

Informal Trade in South Asia

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Plan of Presentation

2

- Why informal trade is important?
- What is informal trade?
- What is the existing evidence on informal trade
- How is it being estimated?
- What is the magnitude of informal trade?
- What is the composition of informal trade?
- What are the drivers of informal trade?
- What are the gaps in the literature and what should future research focus on?

Why informal trade is important

3

- Despite repeated efforts towards trade and investment normalization, South Asia remains one of the least economically integrated regions in the world.
- While formal trade in South Asia is abysmally low, informal trade has been a persistent feature of the region and continues to thrive.

One of the primary reasons for low intra-regional trade in SA
is the existence of informal trade

What is Informal Trade??

4

- Unrecorded trade that should be included in the national income statistics, according to conventional national income accounting, but is not (Pohit and Taneja, 2000; Taneja et al 2004).

- Such trade could pass through formal channels which are designated official points of trading or these goods could move across the length of the borders which are very permeable and escape the state machinery.

Existing Evidence on Informal Trade in SAARC

5

- Studies conducted were survey-based research studies which were conducted between 1995 and 2017.
 - 1995-2007: Country-level studies were conducted which focussed on estimating the volume of informal trade between a **pair of South Asian** countries, and identifying the major commodities which are traded informally. Some of the studies also made an attempt at understanding the institutional framework within which such trade occurs.
 - India-Bangladesh: Chaudhuri (1995); Rahman and Razaqque (1998); Pohit and Taneja (2000) and World Bank (2006)
 - India-Pakistan: Khan et al (2007)
 - India-Nepal: Taneja, et. al. (2002)
 - India-Sri Lanka: Taneja et al (2004)
 - India-Bhutan: Rao et al (1997)

Existing Evidence on Informal Trade in SAARC

6

□ Post 2007:

- Sector and product-specific studies were carried out, particularly in food, agriculture and related commodities.
 - Karmacharya (2010): India's informal trade in agricultural commodities
 - Bhattacharjee (2013): Cattle-smuggling across the Indo-Bangladesh border
 - Pursell (2007): Sugar smuggling into Bangladesh from India
 - Joshi et al (2012): Informal exports of fertilisers from India to Nepal
 - USAID and EAT (2014): Informal export of rice into Bangladesh, import of rice seeds from Bangladesh and India's informal exports of rice as well as rice and maize seeds to Nepal

Existing Evidence on Informal Trade in SAARC

7

- Country-level studies:
 - India-Pakistan: Ahmad et al, 2014 and Taneja and Bimal, 2016
- Sub-regional informal trade between Indian states and partner countries:
 - Bihar-Nepal: Chaudhary and Ghosh (2014)
 - West Bengal-Nepal: Chanda (2013)
 - Tripura-Bangladesh: Nath (2010)

Methodologies for Estimating Informal Trade Flows

8

- Informal trade has been estimated using secondary and primary data.
 - A standard practice of estimating informal trade using secondary data is to undertake partner country data comparisons. Trade mis-invoicing which essentially is comparison of the value of exports as reported by the exporter to the value of imports as reported by the importer- adjusted for freight and insurance. This has been done in the context of Central Asia (Kaminisky and Mitra, 2011).
 - Not very useful in the context of South Asia because there is mis-invoicing at both ends; poor recording systems

Methodologies for Estimating Informal Trade Flows

9

- For collecting primary data, techniques like border monitoring, stock taking and tracking have been extensively used to estimate informal trade in Sub Saharan Africa (Ackello-Ogutu C and Echessah, 1997; Ackello-Ogutu C and Echessah, 1998; Minde and Nakhumwa, 1998).
 - Complex and difficult to undertake this in SAARC as informal trade has aspects of illegality as well
 - In SAARC a lot of informal trade takes place through porous and long borders and is difficult to monitor, track and observe
- **The most common method used to quantify informal trade in South Asia has been primary surveys using the Delphi technique.**

Estimates of Informal Trade in South Asia

(All Values in US\$ million)

10

Country Pair	Study	Year	Informal Exports	Informal Imports	Total Informal Trade
Country-Level					
India-Pakistan	Ahmed et al, 2013	2013	1789	-	-
	Taneja and Bimal, 2016	2013-14	3992	721	4713
Sub-Regional Level					
India-Bangladesh	Nath (2010) (Tripura only)	2011-12	360	140	500
Sector-Level (Agriculture)					
India-Nepal	Karmacharya, 2010	2010	651		
Product-Level					
India-Bangladesh	Pursell, 2007 (sugar)	2003-04	70-100		
	Bhattacharjee, 2013 (cattle)	2012-13	500		

Shortcoming of Existing Literature

11

- All the existing studies have been conducted at different points in time, ranging from 1995 to 2016.
- Except for a couple of studies conducted for estimating the value of total informal trade between a pair of South Asian countries between 1995 and 2007, not much work has been done on this in the last ten years.
- **Neither possible to get an estimate the extent of total informal trade in South Asia nor get a comparative estimate for trade with different partners. ..**

Commodity Composition of Informal Trade

12

	Country Pair	Study	Year	Identified Informal Exports	Identified Informal Imports
	India-Bangladesh	Nath (2010)	2011-12	<ul style="list-style-type: none"> Cows and buffaloes, fertilisers, jackfruit, ginger, fish (Andhra Pradesh), tea, sugar, bamboo, Banana, potato, tobacco, biri (country cigarette), dry fish, cumin seeds, pineapple 	<ul style="list-style-type: none"> Fish, Garlic, Eggs, Palm & Refined Oils, Goat, Rubber, Plastic items, Peas, Betel nut, Vegetables, Cinnamon, Dry Grapes, Onion, Domestic Birds, Flowers, Food for Poultry Farms, Chicken
India-Pakistan		Ahmed et al, 2013	2013	<ul style="list-style-type: none"> Fruits and vegetables, spices and herbs, tobacco products Textiles, jewellery, tyres, cosmetics 	-
		Taneja 2016	2013-14	<ul style="list-style-type: none"> Real jewellery, textiles, machinery and machine parts, electronic appliances, scraps, paper, chemicals Tobacco products, small amounts of packaged food, spices and pulses 	<ul style="list-style-type: none"> Textiles, fry fruits, spices, cement, carpets, fruits and vegetables
India-Nepal		Karmacharya, 2010	2010	<ul style="list-style-type: none"> Paddy, rice, sugar and edible oils, Musoro, fish, poultry, powder milk and oilseeds, maize, chana, arhar, banana, chili, onion, jira, buffalo, goat, potato, and tea 	<ul style="list-style-type: none"> Betel nuts, hides and skins/leather, apple and garlic and ginger. Other smaller imports include oranges, large cardamom, onions, turmeric, pig, poultry, and powder milk and jute/jute products

Factors Influencing Informal Exports

13

□ Framework for analysis

- Insights are drawn from the literature on the New Institutional Economics.
- Under formal trading arrangements, the recourse to law defines contracts between two trading parties and this ensures that goods move across borders legally and payments are guaranteed.
- On the other hand, contracting parties in informal trade cannot resort to the law for violation of terms of contract. So, it is reasonable to assume that those trading through the informal channel have devised parallel institutional mechanisms for contract enforcement and dispute settlement.

Factors Influencing Informal Exports

14

- Also, the smooth functioning of such markets show that traders have developed efficient mechanisms for obtaining information on quantities and commodities to be traded and mitigating risks that might arise from the transacting environment. Ethnic networks build trust, and help mitigate risk.
- In contrast, it is important to understand the institutional structure supporting formal trade might be weak due to cumbersome procedures, complex rules and regulations, and infrastructure bottlenecks.

Factors Influencing Informal Exports

15

- Thus, if the institutional arrangement under informal trading is more efficient than that under formal trading, traders may prefer the former rather than the latter.

- This would get reflected in transaction costs and so if the transaction costs of trading through formal channel are higher than the informal channel, then the latter will be preferred.

Factors Influencing Informal Exports

16

- Role of Trade Policy Barriers
 - Export restrictions- ban on rice exports and min export price requirement
 - Inability to comply with standards e.g. MAPS
 - Port restrictions: e.g Sri Lanka tea and garments
 - Commodity restrictions : eg positive list
- Role of Domestic Policy Distortions
 - Rice: Leakages from the PDS
 - Fertilizers: input subsidies
 - Cattle : Ban on cow slaughter (24 states) ban on cattle exports (7 states)

Future Research

17

□ Comprehensive Studies

- Country-level studies needed to provide a macroeconomic and overall country perspective)
- Sector and product specific studies needed to provide in-depth analysis highlighting the problems associated with that sector/product, linking it to government policies pertaining to that particular sector/product, identifying drivers facilitating informal trade and providing practical and focussed suggestions to shift the informal flow of trade to formal channels
- Sub-regional or state/country level analysis can serve as a valuable addition to the country and sector/product-level study

Thank You



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Factors Influencing Informal Exports

19

- Transaction costs of trading
- Case of Informal Trade between India and Pakistan

Route	Transaction Cost Per Ton (INR)	Distance (kms)	Transaction Cost Per Ton per Km (INR)
1) Delhi-Lahore	3050	507	6.01
2) Delhi-Mumbai-Dubai-Karachi-Lahore	12600	5756	2.18

Source: ICRIER Survey

Indirect route is 11 times longer than the direct route; 4 times more expensive than the direct route; but is 3 times more efficient...