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Exporting form West Bengal: A Trader's Nightmare¹

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Abstract

The share of exports from West Bengal in India's overall export is about 6 percent. The present objective of the West Bengal government is to increase it to more than 10%. To meet this objective, obviously efforts are needed on many fronts. The diversification of exports basket, identification of new products, identifying new markets, improving packaging facilities within the states, developing special economic zones, etc are some of the means that the state of West Bengal seem to emphasise in her policy directions. However, one thing that does not seem to figure in the policy framework of West Bengal's government is to increase facility for the expansion of exports to Bangladesh/Nepal. This is despite the fact that large and vibrant informal trade between India-Bangladesh or India-Nepal continues to thrive in these three countries and the borders of West Bengal are the major routes for these kind of operation. Since the origin of the goods of most of this trade is West Bengal, a logical step should be to bring this informal trade into formal channel as a first step towards increasing the state's share of exports. It has been argued here that this kind of trade persist due to a host of factors such as, complex customs procedures, capacity constraints and/or corruption at the border. Given the fact it is easier to exports to Bangladesh than any other South Asian countries/Europe due to not-so-strict standard, the focus area of exports of West Bengal, it makes sense to create the right environment for exporting to Bangladesh/Nepal. In this context, this paper attempts to analyse the shortcoming of trade facilitation measures in India-Bangladesh border.

¹ Dr. Sanjib Pohit is a Chief Economist (Senior Fellow) at NCAER. These are my personal views.

1. Introduction

Since independence, most of India's states have been passive towards exports originating within the state's border. By contrast, they have been pro-active towards industries located within the state, and catering towards the domestic economy. Expectedly, they have the fiscal power to tax the industries catering towards the domestic economy. As a result, the states' have been by and large pro-active in addressing the grievances of the domestic industries. Somehow, the general impression that one observes from the behaviour of the states and the central government is that it is the latter's headache.

Though the state receives a share of the overall revenue collection from import/export activities as per directives of finance commission, given the uncertainties of the behaviours of the other states, it is quite rational in this kind of non-co-operative game for an individual state government to be less pro-active towards exports originating from the state. Moreover, if a state is also a transportation hub for trade with Nepal/Bangladesh, which is the case with West Bengal, the benefits from these kinds of activities in terms of employment/income generation do not somehow become transparent to the policy-makers in the state. This is a real puzzle since we can see in other parts of world (Dubai, Singapore, Colombo), what a transportation hub can do for the economy. While it may be argued that Dubai's growth is partly due to the oil exports, the same is not true of Singapore, or Colombo. To a certain extent, it seems odd that policy-makers in India as well as abroad consider India to be an upcoming economic super-power, yet India needs to tranship her sea going export/imports either at Dubai, Colombo, or Singapore. Understandably, the transshipments are not cost-less, hence India's exporters trading in bulk items though sea have to bear with this extra cost while entering into business deal.

Of course, India's air-bounds exports are in a better place in comparison to the above. However, the problem again is there that our trading partners have changed faster in recent times than the trading routes leading to extra cost due to transshipment. Moreover, this is a more problem for the countries of the Eastern India, like for example West Bengal. By and large, USA, Europe, Middle-east countries have been the major destination for India's exports and Bombay/Delhi have gained as the transportation hub for air-cargo from India. With time, India's exports to South Asian countries have increased. Though Kolkata happens to be closer to the South Asian countries, in terms of trading routes, Mumbai/Delhi offers traders more flexibility in term of wider choices of routes/carriers/flights. Thus, it seems that policy-makers in West Bengal need to be more pro-active in addressing these problems of the exporters. A business strategy in collaboration with other Eastern states, incentives for the exporters from other Eastern states have give the exporters the extra push to shift their cargo from Dehli/Mumbai to Kolkata airport leading to the development of new cargo routes for exporters.

It is clear from the above discussion that there are structural bottlenecks that the exporters from West Bengal have to bear with. Understandably, some of the bottlenecks need more time to be solved and the policy-makers may work towards solving it. However, the issues that can be sorted out in short period of times should be addressed at first to give the right signal to the exporters/investors that the government means business. Among these, of course, the export to Bangladesh from West Bengal is the foremost one. The present paper highlight the transporter's/exporter's nightmare in the context of exports to Bangladesh and how this has ultimately lead to “ persistent open smuggling” in which all the stake-holders (police, government officials, BSF, traders, political parties, mafias, etc) have a role to play.

2. Bottlenecks of India-Bangladesh Border

The focus of our discussion would be on the LCS between West Bengal (India) and the corresponding ones in Bangladesh. Since most of the official trade is conducted through the LCS of West Bengal (India), it is expected that the condition of the LCS would be better than the LCS engaged in small volume of trade. However, this is not so as we see below.

2. 1. DESCRIPTION OF BORDER CROSSING LOGISTICS²

Three LCSs in West Bengal, namely Petrapole, Mahadipur and Hilli are the most important gateways for trade with Bangladesh in terms of trade volume and value. For our understanding, Table 1 provides a summary picture of the physical infrastructure at these LCSs. As this table shows, parking lots in all the LCSs lack the basic amenities like drinking water and toilet. The approach roads to the LCSs are congested. The frequent power cuts coupled with low voltage at the LCSs adversely affect the efficiency of customs officials. Surprisingly, there is no government-bonded warehouse in these LCSs. Thefts from parking lots are common and corruption is rampant. Since the problems prevailing in the three LCSs are similar in nature, we have chosen Petrapole border for our in-depth study as it handles the highest trade (66% in value terms during 2001-2002) between India and Bangladesh.

Petrapole is located about 95 kilometres from Kolkata. The commodities that are traded through Petrapole LCS originate from all over India. Kolkata is the final transshipment area for most of these commodities and they are carried to the Petrapole border by trucks through the National Highway 35, formerly known as Jessore Road as it originates from Jessore in Bangladesh. The delay in this route is a normal phenomenon due to the heavy traffic, three railway crossings and five congested towns (Barasat, Dutta Pukur, Ashoknagar, Habra and Bongaon) en route, poor physical condition and narrow width of the road, and encroachments.³ Another major hurdle in transportation is the narrow Naobhasa Bridge, which is located 3 kilometres prior to Petrapole. The bridge is so

² The finding of this section is drawn from Das and Pohit (2004).

narrow that at a time only one truck can pass. Moreover, heavy trucks with carrying capacity of 15 to 18 tonnes or more cannot pass through this bridge due to its poor condition. This results in transshipment either in Kolkata or Bongaon incurring additional transportation cost and time.

Table 1: Bottlenecks in Physical Infrastructure and Procedural Hazards			
Facility	Hilli	Mahadipur	Petrapole
Approach Road to LCS	<ul style="list-style-type: none"> • Single lane congested road 	<ul style="list-style-type: none"> • Poor physical condition 	<ul style="list-style-type: none"> • Passes through congested towns & places infested by hawkers.
Parking lot	<ul style="list-style-type: none"> • No sanitation facility and inadequate drinking facility. • Not secured - loss through theft • Prevalence of speed money 	<ul style="list-style-type: none"> • Lack of basic amenities. • Highly discriminatory parking fees • Not secured - loss through theft • Prevalence of speed money 	<ul style="list-style-type: none"> • No sanitation facility and inadequate drinking water facility. • Not secured - loss through theft • Prevalence of speed money
Warehouse	<ul style="list-style-type: none"> • No government bonded warehousing 	<ul style="list-style-type: none"> • No government bonded warehousing 	<ul style="list-style-type: none"> • No government bonded warehousing
Others	<ul style="list-style-type: none"> • Poor quality of power • Local clubs with political affiliations extort exporters for donations • Hilli not notified in Duty Entitlement Pass Book (DEPB) port registration – traders of DEPB items not getting the benefit. 	<ul style="list-style-type: none"> • Poor quality of power affects efficiency of customs officials • Absence of bank collection centre • No office space for clearing & forwarding agents 	<ul style="list-style-type: none"> • Irregular power supply with low voltage • Single gate for export, import and passengers • Frequent strikes delay official work • Electronic Data Interchange (EDI) ineffective due to lack of efficient operator

Merchandise has to face substantial loss of time at the border. The delay takes place at the parking lot, in customs clearance and at the entry/exit point. It is mandatory for the trucks coming from Kolkata during daytime to park at Bongaon Municipality Parking instead of moving directly towards the Central Warehousing Corporation (CWC) parking lot which is situated near the border gate and adjacent to the Indian Customs House.

³ The width of Jessore road is only 16 feet.

The existing custom clearance procedures at the border lead to significant costs and delays. The existing custom procedures and documentation are not transparent. As a result, all the exporters employ clearing agents on a commission basis to take up the responsibilities of all paper works at the border. Although, there is no official fees for paper work at customs office, exporters have to bear for overtime allowances of custom staffs if they want their consignment to be cleared on holidays or before/after the scheduled working hours. Recently, the government of India introduced the Electronic Data Information (EDI) system at custom office at Petrapole for streamlining the system. However, the system did not have smooth operation and so the manual clearing of papers is still the norm.

The entry point at the border has one single gate, which is used for exports, imports as well as for passenger movement. At a time, only one truck can pass through the gate. As a result, the entry point remains very congested. Big trees at the entry-exit point often become irritants to traffic flow. The Indian trucks after unloading at Benapole (in Bangladesh) are allowed to enter India only after 7 PM. or are allowed to return to India before the start of exports from India (i.e. 10 AM). This results in wastage of time together with payment of detention charges.

2. 2. QUANTIFYING COST-BORDER DELAY

A trader/exporter incurs transaction costs in all the phases of the export process starting from obtaining information about market conditions in any given foreign market and ending with receipt of final payment. In a recent pape by Das and Pohit (2006), an attempt was made too quantify these costs on the basis of information collated through field survey of exporters/transporters engaged in India-Bangladesh trade.⁴ For clarity, the entire activities related to exports through the Petrapole-Benapole border have been divided into the following three distinct phases:

- Phase 1 - loading at Kolkata, unloading at Benapole in Bangladesh and crossing of border while returning from Bangladesh
- Phase 2 - transportation and
- Phase 3 - exports including parking, customs clearance and crossing of border during exports.

The information on transaction costs needs further clarifications. In our analysis, the transaction costs that are quantified are only those incurred by Indian exporters up to the point at which they leave their cargoes in Bangladesh. Transaction costs beyond this point in Bangladesh are not quantified, so the total transaction costs of India-Bangladesh trade are not quantified. To be specific, the present paper solely deals with the total additional transaction costs incurred by the

⁴ In all, the estimates were based on 88 exporters and 25 transporters.

Indian exporters. Even in quantifying the additional transaction costs of the Indian exporters, certain transaction costs are not picked up in the survey.⁵

Table 2 indicates that the aggregate delay (loss of time) pertaining to all the three phases of exports turns out to be around 99 hours on an average (approximately 4 days) for a single shipment. The data suggests that the aggregate delay could be as high as 192 hours (8 days).

Stages	Ideal time (hrs)	Loss of time (hrs)	Max. reported Loss (hrs)
Phase 1- Loading at Kolkata, unloading at Benapole in Bangladesh and crossing of border while returning from Bangladesh	5.9	17.8	91
Phase 2- Transportation	2.4	3.2	5
Phase 3- Exports including parking, customs clearance and crossing of border during exports	21.3	78.1	96
Cumulative	29.6	99.1	192

2. 3. TRANSACTION COST VIS-À-VIS SHIPMENT VALUE

We have attempted to quantify the extent of this additional transaction cost in relation to the average value of shipment based on the perceptions of our sample exporters. By and large, exporters were found to be trading in multiple commodities. So the response of an individual exporter in the questionnaire regarding the transaction cost vis-à-vis shipment value pertains to an average figure taking into account all the commodities that he is engaged in trading. Thus our analysis fails to identify commodity specific results in this respect. The results are given in Table 3.

Cost Elements	% of Shipment Value	
	Average	Maximum
Delay in customs clearance including Transport, parking and queue at border	5.73 (0.54)	18
Total bribes	2.50 (0.74)	10
Delay in obtaining export remittances	2.15 (1.33)	12
Total	10.38	

Note: Figures in the parenthesis indicate the coefficient of variation.

⁵ For example, theft in the border parking lots which presumably leads to increased insurance costs and the costs involved in pre-shipment inspection are not covered in this paper.

As this table shows, the average financial implication of the loss of time in customs clearance and transportation including parking and queue at border turns out to be 5.73 per cent of value of shipment. The survey results indicate that the maximum perceived loss is 18 per cent. Similarly, the financial implications of bribes and delay in obtaining export remittances are 2.50 per cent and 2.15 per cent of the shipment value respectively (Table 3). The results of the survey reveal that majority of the exporters pay bribe which varies between 1 and 3 per cent of the shipment value; the maximum being 10 per cent. The maximum perceived loss due to delay in obtaining export remittances is 12 per cent of the shipment value.

Thus, it may be concluded that on an average an Indian exporter incurs in sum an additional transaction cost of about 10 per cent of the shipment value.

3. Informalisation of Trade

Despite liberalisation in tariff/quota between India and Bangladesh under Uruguay Round and successive rounds of South Asian Preferential/Free Trading Arrangements (SAPTA/SAFTA, recent works (Chaudhari, 1995; Taneja, 1999, Pohit and Taneja,, 2003) indicate that India's informal trade with Bangladesh continues to thrive and shows no sign of decline. If there are factors other than trade and domestic policy barriers that determine informal trade, then a deeper understanding is essential. There could be several institutional and non-economic factors that influence informal trade. It may be possible that an efficient institutional arrangement exists, which supports informal trade. It is also possible that the informal channel has a better payments mechanism or a good marketing distribution network. These factors would attract traders to the informal channel.

By contrast, if the infrastructure supporting formal trade is weak and costs of trading increase substantially with higher volumes, some of it may spill over into informal trading. In particular, the official machinery through which formal traders have to operate may be very cumbersome causing delays and thereby escalation in costs. Moreover, the rent-seeking activities of the public servants at each step of transactions may dissuade traders from using the official channel. Furthermore, a distinctive feature of the South Asian countries is the inadequate transit and transport systems (see Taneja, 1999, Pohit & Taneja, 2003). This often results in high transport costs in the region and creates a strong incentive for trade to take place through informal channels.

To understand the mechanism and functioning of informal trading markets, a survey was conducted during 1999. Bangladesh has a long and porous border with India covering three of her states, namely West Bengal, Assam, and Tripura. However Chaudhari (1995) reported that nearly 95% of illegal exports to Bangladesh goes from West Bengal. Consequently, sample of traders were drawn from the border districts of West Bengal in India and from the border regions of Khulna and Rajshahi divisions of Bangladesh, which span the border districts of West Bengal. Given the time and cost consideration, 200 traders consisting of 100 traders each in the formal and informal channel, split equally between the two countries, were covered.

The traditional argument is that informal trade takes place due to trade and domestic policy distortions. As and when such distortions are corrected informal trade would shift to the formal channel. However, our survey revealed that institutional factors were the most important factors encouraging informal trade between India and Bangladesh. The top four factors (viz, quick realization of payments, no paper work, no procedural delays and lower transportation costs) in Bangladesh or India are found to be factors giving rise to transaction costs (see Table 4). The inadequate transport systems that have been in existence between India and Bangladesh have led to high transportation costs. With respect to transit modalities, the survey has identified following bottlenecks: port congestion, excessive documentation, delays, slow movement of goods, transshipment and other indirect costs. While in India ethnic ties ranked fifth in importance, the presence of high duties in the official channel ranked fifth in Bangladesh.

Table 4 Reasons for Informal Trade (Percent of respondents)

Factors Influencing Informal trade	Bangladesh	India
Presence of high duties in official channel	50	18
Quantitative restrictions	34	22
Leakage of administered price goods	12	14
Absence/shortage of storage/warehousing facilities	24	6
Produced locally across border	40	22
Presence of haats/bazaar	22	20
Lower transportation cost	72	50
Lower time to reach destination for perishable commodities	36	42
Lower time to reach destination for non-perishable commodities	28	30
Absence of trading routes	0	10
No procedural delays	52	82
No paperwork	76	92
Quick realisation of payments	88	94
Lower bribes	26	38
Nexus between enforcement agencies and traders	46	30
Ethnic ties	24	42

Note: Respondents had the option of ticking more than one factor.

Since perceptions on factors influencing informal trade were sought from Bangladeshi as well as Indian traders, a Spearman's rank correlation was computed for the ranking of factors given by both kinds of respondents. It shows a high value of 0.77 indicating converging of views regarding the factors influencing informal trade. Formal traders in Bangladesh and India were also asked to give their perceptions on the factors that they considered important for informal trade. A Spearman's rank correlation for perception of factors between formal and informal traders in Bangladesh yields a high value of 0.75. The same for the Indian traders yields a value of 0.76. Thus, there is high degree of agreement among the traders regarding the relative importance of various factors.

As noted above, institutional factors dominate among the reasons put forward by the traders for existence of vibrant informal trade. Now any kind of institutional factors give rise to transaction cost. Of course, transaction cost also exists in the case of informal trade. Naturally, the question arises whether informal trade flourishes because of lower transaction cost in informal trading than in formal trading. In this context the survey instrument was used to arrive at the transactions costs that traders incur in the two channels.⁶ The sign-rank test suggests that transaction cost in formal in India as well as in Bangladesh is significantly higher than the informal counterpart (see Table 5).

Table 5. Results of Wilcoxon's Signed-ranked test

Parameter	Bangladesh Territory		Indian Territory	
	Z statistics	Inference	Z statistics	Inference
Transaction Cost (TC)	4.84	Fo>If*	3.27	Fo>If

*Fo pertains to formal, If pertains to informal. The tests have been carried out at 5 % level of significance.

4. Summary and Policy Recommendation

This paper attempts to stress the importance of trade facilitation measures at the India-Bangladesh border for efficient movement of goods through the LCSs. We have also made an attempt here to quantify the cost implications of the informal trade barriers that impinge upon trade between the two countries through the land border. It has also been argued that lack of efficient system has led to the growth of informal trade between the two countries.

The primary survey reveals that the transaction costs in the informal channel are significantly lower than the formal channel in both the countries. This aspect was further highlighted when informal traders were asked about why they opted for the informal channel. The survey revealed that

⁶ Transaction costs for informal traders include payments made to enforcement agencies, transportation costs, cost of credit and cost of currency exchange. For formal traders transaction costs include bribes paid at various stages to officials, transportation costs including insurance and cost of credit.

factors like quick realisation of payments, no paper work, and no procedural delays were instrumental in driving the traders towards informal channel.

One aspect that is usually not taken into account while undertaking trade liberalisation, either unilaterally or through free trade agreements (FTAs), is the welfare implications of the existing institutional barriers. In low income and transitional economies including India and Bangladesh, currently the real barrier to trade is quite often institutional taking the form of unreasonable customs delay accompanied by widespread demands for bribes to expedite the movements of goods. In this kind of regime, perishable commodities are obviously more adversely affected by delays than non-perishables. Tariff reductions have little or no impact on domestic prices due to the capacity constraint in processing imports. More queuing results in added real resource costs, rather than generating revenues, as is true with tariffs. Perishability considerations affect the costs of liberalisation through more product loss. However, the literature on trade liberalisation or cost and benefits of FTAs has rarely touched on this issue. The precise length of these delays and how they arise is, unfortunately, poorly documented, but their impact on trade is undeniable.

Our estimation shows that the total delay (loss of time) in exporting a single shipment from India to Bangladesh is to the tune of four days (99 hours). Our analysis also shows that on an average an Indian exporter incurs in sum an auxiliary transaction cost of about 10 per cent of the shipment value; the maximum delay occurs in custom clearance including transport, parking and queue at border.

The approach roads towards the LCSs have to be widened. A Government bonded warehousing facility is mandatory in all the LCSs to promote an efficient system of handling exportables. Efforts should also be made to operationalise the EDI system round the year. Local administration with co-operation from exporters should take the responsibility to ensure supply of drinking water and proper sanitation facilities at the parking lots. In addition, the concerted effort by local administration and exporters should sort out the issues related to poor quality of power supply and strikes.

At present, West Bengal is the largest transportation hub within India for trade with Nepal/Bangladesh and Bhutan. The facilities have however not coped with the pace of growth of trade with these countries leading to “open smuggling” at the border area, with law-and-order ramifications. The direct and indirect employment generation from these activities, viz. being the transportation hub, are large and as such warrants attention from the government for creating atmosphere for the growth of these kind of activities. If one consider also the livelihood of people who are associated with the smuggling activities due to the shortcoming of the formal channel, it seems logical that the state government needs to address the grievances of transporters/exporters in the context of India-Bangladesh trade, etc just like any other industries.

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