one of the ends since either exports or imports are not reported by one of the trading partners in 1992-93. At the aggregate level, Indian exports of all commodities to Bangladesh depict higher (f.o.b.) value than import (c.i.f.) value of Bangladesh's

imports from India. On the whole over-invoicing of exports seems to be of the order of 44% in 1991-92 and 34% during 1992-93.

5.3.5 Discussion in the preceding section clearly points to the possibility of over-invoicing of Indian exports to Bangladesh across all commodity groups and more so in the case of basic manufactures comprising textile/rubber based manufactures and machinery and equipments which together account for about 75% of India's exports to Bangladesh. The rationale for over-invoicing of exports flows from new measures initiated in the realm of trade policy. The new measures have replaced import licensing for a wide range of intermediate products with the tradable import entitlements carrying a uniform replenishment rate of 30% of export value. The new instrument known as 'Eximscrips' is freely tradable providing added incentive to exporters and enabling the allocation of imports according to market forces within the available pool of Eximscrips.¹ Further liberalisation of the trade policy regime in March, 1992 provided for surrendering 40% of foreign exchange earnings from exports of goods and services at the official exchange rate while the remaining 60% could be sold in the market to finance all other imports. With this change in the exchange rate regime, the import licensing mechanism was virtually abolished. Thus all capital goods, raw materials, intermediaries and components were made freely importable subject only to tariff protection. The peak tariff was also lowered in the 1992-93 Budget². Introduction of freely tradable Eximscrips and of the 'liberalised exchange rate management system' (LERMS) provided a powerful incentive to over-invoice exports to earn foreign exchange at higher levels for financing imports. This explains the phenomenon of over-invoicing of India's exports to Bangladesh following the liberalisation of trade policies

5.3.6 India's imports from Bangladesh are restricted to a few commodities such as spices (SITC code 0), raw jute and other bast fibres (SITC code 2), alcohols & phenols (SITC code 5), paper & paper boards and dressed leather (SITC code 6). In 1991-92 except for chemicals (SITC code 5) in all other commodity groups wide divergence in statistics of India's imports from Bangladesh and Bangladesh's exports to India can be noticed (Table 5.2). In 1992-93, however, except for animal/vegetable oils and fat (SITC code 4) in other commodity groups Bangladesh's export values were relatively lower than India's import values after making necessary c.i.f./f.o.b.

¹ See *Economic Survey, 1991-92, Part II, Government of India*, p.60.

² *Economic Survey, 1992-93, Government of India*, p. 95.

adjustments. This phenomenon also points to over-invoicing of Indian imports from Bangladesh at a minimum of 15% in the case of food items (mainly spices) and a maximum of 58% in the case of basic manufactures comprising mainly paper and paper boards and leather (dressed) and fur. On the whole India's imports from Bangladesh were over-invoiced by about 25% in 1992-93. Though, the degree of under-invoicing of imports (in 1991-92) from Bangladesh cannot be estimated due to preponderance of statistical errors in the import/export statistics of one country or the other, the scale of variation in the two data sets presented in the 3rd pair of columns in Table 5.2 indicates the possibilities of under-invoicing of Indian imports from Bangladesh in 1991-92. Interestingly, comparison of 1991-92 and 1992-93 imports/exports of India and Bangladesh from and to each other in the post-liberalisation years reveals a pattern of reversed faking of import invoices of India (assuming that Bangladesh's export data is devoid of over/under-invoicing), i.e., under-invoicing during 1991-92 and over-invoicing in 1992-93. The reversal in faking of invoices with regard to India's imports from Bangladesh appears to have found favour with Indian importers after introduction of tradable Eximscrips with further reduction in import tariffs in March 1992 for fiscal year 1992-93. These changes provided incentives to over-invoice imports. Availability of a part of the export earnings to finance imports subject to lowered import tariffs without any other restrictions in 1992-93 perhaps made it worthwhile to command more foreign exchange abroad by over-invoicing of imports, i.e., inflating the c.i.f. value of imports. Reduced import tariffs also ensured lowering of negative impact of customs duties on importer's gains from over-invoicing. Therefore, after the liberalisation process in trade related policies began, the phenomenon of over-invoicing of exports as well as imports from and to Bangladesh in 1992-93 could be discerned. These inferences however, are subject to the assumption of import/export statistics of Bangladesh being accurate as well as devoid of faked invoicing of its imports and exports. In all probability this may not be so. Therefore, only 'plausibility' of faked invoicing of Indian exports and imports (to and from Bangladesh) can be established. The degree of faking presented holds good only if the underlying assumptions also hold good.

5.3.7 The preponderance of statistical errors in the form of misclassification as well as the plausibility of faking of invoices by exporters and importers of the trading partners does not permit realistic estimation of the extent of illegal transactions (through legal channels) in the bilateral trade of the two neighbours. However, if the underlying assumption holds good, the overall extent of illegal

trade through faked invoicing with Bangladesh would be of the order of 110 million US \$ for exports and 2 million US \$ for imports to and from Bangladesh in 1992-93.

5.4 Indo-Bangladesh Bilateral Trade : Trends Following Liberalisation of Indian Economy

5.4.1 Tables 5.3 & 5.4 and Figure 5.1 present the composition of India's commodity exports to Bangladesh by major commodity groups. The data presented represents three yearly averages preceding and following 1990, i.e., the year in which economic reforms/trade liberalisation process got underway in India. Table 5.3 depicts shares of major commodity groups (SITC codes 0 to 9) in total Indian exports before and after 1990 whereas Table 5.4 presents more details in this regard. Data show that the goods classified under basic manufactures (SITC code 6), machinery and equipments (SITC code 7) and food and live animals (SITC code 0) together accounted for over 86% of Indian exports to Bangladesh prior to liberalisation which marginally fell by 2.14 percentage points following the liberalisation of the Indian economy. Among the commodity groups, while the share of basic manufactures in Indian exports to Bangladesh went up by 6.24 percentage points after 1990, that of machinery and equipments fell by 9.18 percentage points. The contribution of food items, live animals being a restricted item, to total exports to Bangladesh marginally went up after 1990. The share of other commodity groups in Indian exports to Bangladesh, by and large, rose marginally after the trade liberalisation process began in 1990, except for a negligible fall of 0.54 percentage points in the case of goods classified under miscellaneous manufactures (SITC code 8). On the whole, the value of Indian exports to Bangladesh went up on an average by 56.54% in the post-liberalisation period as compared to the corresponding pre-liberalisation period.

5.4.2 Table 5.4 presents relative shares of some of the important commodities included in major categories/classes under the SITC classification. Data show that among basic manufactures (SITC code 6) textile yarn and fabrics constituted the single most important commodity group claiming lion's share in total exports of basic manufactures. After 1990, the share of textile yarn and fabrics in all basic manufactures rose by 3.5 percentage points. The relative shares of other commodities in the basic manufactures category, viz., paper and paper board manufactures, non-metal mineral manufactures went up marginally after 1990. Relative shares of rubber manufactures, iron and steel, and non-ferrous metals (mainly

**Table 5.3: Pre & Post Liberalisation Composition of Indian Exports
by Major Commodity Classes (SITC)**

SITC Code	Value * ('000 US \$)		Per Cent	
	Before	After	Before	After
	1990	1990	1990	1990
0	22108	37503	9.60	10.40
1	771	1881	0.33	0.52
2	6811	11310	2.96	3.14
3	7870	10332	3.42	2.86
4	0	0	0.00	0.00
5	10091	24263	4.38	6.73
6	127661	222348	55.41	61.65
7	50363	45740	21.86	12.68
8	4413	4843	1.92	1.34
9	299	2385	0.13	0.66
TOTAL	230390	360655	100.00	100.00

* Three-yearly averages for April-March periods.

Source: Monthly Statistics of Foreign Trade, DGCI & S.

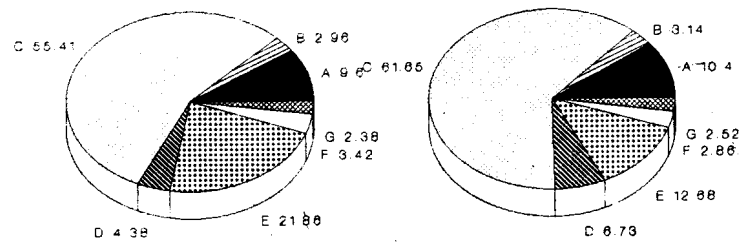
aluminium), however, dropped marginally. In the machinery and transport equipment category (SITC code 7) the relative share of exports to Bangladesh declined sharply after 1990 mainly due to a steep fall in the export volume of road transport vehicles and power generating equipments. Though food and live animals as a category has retained its export base, a sharp fall in the proportion of some primary fresh food items like vegetables and fruits can be discerned. Fall in export volume of vegetables and fruits was made up by the new export items which entered the export basket comprising dairy products, eggs, cereal preparations, and sugar and sugar preparations. A shift in exports from primary agricultural commodities to agro-based manufactures within the food and live animals commodity group thus appears to be taking place. Among other categories of goods exported to Bangladesh, there was a perceptible fall in exports of crude fertiliser materials and minerals like coal and other miscellaneous manufactured goods. Rise in exports by 2.35 percentage points after 1990 in chemicals and its related products was mainly due to increased exports of medical and pharmaceutical products and dying, tanning and colouring agents. On the whole, export demand seems to have shifted to consumer goods with capital goods and infrastructure promoting equipment losing ground.

Figure 5.1

Composition of Indian Exports to Bangladesh

Before 1990

After 1990



- A. Food & live animals
- B. Crude materials
- C. Basic manufactures
- D. Chemicals & related products
- E. Machines & transportation equipment
- F. Mineral fuels
- G. Miscellaneous manufactures and others

Table 5.4 : Pre & Post Liberalisation Composition of Indian Exports—Per Cent Distributions by Major Commodity Classes (SITC)

SITC Code	Commodity Class	Before 1990		After 1990	
		Per Cent to		Per Cent to	
		Total *	Group ** Total	Total *	Group ** Total
(1)	(2)	(3)	(4)	(5)	(6)
0	Food & live animals	9.60	100.00	10.40	100.00
02	Dairy products, birds' eggs	0.00	0.00	0.83	7.96
04	Cereals & cereal preparations	0.00	0.00	0.13	1.24
05	Vegetables & fruits	9.02	94.00	6.43	61.83
054	Vegetables	6.32	65.84	4.64	44.65
057	Fruits, nuts excl. oil nuts	2.70	28.16	1.75	16.79
06	Sugar, sugar preps, honey	0.00	0.00	0.02	0.15
07	Coffee, tea, cocoa & spices	0.13	1.33	2.70	25.93
1	Beverages & tobacco	0.33	100.00	0.52	100.00
12	Tobacco & tobacco mfrs.	0.33	99.81	0.52	100.00
2	Crude materials excl. fuels	2.96	100.00	3.14	100.00
22	Oil seed, oleagenous fruit	0.00	0.00	0.00	0.00
23	Crude rubber	0.00	0.00	0.00	0.00
26	Textile fibres & waste	0.16	5.55	1.08	34.28
261	Silk	0.00	0.00	0.00	0.00
263	Cotton	0.00	0.00	0.41	12.99
266	Synthetic fibres	0.04	1.22	0.66	21.04
267	Other manmade fibres	0.00	0.00	0.00	0.00
268	Wool, other animals hair	0.00	0.00	0.00	0.00
27	Crude fertilisers, minerals NES	2.39	80.91	1.73	55.12
274	Sulphur (Unrested), iron pyr	0.00	0.00	0.00	0.00
29	Crude animal, veg. materials NES	0.33	11.08	0.30	9.62
3	Mineral fuels, etc.	3.42	100.00	2.86	100.00
32	Coal, coke & priquettes	3.41	99.79	2.84	99.18
33	Petroleum products & petrol products	0.00	0.00	0.00	0.00
4	Animal/veg. oil fat	0.00	0.00	0.00	0.00
5	Chemicals related products	4.38	100.00	6.73	100.00
51	Organic chemicals	0.24	5.53	1.12	16.60
52	Inorganic chemicals	0.64	14.68	0.82	12.26
53	Dyes, tanning, colour products	1.78	40.65	1.89	28.13
54	Medical/pharma products	0.93	21.21	1.95	28.99
55	Perfume, cleaning etc. products	0.07	1.57	0.03	0.39
57	Plastics in primary form	0.08	1.75	0.17	2.59
58	Plastic materials, etc.	0.22	4.92	0.17	2.55
59	Chemical materials NES	0.37	8.44	0.55	8.18
6	Basic manufactures	55.41	100.00	61.65	100.00
62	Rubber manufactures NES	4.09	7.38	3.51	5.70
64	Paper, paperboard manufactures	0.55	0.99	0.76	1.23

(Continued)

Table 5.4 — (Contd.)

(1)	(2)	(3)	(4)	(5)	(6)
65	Textile yarn fabrics, etc.	41.33	74.58	48.16	78.12
651	Textile yarn	14.66	26.45	20.97	34.02
652	Cotton fabrics woven	14.79	26.69	12.20	19.79
654	Other textile fabrics woven	0.00	0.00	0.00	0.00
655	Knit crochet fabrics NES	9.44	17.04	11.43	18.54
657	Spl. yarn textile fabric	0.29	0.53	0.04	0.06
66	Non-metal mineral manufactures, etc.	2.82	5.08	3.65	5.93
663	Mineral mfrs NES	0.12	0.21	0.03	0.05
664	Glass	0.62	1.11	0.32	0.52
67	Iron & steel	2.81	5.07	2.47	4.01
671	Pig iron, spigelein, etc.	0.03	0.05	0.05	0.09
673	Flat, rolled iron, etc.	0.13	0.23	0.34	0.56
68	Non-ferrous metal	3.08	5.56	1.96	3.19
682	Copper	0.03	0.06	0.00	0.00
684	Aluminium	3.04	5.49	2.12	3.44
69	Metal, mfrs NES	0.71	1.28	0.92	1.49
7	Machines, transportation equipment	21.86	100.00	12.68	100.00
71	Power generating equipment	1.53	6.99	0.50	3.92
713	Internal combust piston, engine	1.41	6.45	0.28	2.20
714	Engines & motors NES	0.00	0.00	0.00	0.00
716	Rotating electric plate	0.14	0.63	0.05	0.41
718	Other power generating machinery	0.00	0.00	0.00	0.00
78	Road vehicles	7.48	34.24	2.88	22.69
781	Passenger motor vehicles	0.29	1.31	0.17	1.38
79	Other transport equipment	0.14	0.66	0.18	1.43
791	Rly. vehicles equipment	0.06	0.26	0.18	1.41
8	Misc. manufactured goods	1.92	100.00	1.34	100.00
84	Clothing & accessories	0.30	15.90	0.27	19.75
841	Men's & boys' clothing	0.00	0.00	0.00	0.00
87	Precision instruments NES	0.17	8.72	0.16	11.98
88	Photo apparatus NES clocks	0.03	1.38	0.07	5.22
884	Optical goods NES	0.00	0.00	0.00	0.00
89	Misc. manufactured goods NES	1.28	66.83	0.80	59.83
892	Printed matter	0.96	50.33	0.62	46.18
9	Goods not classified by kind	0.13	100.00	0.66	100.00
931	Spl. transactions	0.13	100.00	0.66	100.00
TOTAL		100.00		100.00	

Note: Computations of three-yearly averages based on data presented in *Commodity Trade Statistics of UN* for April-March period from relevant volumes.

Denotes per cent of total (all commodities) exports.

Denotes per cent of commodity groupwise total exports.

5.4.3 Indian imports from Bangladesh (Table 5.5) mainly comprised basic manufactures such as paper and paper board, and crude raw materials for industrial use consisting of jute and other bast fibres prior to the liberalisation of trade policies in India. After 1990, the emphasis of India's imports from Bangladesh has shifted from basic manufactures to crude raw materials for industrial use specially raw jute and other bast fibres, principally to fulfill the needs of the Calcutta based jute industry. Imports of food items, specially spices, appear to have begun after trade related reforms were introduced in India. On the whole there is a marginal decline in the imports from Bangladesh in the post-liberalisation period as compared to the pre-liberalisation period.

Table 5.5 : Pre & Post Liberalisation Composition of Indian Imports: Per Cent Distributions by Major Commodity Classes (SITC)

SITC Code	Commodity Class	Value * ('000 US \$)		Before 1990		After 1990	
		Before 1990	After 1990	Per Cent to		Per Cent to	
				Total *	Group **	Total *	Group **
				Total	Total	Total	Total
0	Food & live animals	0	2101	0.00	0.00	6.78	100.00
06	Sugar, sugar preps, honey	0	118	0.00	0.00	0.38	5.62
07	Coffee, tea, cocoa & spices	0	1983	0.00	0.00	6.40	94.38
2	Crude materials excl. fuels	12562	19196	40.15	100.00	61.98	100.00
21	Hides, skins, furs undressed	774	0	2.47	6.16	0.00	0.00
26	Textile fibres & waste	11781	18969	37.66	93.78	61.25	98.82
264	Jute, other textiles bast fibres	11760	18969	37.59	93.62	61.25	98.82
5	Chemicals, related products NES	3061	2775	9.78	100.00	8.96	100.00
51	Organic chemicals	1914	752	6.12	62.53	2.43	27.10
512	Alcohols, phenols	1914	752	6.12	62.53	2.43	27.10
6	Basic manufactures	15661	6900	50.06	100.00	22.28	100.00
61	Leather (dressed), fur, etc.	2557	1316	8.17	16.33	4.25	19.07
64	Paper, paperboard manufactures	13013	5482	41.60	83.09	17.70	79.45
TOTAL		31284	30972	100.00		100.00	

Three-yearly averages for April-March periods.

* Denotes percent of total (all commodities) exports.

** Denotes percent of commodity groupwise total exports.

Data source: Commodity Trade Statistics, UN publications.

5.5 Indo-Bangladesh Trade Mutuality

5.5.1 Bangladesh has had ongoing huge BOP deficit on current account with India for a long time and it seems to be growing year after year. This may have been one major irritant in the process of developing trade relations between the neighbours. Therefore, it may be worthwhile to examine the intensity of trade of the two countries with each other and its mutuality. For the purposes of estimating trade intensity indices of imports and exports and mutuality of bilateral trade, 'Trade Intensity Indices' and 'Trade Reciprocity Index' were computed in accordance with the method detailed in *Regional Economic Cooperation in Asia* (Wadhwa, et.al., 1987. See Annexure 2.1 for details).

5.5.2 A measure of the bilateral trade orientation of India with Bangladesh and that of Bangladesh with India can be examined by computing the trade intensity indices on imports as well as exports. Table 5.6 presents computations of import and export intensity indices of India's bilateral trade with Bangladesh at the aggregate level of exports and imports from 1987-88 to 1992-93 covering the pre and post liberalisation periods.

Table 5.6 : Indices of Import/Export Intensities
(India & Bangladesh)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93
<i>Import Intensity Indices</i>						
Bangladesh	9.8968	103.0439	10.4265	15.5634	19.5757	—
India	1.3864	0.9974	1.1787	1.4808	0.5235	—
<i>Export Intensity Indices</i>						
Bangladesh	1.1135	1.0596	1.9578	2.1837	0.7239	—
India	18.4651	18.3235	21.9960	27.3641	28.1856	27.3234

5.5.3 Trade intensity indices of India and Bangladesh over the years indicate that India's representation in Bangladesh's imports bordered on considerable over representation attaining the peak in 1988-89. However, as regards Bangladesh's representation in India's imports are concerned, it has fluctuated between a slight over-representation and a little under-representation in recent years. The export intensities of the two neighbours also reveal over-representation of India in Bangladesh's while that of Bangladesh's in India is also over represented but at a much lower level. It may be noted that the trade intensity indices presented above are influenced

by the geographical proximity and political relationships of the two neighbours and the fluctuations in trade intensities can be traced to such factors.

5.5.4 To measure the reciprocity in the overall balance of trade between the two trading partners the 'Index of Trade Reciprocity' is computed and presented in Table 5.7.

Table 5.7 : India-Bangladesh Index of Trade Reciprocity

SITC Code	Commodity Class	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93
0	Commodity Class	0	0	0	0.0760	0.0078	0.01815
1	Food & Live Animals	0	0	0	0	0	0
2	Crude Materials Excl. Fuels	0.4512	0.7277	0.6383	0.7333	0.4454	0.4153
3	Mineral Fuels, etc.	0	0	0	0	0	0
4	Animal/Veg. Oil Fat	0	0	0	0	0	0
5	Chemicals, Related Products NES	0.1598	0.1566	0.0100	0.0761	0.0142	0.1169
6	Basic Manufacture	0.1724	0.0832	0.0488	0.0400	0.0405	0.0041
7	Machines, Transportation Equipment	0	0	0	0	0	0
8	Miscellaneous Manufactured Goods	0	0	0	0	0	0.0013
9	Goods Not Classified by Kind	0	0	0	0	0	0
ALL		0.1148	0.0965	0.1263	0.1496	0.0461	0.0369

5.5.5 The indices of trade reciprocity between India and Bangladesh show that Bangladesh completely depended on India for its trade since the overall value of the indices hovers between zero and 0.1 which points to a one way (unilateral) flow. In the case of all commodity groups except one, i.e., SITC code 2, the trade flows are unidirectional, i.e., from India to Bangladesh. Only in the case of crude materials, viz., raw jute, newsprint and paper/paper boards there is some sort of bilateral trade. On the whole the trade reciprocity index depicts the absence of trade mutuality between the two neighbours which is also reflected in unfavourable BOP position on current account for Bangladesh.

5.6 Concluding Observations

5.6.1 Serious efforts were made to purge the foreign trade statistics of the perverse discrepancies for the purposes of partner country data comparisons. Preponderance of statistical errors and strong indications of faked invoicing at both ends made it very difficult to make proper estimation of the degree of faking of invoices. Under the circumstances, while the plausibility of faking of invoices could be established, firm estimates of its degree could not be made. Some estimates of the degree of faking of invoices made on the basis of certain assumptions and presented in this chapter, may have limited value.

5.6.2 Perhaps it is a bit early to look for changes in the India-Bangladesh trade pattern after the introduction of trade reforms in India. However, broad comparisons of commodity compositions of India's exports to and imports from Bangladesh in the pre and post reform periods reveal a shift in demand from primary agricultural commodities to agro-based manufactures in the bilateral trade composition of the two neighbours. The trade intensity indices and the trade reciprocity index over a 5-year period strongly pointed to the over dependence of Bangladesh on India in bilateral trade. There is a lack of trade reciprocity between the two neighbours. Therefore, it will be in Bangladesh's interest to improve trade relations with India.

Chapter 6

Concluding Observations and Implications

6.1 Concluding Observations

6.1.1 The role played by international trade in economic development of developing as well as developed economies needs no emphasis. However, there are two components of international trade namely, the official (legal) trade and the unofficial (illegal) trade popularly referred to as 'Smuggling'. Depending upon the nature and extent, both have a role to play in fostering or hindering economic well being of trading partners.

6.1.2 Trading beyond one's borders is governed by demand, supply and price differentials of traded commodities. As and when economic or non-economic considerations obstruct official trade flows, specially between neighbouring economies, cross-border (unofficial) trade takes over. Since cross-border trading is undertaken clandestinely to avoid customs tariffs, it becomes an illegal activity. Therefore, it is useful, perhaps necessary, to know about the nature, extent and direction of cross-border trade flows so as to put in place necessary correctives to national trade policies of partner countries.

6.1.3 Unofficial trade operates through legal channels as well as outside of it. Since operational modes of the two are fundamentally different from each other, different data sources need to be tapped for generating the necessary data base for assessing the nature and extent of the two components of illegal trade flows. While the one using legal channels has to depend on secondary data sources for analysis, in the absence of recorded data in the case of trade flows passing through unofficial entry/exit points, it is necessary to go to primary sources for generating the data base.

6.1.4 For the purposes of detecting smuggling through legal channels via faked invoicing, foreign trade statistics of India and Bangladesh were used for the purposes of partner country data comparisons. Prior to comparing the two data sets, necessary modifications were made in the data to make it comparable. (Sections 2.9 & 2.10).

6.1.5 For generating primary data base to estimate the volume and composition of cross-border (clandestine) trade flows across the Indo-Bangladesh border, a field survey was organised in 15 districts sharing the border with Bangladesh's border districts. Details about the coverage and selection of smuggling centres, type of respondents, interviewing methods, etc., are presented in Sections 2.3 to 2.5.

6.1.6 Distinctive features of the field survey include adoption of the modified form of the 'Delphi' method for collection of primary data/information, identification and selection of knowledgeable people spread over ten different categories of respondents and use of semi-structured format based on informal discussions/interviews by senior level field officers (Sections 2.4 to 2.6).

6.1.7 The flourishing nature of smuggling across the Indo-Bangladesh land border is sustained by differences in the levels of development between India and Bangladesh. Historical/cultural affinity, age old bonds among people on both sides of the border, substantial presence of Bangladeshi immigrants in border areas coupled with lax law enforcement provide the right environment for rampant smuggling, particularly with regard to smuggling in commodities of mass consumption and some consumer goods (Sections 3.1 to 3.5).

6.1.8 Total volume of unofficial exports from India to Bangladesh, based on estimation procedure outlined in Section 3.6, is estimated at Rs. 1165 crores, i.e., 0.368 billion US \$ at the exchange rate prevailing during the field survey (Table 3.4). The volume of smuggled goods is more or less comparable with official exports of India to Bangladesh.

6.1.9 The composition and volume of smuggled-out commodities (from India to Bangladesh) fill the unfulfilled demand (on the Bangladesh side) and provide the market for the marketable surplus. On the face of it, smuggling appears to be complementary, at least non-competitive, to the official bilateral trade between the two neighbours. While in totality it appears to be welfare oriented as far as the Bangladesh economy is concerned, it may not be so in the Indian context.

6.1.10 Among smuggling prone border areas, two districts of West Bengal account for as much as one-half of the total volume of unofficial exports from India to Bangladesh and the five districts (all from West Bengal) together contribute as much as 83% of the

smuggled-out volume. This has implications in the context of prevention of smuggling or promotion of free trade across the border.

6.1.11 Unofficial imports from Bangladesh to India are more or less confined to a narrow band of commodities, among which synthetic fabrics, electronic goods (other than VCRs & VCPs) and spices account for major shares. Significantly, the proportion of exchange (payment) goods comprising mainly gold and Bangladeshi currency (Taka), in the total smuggled-in volume is as much as 44% (Table 3.5). In the context of Indo-Bangladesh cross-border trade, smuggling of goods from Bangladesh revolves round goods brought in for payments on private trade account towards cost of smuggled-out goods. The smuggled-in volume to smuggled-out volume works out nearly to 1 : 21 ratio. This amounts to a BOP gap on private trade account. How does the cross-border trade flourish under these conditions? Part of the answer perhaps lies in diversion of a part of smuggled-in gold for conversion into jewellery, which is smuggled-back in value added form as well as diverted to other markets. There were also indications of gold and Taka getting diverted to finance smuggling of narcotics and insurgency in various north-eastern parts of India. Diversion perhaps provides additional profits to traders involved in smuggling of essential commodities. The modus operandi perhaps has other implications from India's view point but on the part of private trade account imbalance in payments may be somewhat acceptable to those involved in it, in the short run.

6.1.12 The end-use of Bangladeshi currency coming to India was also probed. While most of the Taka is channelled back via payments towards smuggled-in goods, a part of it becomes available to Bangladeshi immigrants, and tourists apart from some amount getting repatriated through 'Hawala' transfers.

6.1.13 Price differentials on either side of the Indo-Bangladesh border range from 16% at the minimum to 225% at the maximum providing enough incentive to traders to indulge in smuggling of goods across the frontier.

6.1.14 Unidirectional cross-border trade flows across the Indo-Bangladesh frontier, i.e., from India to Bangladesh, becomes evident from the data presented in Chapter 3. Thus, the pattern of unofficial trade in terms of its direction and volume is similar to that of official bilateral trade. Commodity composition of the two types of trade flows are, however, significantly different from each other.

6.1.15 India embarked on liberalisation of trade policies from

1990 onwards. Its impact on unofficial trade flows was evident from the qualitative response of the respondents in terms of rise or fall in commoditywise trade flows in recent years as compared to earlier days, i.e., before 1990. A sharp reduction in the inflow of electronic goods in general and VCPs/VCRs, colour TVs, two-in-ones, colour films, etc., in particular was indicated by nearly all respondents. This type of change in unofficial imports can be attributed to the lowering of import tariffs and the shortening of the list of disallowed imports. While inflow of smuggled goods generally declined substantially after 1990, the outflow rose appreciably. The consensus emerging from the responses in this regard points to a perceptible impact of the economic reforms on cross-border trade between India and Bangladesh. These developments have also led to an increased imbalance on private account.

6.1.16 Poverty, unemployment levels and illiteracy of couriers coupled with innovative methods, undemarcated border, involvement of women and children in smuggling activity, age old ties among people on both sides of the border, laxity on the part of law enforcing agencies and large scale smuggling of essential commodities are among the variety of factors that aid and abet smuggling activity along the Indo-Bangladesh land border.

6.1.17 Despite all out efforts, foreign trade statistics of the two countries could not be purged of all perverse discrepancies for the purposes of partner country data comparisons. Therefore, only the plausibility of faking of invoices could be established. However, exports/imports data of the partner countries clearly point to the over-invoicing of India's imports and exports and also indicate the possibility of faking of invoices on the Bangladesh side.

6.1.18 Perhaps it is too early to look for changes in India-Bangladesh official trade flows following economic reforms in India. However, broad trends in pre and post liberalisation composition of India's export to and imports from Bangladesh depict a shift from primary agricultural commodities to agro-based manufactures after 1990. Ongoing reforms may induce more changes in coming years. Trade intensity indices and the Trade Reciprocity Index computed for the previous five years strongly point to the over dependence of the Bangladesh economy on the Indian economy and the unilateral nature of the official trade flows.

6.1.19 Discussions with officials and non-officials in India and Bangladesh showed that our estimates appeared to confirm their judgement about the volume of the unofficial trade.

6.2 Implications

6.2.1 Implications emerging from the study clearly point to the helplessness of the law enforcing authority to curb, let alone prevent, smuggling across the Indo-Bangladesh border. The difficult situation gets compounded on the one hand due to complicity of the law enforcing personnel, and on the other, due to involvement of economically and socially weaker sections of the population, women and children, non-demarcation of border, etc. This scenario points to the futility of anti-smuggling measures on both sides of the border.

6.2.2 Data show that five districts of West Bengal are prone to very high intensity of smuggling activity. As much as 9.5 million rupees worth of goods are smuggled-out from these five districts per km. of the border. One possible answer to the costs of stepping up vigilance or sealing this segment of the border, would be to consider allowing free trade for restricted hours or days.

6.2.3 The Civil Administration in border districts expressed concern about law and order problems emanating due to lifting of cattle and the rising number of FIRs in this regard. Villagers in border districts on the other hand have become restive due to rising prices of goods like sugar, salt, kerosene, milk and cattle, and disruptions in the availability of PDS commodities.

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| 9. | (1994) | : | Gold Exchanges Cow and VCP Exchanges Salt', Calcutta, July 11. |
| 10. | Danik Basumati
(1994) | : | 'Secret Market of Gold-Biscuits at Border' Dinahata, July 17. |

Annexures

Annexure 2.1

A Technical Note on Indices Measuring Mutuality of India-Bangladesh Trade

I. Trade Intensities

The importance of India and Bangladesh in each other's foreign trade as compared to each one's world trade can be established by computing the trade intensity indices for imports and exports. The import intensity index of country j with country k during the year t, A_{jk}^t , is defined as the ratio of the proportion of total imports of country j accounted for by imports from country k to the proportion of country k's exports in the world exports net of country j's share. That is,

$$A_{jk}^t = \frac{(M_{jk}^t / M_j^t)}{X_k^t / (X_w^t - X_j^t)}$$

where,

M_{jk}^t = imports of country j from country k during the year t,

M_j^t = total imports of country j during the year t,

X_k^t = total exports of country k during the year t,

X_j^t = total exports of country j during the year t,

X_w^t = total world exports during the year t.

During the year t, if country j accounts for the proportion of country k's exports identical to country k's importance in the total (net) world exports then the index is equal to 1 (unity). An over-representation or under-representation of country k in the imports of country j is indicated by the index value greater than or less than unity, respectively.

Similarly, export intensity index of country i with country j during the year t, B_{ij}^t , is given by the ratio of the proportion of total exports of country i accounted for by country j to the proportion of world imports net of country i's share accounted for by country j. During period t, the equality of the two proportions would lead to the value of this index equal to unity, implying that country j accounts for country i's exports in the same proportion as country i's share in the total (net) world imports. Again, over/under-representation of country j in country i's exports during period t is indicated by the index taking value greater/less than unity.

It may be worth mentioning that the trade intensity indices presented here are heavily influenced by the geographical proximity and political factors of the two nations apart from several other trade related factors, viz., quotas, quantitative restrictions, etc.

II. Trade Reciprocity ¹

In order to measure the reciprocity in the overall balance of trade between India and Bangladesh, we have estimated the trade reciprocity index for different years by major commodity groups. The trade reciprocity index, C , is defined as:

$$C = 1 - \frac{|a_{ij} - a_{ji}|}{(a_{ij} + a_{ji})}$$

a_{ij} = exports of country i to partner j

a_{ji} = exports of country j to partner i

where symbol $| \cdot |$ stands for absolute value. The index C takes values between 0 and 1. In the case of a balanced bilateral trade, the value of C is maximum (unity). On the other hand, C is equal to 0 when only one-way trade flow between the trading partners exists indicating complete dependence of one country on the other for its imports or exports. Degree of reciprocity is indicated by value of C . If C is close to 1, reciprocal balanced trade is indicated. Close to zero value of C points to unbalanced unilateral trade i.e. over dependence of one of the partners on the other.

¹ The trade reciprocity index, C , adopted here, for a bilateral case, is a simplified version of the one devised by Charan Wadhva in "Note on the Revised Index of Complementarity Considering Trade Values", Mimeo, March 1982 (As reproduced from Wadhva et. al, 1987).

Annexure 3.1

List of Major Smuggled Goods

A. Outgoing Goods

I. Agricultural/Allied Products

- A. Rice (mainly coarse/cheap variety) Pulses (Lentil & Green gram), Sugar, Salt, Vegetables, Edible Oil (mainly Mustard Oil), Oilseeds, Fish (mainly Ruhi of A.P.), Spices and Fruits.**
- B. Live animals (mainly cows, bullocks and buffaloes).**

II. Textiles and Yarns

Cotton printed sarees, costly sarees (embroidered silks/handlooms) cotton cloth (Than), cotton and synthetic yarns.

III. Industrial Goods (Manufactures)

Machinery and equipments, Electronic goods (Two-in-ones, Calculators and Toys, etc.), Electrical goods (Tubes, bulbs, Fans, etc.), Bicycle and bicycle parts. Fertilisers and Pesticides, Cosmetics, motor parts, tyres and tubes, Bidi, Baby food, Milk powder (Shakti), Plastics, Safety razor blades.

IV. Industrial Raw Materials

Hides and skins, iron and steel, cement, stone bulders and coal.

V. Non-agricultural Goods

Kerosene, Diesel, Medicines, Stationery, Liquor (Alcohol), Gold/Silver (ornaments)

B. Incoming Commodities from Bangladesh

Synthetic/silk fabrics & yarn, Ball bearings, Electronic goods (VCPs/VCRs, Two-in-ones, Emergency Lights, Toys and blank cassettes), Hilsa Fish, Palm oil, Drugs/narcotics, Jute fibre, Electrical goods, Spices, Cigarettes, Gold*/Silver & Takka*.

* Gold/Silver and Taka for exchange payment purposes.

Annexure 3.2

**Volume of Illegal Export to Bangladesh Along
Indo-Bangladesh Border by Commodity Groups**

(Million Rupees)

Commodity	West Bengal	Assam	Tripura	Total
I. Food & Live Animals				
1. Live Animals	3101.0 (27.8)	12.0 (3.4)	1.7 (2.1)	3114.7 (26.7)
2. Sugar	2241.4 (20.0)	90.7 (25.5)	13.6 (16.8)	2345.7 (20.1)
3. Salt	373.4 (3.3)	26.5 (7.5)	1.7 (2.1)	401.6 (3.4)
4. Rice	317.4 (2.8)	7.0 (2.0)	— —	324.4 (2.8)
5. Pulses	216.6 (1.9)	3.0 (0.8)	0.6 (0.7)	220.2 (1.9)
6. Edible oil/Oilseeds	42.0 (0.4)	— —	— —	42.0 (0.4)
7. Spices/dry chillies	56.5 (0.5)	0.7 (0.2)	0.5 (0.6)	57.7 (0.5)
8. Fruits & Fresh Vegetables	260.9 (2.3)	2.0 (0.6)	— —	262.9 (2.3)
9. Others (Baby food milk powder, flour/ atta, etc.)	68.1 (0.6)	0.3 (0.1)	— —	68.4 (0.6)
SUB-TOTAL	5677.3 (59.6)	142.2 (40.1)	18.1 (22.3)	6837.6 (58.7)
II. Textile Manufactures				
1. Sarees	1468.9 (13.1)	85.0 (24.0)	2.3 (2.8)	1556.2 (13.4)
2. Than cloth	204.3 (1.8)	1.4 (0.4)	— —	205.7 (1.8)
3. Yarn	3.2 (Neg.)	5.0 1.4	— —	8.2 (Neg.)
SUB-TOTAL	1676.4 (14.9)	91.4 (25.8)	2.3 (2.8)	1770.1 (15.2)
III. Other Industrial Manufactures				
1. Bicycles & Bicycle parts	693.2 (6.2)	0.2 Neg.	0.9 (1.1)	694.3 (6.0)
2. Fertilisers/pesticides and other chemicals	93.1 (0.8)	1.5 (0.4)	— —	94.6 (0.8)
3. Electronics/Electrical goods	6.5 (Neg.)	4.5 (1.3)	— —	11.0 (0.1)
4. Bidi	— —	-0.3 (0.1)	0.4 (0.5)	0.7 (Neg.)
5. Machinery/equipments and motor parts	300.0 (2.7)	— —	— —	300.0 (2.5)
SUB-TOTAL	109.8 (9.7)	6.5 (1.8)	1.3 (1.6)	1100.6 (9.4)

(Continued)

Annexure 3.2 (Contd.)

Commodity	West Bengal		Assam		Tripura		Total	
IV. Industrial Raw Materials								
1. Hides/Skins	5.5	(Neg.)	—	—	—	—	5.5	(0.1)
2. Iron and Steel	22.0	(0.2)	—	—	—	—	22.0	(0.2)
3. Coal			-1.5	(0.4)	—	—	1.5	(Neg.)
4. Cement	94.0	(0.8)	—	—	—	—	94.0	(0.8)
SUB-TOTAL	121.5	(1.1)	1.5	(0.4)	—	—	123.0	(1.1)
V. Others Consumer Goods								
1. Kerosene	28.7	(0.3)	6.5	(1.8)	2.1	(2.6)	37.3	(0.3)
2. Diesel	29.8	(0.3)	—	—	—	—	29.8	(0.3)
3. Betelnut	6.8	(0.1)	—	—	—	—	6.8	(0.1)
4. Medicines	47.1	(0.4)	—	—	—	—	47.1	(0.4)
5. Stationery goods	2.0	(Neg.)	—	—	—	—	2.0	(Neg.)
6. Timber (wood)/Bamboo	—	—	88.0	(24.8)	42.5	(52.5)	130.5	(1.1)
7. Liquor (Alcohol)	55.0	(0.5)	—	—	—	—	55.0	(0.5)
8. Miscellaneous goods (Cosmetics,Plastics, Razor, blades, etc.).	1473.5	(13.1)	18.9	(5.3)	14.7	(18.2)	1507.1	(12.9)
SUB-TOTAL	1642.9	(14.7)	113.4	(31.9)	59.3	(73.3)	1815.6	(15.6)
GRAND TOTAL	11210.9	(100.0)	355.0	(100.0)	81.0	(100.0)	11646.9	(100.0)

Note: Figures in parenthesis are percentages to grand totals.