Working Paper 378

India-Myanmar Border Trade

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June 2019

INDIAN COUNCIL FOR RESEARCH ON INTERNATIONAL ECONOMIC RELATIONS

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Acknowledgements

We gratefully acknowledge the funding provided by the Department for International Development (DFID), UK for this project.

The interactions held with several stakeholders during field visits and consultations in Manipur, Mizoram and New Delhi in India and Yangon, Mandalay and Monywa in Myanmar provided in-depth understanding of issues pertaining to the subject. We convey our heartfelt thanks to all of them for sparing the time to interact with us. In particular we are deeply indebted to the entrepreneurs and traders for sharing their experiences and insights.

The preliminary findings of the study were presented during the Conference on *Enhancing Trade and Connectivity between India and Myanmar held on* April 23, 2018 at New Delhi. The feedback and comments received from participants during the conference contributed greatly in finalizing this study.

Abstract

As India seeks to strengthen trade, investment and other forms of economic cooperation with ASEAN, Myanmar is an essential strategic partner, since it is the only ASEAN nation with which India shares both land and maritime borders. As a ‘gateway’ to South East Asia, Myanmar is also vital in terms of economic development for India’s North East Region (NER). India shares a 1643 km long border in four north-eastern states – Arunachal Pradesh, Nagaland, Manipur, and Mizoram - with Myanmar and this geographical proximity provides opportunity for the hitherto economically isolated northeast states of India to link to economic opportunities and markets in the east, building on their strong historical socio-cultural and economic linkages with Myanmar. To this end, India’s *Act East Policy* is increasingly being projected as the new economic development strategy for India's NER envisaging deeper economic integration of the region with South East Asia.

Notwithstanding the advantages, for long, India-Myanmar border trade has been quite low primarily due to a restrictive border-trade policy framework wherein trade was permitted only in a limited number of locally produced items through barter. In December 2015 two important policy changes were introduced by India – shift from “Barter Trade to Normal Trade” and shift from “Border Trade to Normal Trade”.

This study examines the effectiveness of the new trade policy measures adopted by India with regard to bilateral trade with Myanmar across the land border and highlights the challenges faced by traders in shifting to normal trade. The key finding of the study is that there has been a substantial increase in informal trade and formal bilateral trade between India and Myanmar has become almost negligible in the last two years. The paper concludes with policy recommendations to address the impediments to formal trade across the land border with Myanmar and suggests measures that could facilitate the formalization of the rampant informal trade.

Key Words: *India-Myanmar, Economic Integration, Economic Development, Trade Policy*

JEL Classification: *F13, F15, F63*

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India-Myanmar Border Trade

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1. Introduction

In April 2015 the Indian government announced the *Foreign Trade Policy* (FTP) 2015-2020 underlining the importance of foreign trade in the growth of the Indian economy and aimed at doubling India's exports of goods and services. To this end, India ratified the WTO Agreement on Trade Facilitation (TFA) in April 2016, and soon after unveiled the *National Trade Facilitation Action Plan* (NTFA) 2017-2020 that seeks to transform the trade ecosystem by reducing the time and cost of doing business.[1] This is to be achieved by simplification of procedures, easy access to all trade-related information and infrastructure augmentation. In tandem, enhancing connectivity with its "immediate and extended neighborhood" is also being actively pursued by India. In the words of Prime Minister Narendra Modi, India's path of international engagement includes "rebuilding connectivity, restoring bridges and rejoining India with our immediate and extended geographies"[2] whereby "India's broadest connectivity vision encompasses development partnerships extending from the islands of the Indian Ocean and Pacific to the islands of the Caribbean and from the continent of Africa to the Americas."[3] Presently two major policy initiatives - *Act East Policy* and the *Neighborhood First Policy* – are the primary drivers of India's efforts to improve and augment connectivity with countries and regions across its borders.

Seeking to strengthen India's economic and, political relations with the ASEAN nations in the post-Cold War regional landscape the *Look East Policy* was launched in 1991. Gradually the policy went on to encompass India's engagement with Japan, Republic of Korea, and China and in recent years, India's outreach in the Asia Pacific has extended to Australia New Zealand and the Pacific Island Countries.[4] In 2014 it was upgraded to the *Act East Policy* underlining the need for a more action-oriented policy to deepen India's focus on the countries to India's east.[5] At the same time, the policy is increasingly projected as the new economic development strategy for India's North Eastern Region (NER) and the policy objective is the economic integration of the region with South East Asia.[6] To achieve this goal the emphasis is on the "3 C's - Commerce, Connectivity and Culture"[7].

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1 "India: National Trade Facilitation Action Plan 2017-2020", at http://www.cbic.gov.in/resources//htdocs-cbec/implmntin-trade-facilitation/national-trae-facilitation.pdf

2 "Inaugural Address by Prime Minister at Second Raisina Dialogue", January 17, 2017, at https://mea.gov.in/Speeches-Statements.htm?dtl/27948/Inaugural_Address

3 Ibid.

4 Singh, Antara Ghosal: "India's Vision for Connectivity: A Discourse Analysis" in *India and Connectivity Frameworks,* (2017), Delhi Policy Group Report at http://www.delhipolicygroup.org/uploads_dpg/publication_file/india-and-connectivity-frameworks-1074.pdf

5 Gaens, Bart and Ruohomäki, Olli: "India's 'Look East' – 'Act East' Policy", FIIA Briefing Paper 222, June 2017 at https://storage.googleapis.com/upi-live/2017/10/bp222_indias-look-east--act-east-policy.pdf

6 Panda, Bhagirathi: "Act East Policy, India's North-East and Thailand: Issues in Economic Integration" at

It is in this context lies Myanmar's importance for India. Myanmar is the only ASEAN nation with which India shares both land and maritime borders and therefore is a "gateway" to South East Asia. As India seeks to strengthen its trade, investment and other forms of economic cooperation with ASEAN, through its free trade agreement with ASEAN and the formation of the *Regional Comprehensive Economic Partnership* (RCEP) - between the 10 ASEAN governments and their six FTA partners: Australia, China, India, Japan, New Zealand and South Korea, Myanmar is an essential strategic partner. India and Myanmar are also members of the *Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation* (BIMSTEC), along with Bangladesh, Bhutan, Sri Lanka, Thailand and Nepal as well as members of the *Bangladesh-China-India-Myanmar Forum for Regional Cooperation* (BCIM).

Myanmar is also vital in terms of economic development for India's North East Region (NER) as India shares a 1643 km long border in four north-eastern states namely, Arunachal (520 km), Nagaland (215 km), Manipur (398 km) and Mizoram (510 km) mainly with Myanmar's Sagaing Region and Chin State.[8] This geographical proximity provides an opportunity for the hitherto economically isolated northeast states of India to link to economic opportunities and markets in the east, building on their strong historical socio-cultural and economic linkages with Myanmar. Indeed it is widely accepted that enhanced border trade between India and Myanmar will have growth inducing effects in NER by 1) Scaling up economic activities in the region leading to greater employment and reduction in poverty levels; and 2) Weaning the youth away from militancy to productive employment as well as widening the stakeholders' base in favor of peaceful resolution of grievances.

2. Background, Objectives and Approach of the Study

Notwithstanding the advantages, for long India-Myanmar border trade has been quite low in comparison with the Sino-Myanmar and Thai-Myanmar border trade. This was primarily due to a restrictive border-trade policy framework wherein trade was permitted only in a limited number of locally produced items through barter. However, in December 2015 two important policy changes have been introduced by India – shift from "Barter Trade to Normal Trade" and shift from "Border Trade to Normal Trade".

With the new regulations pertaining to border trade, the policy regime governing trade through the land border between India and Myanmar has completely changed. Against this backdrop, the objective of this study has been to examine the effectiveness of the new trade policy measures adopted by India to switch from barter trade to normal trade, highlight the challenges faced by traders in shifting to normal trade and suggest how these can be addressed for smooth functioning of normal trade at the borders. The study, based on desk

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https://www.researchgate.net/publication/324330796_Act_East_Policy_India's_North-East_and_Thailand_Issues_in_Economic_Integration

7 "Remarks by External Affairs Minister at the 5th Roundtable of the ASEAN-India Network of Think Tanks", January 06, 2018 at https://mea.gov.in/Speeches-Statements.htm?dtl/29337

8 Thakur, Sanjay: "Indo-Myanmar Border Linkages" at http://www.claws.in/1264/indo-myanmar-border-linkages-sanjay-thakur.html

research and a primary survey in India's northeast region as well as Myanmar, addresses the following issues:

- What are the major trends in India-Myanmar trade?
- Has India-Myanmar border trade increased now that all items can be traded?
- If not, what are the impediments?
- What policy measures need to be undertaken to enhance India-Myanmar border trade?

The study makes use of "mixed methods", based on secondary sources and primary information. Secondary sources include published papers, data and government policies, agreements, regulations and protocols. Primary surveys and consultations were conducted during 2017 and 2018 in Manipur, Mizoram and New Delhi in India and Yangon, Mandalay and Monywa in Myanmar.

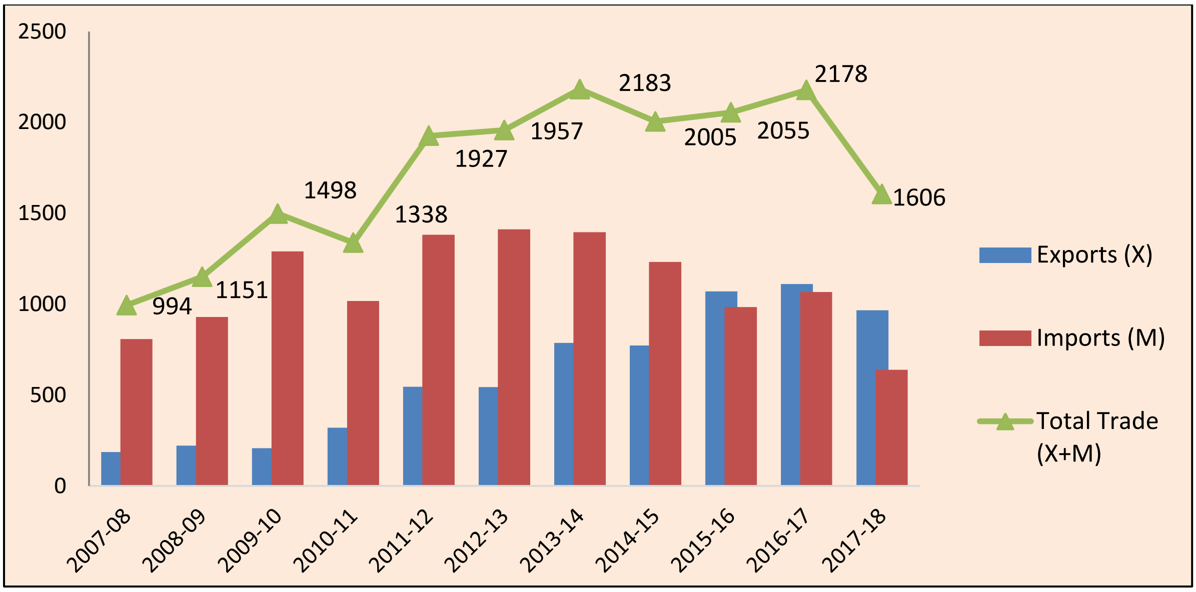
3. India- Myanmar Trade

This section begins with an analysis of the recent trade trends between India and Myanmar. It is followed by an examination of the composition of trade as well as the mode wise distribution of trade.

3.1 Trade Trends

India-Myanmar bilateral trade has grown from US$ 994.45 million in 2007-08 to US$ 1.6 billion in 2017-18, an approximate increase of 61 per cent (Figure 1).

Figure 1: India's Trade with Myanmar (US$ million)



Source: Directorate General of Foreign Trade, Ministry of Commerce and Industry, Government of India

However, notably in 2017-18, there has been a significant decline of 26 per cent in India-Myanmar trade from the previous year. Compared to 2016-17, exports fell by 13 per cent and imports by 40 per cent in 2017-18. In fact, 2017-18 saw imports from Myanmar fall to their lowest value in the last ten years.

The key reason for the decline in imports from Myanmar has been the import restrictions on peas and lentils levied by India. India is the world's largest producer of pulses, but domestic demand outstrips production. The shortfall has been traditionally met through imports and Myanmar has been a key import source. However in 2017 a bumper harvest in India drove down domestic prices wherein in an attempt to address farmer's distress the government revised the import policy from being 'free' to 'restricted' and limited the import of *Pigeon Peas* to an annual (fiscal year) quota of 2 lakh MT[9]. Similar action was taken for *Moong Dal* and import was restricted to an annual (fiscal year) quota of 3 lakh MT[10].

3.2 Composition of Trade

A comparison of commodities exported from India to Myanmar during 2011-12 and 2017-18 shows a change in the composition of bilateral trade. During 2011-12 to 2017-18, the share of top 5 export commodities decreased from 69 per cent to 51 per cent indicating a more diversified export basket compared to the previous period. In 2011-12, the top most item traded was articles of iron or steel. In 2017-18, pharmaceutical products became the top traded commodity (Table 1). The list of top ten exports at disaggregated level (HS-6 digit classification) for both the years is given in Appendix Table 1.

Table 1: India's Top 5 Exports to Myanmar (Values in US$ million)

HSCode	Commodity Description	2011-12		2017-18	
		Value	% Share	Value	% Share
30	Pharmaceutical products	78	14.4	179	18.5
72	Iron and steel	31	5.6	109	11.2
85	Electrical machinery and parts	-	-	68	7.0
87	Vehicles and parts	-	-	67	7.0
17	Sugars and sugar confectionery	-	-	67	7.0
73	Articles of iron or steel	214	39.2	-	-
2	Meat and edible meat offal	28	5.1	-	-
23	Residues from food industries	27	4.9	-	-
	Total of Top 5 Exports	**378**		**490**	
	Share of Top 5 Exports in Total Exports		**69.2**		**50.7**

Source: Directorate General of Foreign Trade, Ministry of Commerce and Industry, Government of India

Examining India's imports from Myanmar during 2011-12 to 2017-18, we find that the share of top 5 imports remained almost constant indicating no diversification of the import basket

9 DGFT Notification 19/2015-2020 dated 05 August 2017. Available at https://dgft.gov.in/sites/default/files/NotificationNo.19%28Eng%29.pdf

10 DGFT Notification 22/ 2015-2020 dated 21 August 2017. Available at https://dgft.gov.in/sites/default/files/NotificationNo.22%28e%29.pdf

compared to the previous period. In both the time periods, the top 2 imported commodities remained the same and accounted for more than 95 per cent of the imports from Myanmar (Table 2). The list of top ten imports at disaggregated level (HS-6 digit classification) for both the years is given in Appendix Table 2.

Table 2: India's Top 5 Imports from Myanmar (in US$ million)

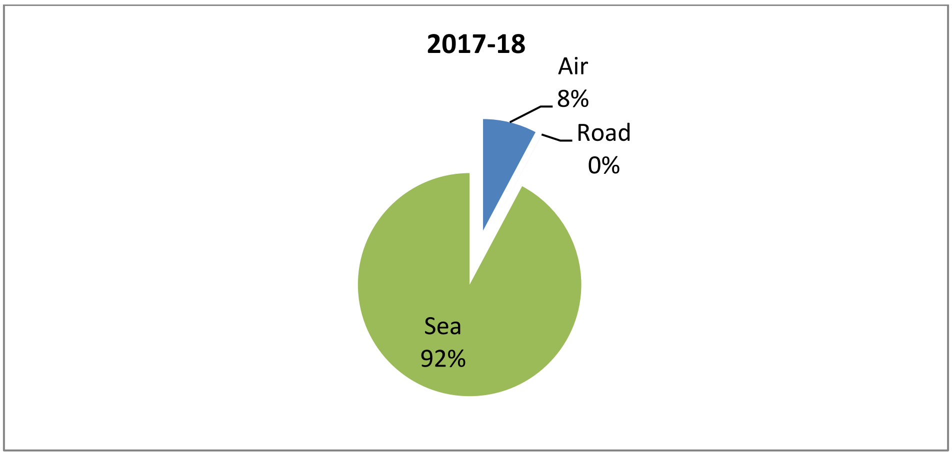
HS Code	Commodity Description	2011-12		2017-18	
		Value	% Share	Value	% Share
7	Edible vegetables and roots	668	49.1	432	71.1
44	Wood and articles of wood	669	49.1	143	23.5
72	Iron and steel	-	-	14	2.3
78	Lead and articles thereof.	-	-	12	2.0
9	Coffee, tea, mate and spices.	-	-	7	1.1
27	Mineral fuels, oils and their products	11	0.8	-	-
28	Inorganic chemicals	7	0.5	-	-
5	Products of animal origin, nes	6	0.4	-	-
	Total of Top 5 Imports	**1361**		**608**	
	Share of Top 5 Imports in Total Imports		**99.9**		**100**

Source: Directorate General of Foreign Trade, Ministry of Commerce and Industry, Government of India

3.3 Mode Wise Distribution of Trade

More than 90 per cent of the total trade between India and Myanmar takes place through the sea route (Figure 2). The road route i.e. land border trade accounts for a negligible share (less than 1 per cent) of India's total trade with Myanmar even though the Northeast States share more than 1600 km of common border with Myanmar. The share of air route, on the other hand, has increased from 2 per cent in 2011-12 to 8 per cent in 2017-18. For the list of top 5 commodities traded between India and Myanmar via sea, air and land, refer to Appendix Tables 3-7.

Figure 2: India's Mode Wise Trade with Myanmar



Source: Directorate General of Commercial Intelligence and Statistics, Government of India

4. Importance of Border Trade for Northeast India and Myanmar

As per the Ministry of Commerce, Government of India, border trade is different from trade through air, land or sea ports as trade through ports involves clearance through customs and has large volume. Border trade, in contrast, is "over-land trade" by way of "exchange of commodities" from a bilaterally agreed list by people living along both sides of the international border. While for trading through LCSs situated on the Bangladesh and Bhutan border, there is a Free Trade Agreement (SAFTA), Border Trade Agreements have been entered into with China and Myanmar.

For permitting locally produced commodities, to be traded as per prevailing customary practices on both sides of the India-Myanmar border, an agreement on border trade between India and Myanmar was signed on 21st January, 1994 and operationalized on 12th April, 1995. The Agreement envisages that the border trade will take place through Custom Posts at Moreh in Manipur and Zowkhathar in Mizoram, corresponding to Tamu and Rhi in Myanmar.

Comparing India's border trade with Myanmar's border trade it is seen that India's border trade through the north eastern region is less than 2 per cent of total trade with neighbouring countries. However, in the case of Myanmar there has been a big increase in border trade with its neighboring countries since 2011-12 and it constituted 46 per cent of total trade in 2017-18.

4.1 Northeast India

The north east region (NER) of India is spread over an area of 2,62,185 sq km which is nearly 8 per cent of the total geographical area of the country. The region has a long international border of 5182 km which is more than 99 per cent of its total geographical boundary. The eight Northeast states share international borders with - Bangladesh (1596 km), Bhutan (455 km), Myanmar (1640 km), Nepal (97 km) and China (1395 km). India has agreements of overland trade with these countries through Land Custom Stations notified under Section 7 of the Customs Act, 1962. The list of LCSs in NER through which trade with these neighbouring countries takes place is provided below (Table 3).

Table 3: Land Customs Stations in NER

Country	LCS in NER
Bangladesh	Agartala, Bholaganj, Borosora, Dalu, Ghasuapara, Golakganj, Karimganj Steamer Ghat, Mahendraganj, Mankachar, Manu, Old Raghnabazar (Dharmanagar), Shellabazar, Srimantapur, Sutarkhandi
Bhutan	Hatisar
China	Shreathang (Nathu la)
Myanmar	Moreh, Zowkhathar
Nepal	Borsorah, Chasuaparah, Dalu, Dawki, Karimganj and Mahendraganj

Source: Ministry of Development of North Eastern Region, Government of India

Note: *Even though Nepal does not share a border with any of the NER states of India, border trade has been reported at six NER LCSs.*

India's north east region's border trade with its neighbouring countries is quite small. In 2017-18, NER's border trade with its neighboring countries was US$ 197 million accounting for only 0.002 per cent of the region's total trade with its neighboring countries. Bangladesh is India's most important border trading partner accounting for 87 per cent of the border trade followed by Bhutan with a share of 11 per cent. The others account for only 1 per cent (Table 4).

Table 4: India's Border Trade via NER with Neighbouring Countries in 2017-18 (Values in US$ million)

Country	Total Bilateral Trade	Bilateral Border Trade	Share of Bilateral Border Trade in Total Border Trade (%)
Bangladesh	9300	172	87.4
Bhutan	924	23	11.6
China	89714	2	0.99
Myanmar	1606	0.02	0.01
Nepal	7051	0.0	0.0
Total	**108595**	**197.02**	**100**

Source: *Directorate General of Commercial Intelligence and Statistics (DGCI&S), Government of India*

4.2 Myanmar

Myanmar shares its border with India, Bangladesh, China, Laos and Thailand and engages in border trade with four countries - China, Thailand, India and Bangladesh. Compared to India's north eastern region, Myanmar's border trade with its neighbouring countries is quite large. In 2017-18, Myanmar's border trade with its neighbours was US$ 8.4 billion accounting for 46 per cent of its total bilateral trade with its neighbours. China is Myanmar's most important border trading partner accounting for 87 per cent of the border trade with its neighbouring countries. Thailand accounts for 19 per cent and India accounts for only 1 per cent (Table 5).

Table 5: Myanmar's Border Trade with Neighbouring Countries in 2017-18 (in US$ million)

Country	Total Bilateral Trade	Bilateral Border Trade	Share of Bilateral Border Trade in Total Border Trade (%)
Thailand	4904	1591	18.8
China	11766	6754	79.8
India	1468	91	1.1
Bangladesh	189	29	0.3
Total	**18327**	**8465**	**100**

Source: *Ministry of Commerce, Myanmar*

5. India-Myanmar Border Trade Policy Framework

India-Myanmar border trade policy can be examined in two phases – the first phase starting from 1995 when the *Border Trade Agreement* signed between the two governments came into effect till November 2015; the second phase which has been initiated in December 2015 when the Reserve Bank of India directed a shift from barter trade to normal trade at the Indo-Myanmar border.

5.1 Phase 1: 1995 to 2015

The *Border Trade Agreement* signed in 1995 specified that border trade would be conducted through designated country, viz.

a) Moreh in India and Tamu in Myanmar,

b) Champai (Zokhawthar) in India and Rhi in Myanmar, and

c) Other places that may be notified by mutual agreement between the two countries.

As of 2018, Moreh in Manipur and Zokhawthar in Mizoram are the only two notified and functional LCSs for cross border trade between custom posts and in accordance with the law, regulation and procedures enforced in either

India and Myanmar (Table 6). The Nampong LCS in Arunachal Pradesh is notified by customs but is not functional. In 2008 the Indo-Myanmar Joint Trade Committee agreed to set up a LCS in Avankhu in Nagaland corresponding to Somara in Myanmar, however, this is yet to be notified.

Table 6: India's Land Customs Stations with Myanmar

LCS in India	State	LCS in Myanmar	Status
Nampong	Arunachal Pradesh	Pangsu	Notified but non-functional
Zokhawthar	Mizoram	Rhi	Inaugurated on 30th January, 2004 Functional
Moreh	Manipur	Tamu	Inaugurated on 12th April 1995 Functional and being developed as Integrated Check Post (ICP)
Avangkhu	Nagaland	Somara	Bilaterally agreed upon in 2008 Not yet notified

Source: Ministry of Development of North Eastern Region

Further the border trade agreement laid down a three-tier system for cross-border trade at Moreh and Zokhawthar:

1. **Traditional/Free Exchange** of locally produced items up to a maximum value of US$ 1000 between people living within 40 km of the border on both sides under simplified documentation and by way of head or non-motorized transport system.[11] Under this

[11] RBI Notification No. FEMA 23/2000-RB dated 3rd May 2000. Available at https://www.rbi.org.in/Scripts/BS_FemaNotifications.aspx?Id=177

system, import/export was to be balanced by corresponding export/import goods of equivalent value within two days. No duty was chargeable on the exchange of these goods. In 2000, RBI issued a circular which required custom authorities to report import/export transactions to the Exchange Control Department, Reserve Bank of India on a monthly basis.[12]

2. **Barter Trade** involving the non-monetary exchange of goods between India and Myanmar via the land route. Initially, in 1995, the DGFT permitted the export and import of 22 agreed upon exchangeable items, up to the value of USD 20,000/- by the people living along both sides of the Indo-Myanmar border as per the prevailing customary practices.

   In November 2008, 18 more commodities were added to the list[13] which was further expanded in November 2012[14] to include 22 new commodities taking the total to 62 items (Appendix Table 8). Trade was permitted at a concessional customs duty of 5 per cent ad valorem.

   Barter trade was to be carried out only by way of head load or non-motorised transport system. The imports from Myanmar to India were to precede the exports from India to Myanmar and the export/import value had to be balanced within a period of six months. Exporters needed to have an Import Export Code (I.E.C) and had to comply with the GR formalities along with all commercial documents which had to be submitted to the designated bank. The designated banks were required to maintain a record of the transactions and submit them to RBI on a monthly basis.[15]

   Importers though did not need an I.E.C and were not bound to comply with the GR requirements. However, importers were required to submit the required documentary evidence to the designated bank where the value exceeded USD 5,000/-.[16]

3. **Normal Trade** was also allowed under the Indo-Myanmar Border Trade Agreement. [17] In addition to the list of 62 items permissible for border trade at a concessional duty rate of 5 per cent, regular/normal trade was also allowed via LCS Moreh in all other commodities subject to the payment of customs duties as applicable. [18]

   Export and import of goods could be made as per the documentation requirements under the EXIM policy in free convertible currency or in a currency mutually agreed upon by

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[12] A.P.DIR Series, Circular no. 17 dated 16th October, 2000. Available at https://rbi.org.in/scripts/NotificationUser.aspx?Id=266&Mode=0

[13] DGFT Public Notice No. 30 RE-2012/2009-2014 dated 7th November 2008. Available at https://dgft.gov.in/sites/default/files/pn10608.pdf

[14] DGFT Public Notice No. 30 RE-2012/2009-2014 dated 16th November 2012. Available at https://dgft.gov.in/sites/default/files/pn3012_0.pdf

[15] A.P.DIR Series, Circular no. 17 dated 16th October, 2000. Available at https://rbi.org.in/scripts/NotificationUser.aspx?Id=266&Mode=0

[16] Ibid.

[17] Notification No. 9/95-Customs dated 6th March 1995. Available at http://www.cbic.gov.in/htdocs-cbec/customs/cs-act/notifications/notfns-1999/cs-tarr1999/cs9-95

[18] DGFT Policy Circular No. 53(Re-99)/1997-2002 dated 29th February 2000. Available at https://www.dgft.gov.in/sites/default/files/5_16.pdf

the two countries, including through counter trade arrangement. It was also agreed upon by the two countries that the agreement shall be reviewed periodically to ensure successful implementation of its objectives and provisions.

Although two customs posts Moreh and Zokhawthar were designated for border trade, owing to the long delay in the implementation of transport connectivity projects and requisite infrastructure at Zokhawthar-Rhi border the India-Myanmar border trade has primarily taken place across the Moreh-Tamu border.

The border trade at Moreh was conducted by way of three modes - Traditional/Free Exchange; Barter Trade; and Normal Trade, and was regulated through two points known as Gate Number 1 and 2 in local parlance. The designated point for normal trade and barter trade was Gate Number 1 next to the LCS, while Gate Number 2 which connects the Namphalong market on the Myanmar side with the Moreh market was to be used for traditional exchange.

The key features of different modalities of India-Myanmar Border Trade are summarized in Table 7.

Table 7: Key Features of Modalities of India-Myanmar Border Trade

	Mode1-Traditional Exchange	Mode 2-Barter Trade	Mode 3-Normal Trade
Value Limit	USD 1000	Up to USD 20,000	Above USD 20,000
Items Allowed	62	62	All
Customs Duty	No duty	5%	Customs Duties as applicable on international trade. On 21 notified items duty was limited to 5 % ad valorem provided the Indian importer produced evidence that such goods were produced in Myanmar.
Entry Gate	Gate 2 by way of head load or non motorized transport system.	Gate 1/LCS by way of head load or non motorized transport system.	Gate 1/LCS
Process	Based on customary practices without much documentation. No IEC or GR formalities required.	Non-monetary exchange of goods. For exporters, IEC code and GR formalities were required.	Documentation and procedures as per requirements for international trade. IEC issued based on the Permanent Account Number (PAN) is mandatory
Data Recording	Customs Authorities Import/export transactions reported on monthly basis to RBI, Guwahati.	LCS GR form with all commercial documents are submitted to the concerned designated banks who in turn report the data to RBI on a monthly basis	LCS Recorded and reported as per EXIM policy
Time Period for Settlement	Export and import transactions were to be balanced within 2 days	Imports were to precede exports. Transactions were to be balanced within six months	Settled as per international trade practices.

In practice, on ground, most of the trade took place in the form of 'traditional exchange' across Gate 2 at Moreh as in this mode the value limit was USD 1000 and no duties were applied. This incentivized trading of multiple consignments having a value of less than USD 1000 on a daily basis since there was a limit only on value of goods and no limit on the number of times a trader could cross over. Not only were the Indian traders able to avoid paying the 5 per cent duty on imports applicable on the barter system through Gate 1/LCS, the imports did not have to precede the exports to Myanmar. Moreover, even though trade through Gate 2 was required to be recorded and exports/imports balanced within two days customs officials were easily willing to allow head loads through without recording after collecting unofficial payments. Thus, over time this mode also became a conduit for informal trade in third country goods. Only a limited volume of imports and exports took place through Gate 1/LCS and this too was primarily in the form of barter trade. Therefore the recorded data of border trade through Moreh has always been largely barter trade. Normal trade was negligible with most traders wanting to avoid the cumbersome documentation and payment of higher duties.

5.2 Phase 2: Since December 2015

Effective 1st December 2015 the Reserve Bank of India[19] directed a shift from barter trade to normal trade at the Indo-Myanmar border. The RBI stated that "barter trade was initially permitted to facilitate exchange of locally produced commodities along the Indo-Myanmar border. As such, these transactions were not captured in the banking system or reflected in the trade statistics. However, over a period of time the trade basket has diversified and adequate banking presence is in place to support normal trade with Myanmar. It has, therefore, been decided, in consultation with Government of India, to do away with the barter system of trade at the Indo-Myanmar border and switch over completely to normal trade with effect from December 1, 2015." It was also decided that all trade transactions with Myanmar, including those at the Indo-Myanmar border with effect from December 1, 2015 would be settled in any permitted currency in addition to the Asian Clearing Union mechanism.

6. India-Myanmar Border Trade

This section examines the India-Myanmar border trade data provided by government agencies in India and Myanmar. It also highlights the data discrepancy between these sources.

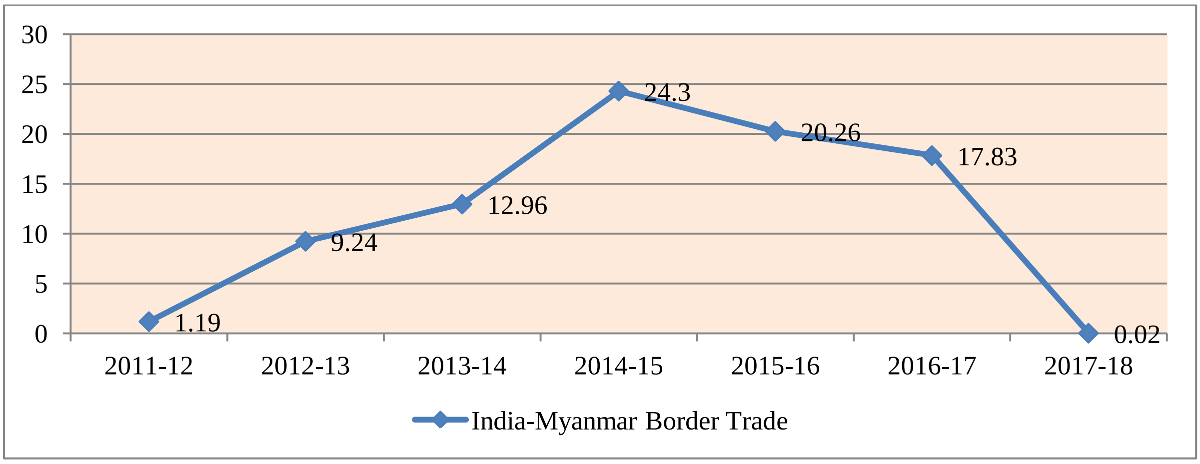
6.1 Major Trends

Bilateral trade through the India-Myanmar land border is extremely low in comparison to overall trade between the two countries and has accounted for less than 1 per cent of total India-Myanmar trade during the period 2011-12 to 2017-18. At the same time however the annual trends in these years have varied significantly.

[19] RBI/2015-16/230 A. P. (DIR Series) Circular No. 26
Available at https://www.rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=10112

There was a substantial increase in border trade from 2012-13 till 2014-15. Particularly in 2014-15, India-Myanmar border trade rose from approx US$13 million to a little over US$ 24 million (Figure 3). Possibly the reason was the expansion of the list of items that could be bilaterally traded across the land border in November 2012 when 22 new commodities were added taking the number of tradable items to 62[20].

Figure 3: India-Myanmar Border Trade (US$ million)



Source: Directorate General of Commercial Intelligence and Statistics (DGCI&S), Government of India

The Commodity Matrix for Indo-Myanmar trade across the land border from 2011-12 onwards is provided in Tables 8 and 9.

Table 8: India's Product-wise Exports through the Indo-Myanmar Border (Values in US$ million)

Commodities	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Beans and Pulses		0	0.9	4.2	0	0	0
Betel Nuts		0.03	0	0	0	0	0
Cane Sugar	0.1						
Capsicum		0	0	0	0.5	0	0
Chemicals		0.02	0	0.1	0.01	0.1	0
Cumin	1	5.5	0.3	0	0	0	0
Dry Grapes		0	0	0	0.6	0	0
High Speed Diesel		0	0	0	0	0	0.02
Electronic and Mechanical Equipments			0.01	0	0.2	0	0
Soyabari		0.003	0.03	0	0	0	0
Vehicles		0	0.04	0	0	0	0
Wheat		0.4	1.9	1.8	1.8	0	0

Source: Directorate General of Commercial Intelligence and Statistics (DGCI&S) and LCS Zokhawthar

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20 Notification No. 9/95-Customs dated 6th March 1995. Available at http://www.cbic.gov.in/htdocs-cbec/customs/cs-act/notifications/notfns-1999/cs-tarr1999/cs9-95

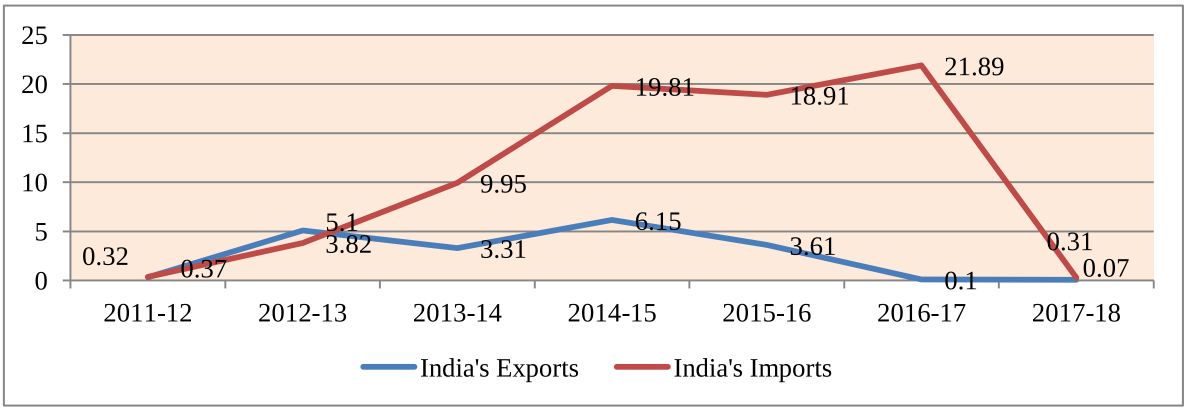
Table 9: India's Product-wise Imports through the Indo-Myanmar Border (Values in US$ million)

Commodities	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Betel Nuts	0.3	3.4	10.1	19.6	19.7	21.8	0.3
Black Pepper	0	0	0	0	0	0	0.03
Ginger	0	0.01	0.01	0	0	0	0

Source: Directorate General of Commercial Intelligence and Statistics (DGCI&S) and LCS Zokhawthar

Since then though there has been a declining trend and by 2017-18 India-Myanmar trade across the LCSs at both Moreh and Zokhawthar has almost become negligible (Figure 4).

Figure 4: India-Myanmar Border Trade via Moreh and Zokhawthar (US$ million)



Source: LCS Moreh and LCS Zokhawthar, India

Upon analyzing the border trade trends between India and Myanmar over the last five years, it can be seen that border trade via LCS Moreh and LCS Zokhawthar in 2012-13 was reported at US$ 8.92 million, of which exports to Myanmar were valued at US$ 5.1 million and imports from Myanmar were valued at US$ 3.8 million. Border trade has declined by more than 95 per cent since then. The trade value was just US$ 0.38 million in 2017-18. Out of this, exports amounted to US$ 0.07 million and imports were US$ 0.31 million. Exports have become virtually negligible after 2015-16 and imports have witnessed a steep fall since 2016-17.

There are two main reasons that have contributed to this decline:

1) ***Normalisation of India-Myanmar Border Trade.*** As pointed out earlier, in a sudden move in December 2015 the Reserve Bank of India decided to do away with the barter system of trade at the Indo-Myanmar border and switch over completely to normal trade. This has impacted border trade adversely both with regard to the increase in the documentation required for normal trade as well as the increase in customs duties on imports from Myanmar. Details are provided in the next section on impediments to formal trade.

2) ***Successive Indian Restrictions on Import of Betel Nuts.*** Betel nuts have been one of the key imports from Myanmar across the land border. With the shift to normal trade the imports were no longer eligible for the concessionary customs duty rate of 5 per cent applied under provisions of border trade. Instead from 1st December 2015 onwards the applicable customs duty jumped from 5 per cent to 40 per cent. Further, in an attempt to curb the illegal import of betel nuts particularly from third countries such as Indonesia, the Indian government has also increased the minimum import price (MIP) twice in the last three years. First in June 2015 the MIP was increased from Rs 110 per kg to Rs 162 per kg and then again from Rs 162 per kg to Rs 251 in January 2017. Thus, from Rs. 110/- to Rs. 251/- per kilogram the CIF value of betel nuts under the HS code 082080 has experienced an increase of 128 per cent.

6.2 Discrepancy in Data Recording

There exist some discrepancies in the border trade data recorded by the concerned authorities within India. Data provided by the Directorate General of Commercial Intelligence and Statistics (DGCI&S) includes border trade data only from LCS Moreh but not LCS Zokhawthar. LCS Zokhawthar maintains its own trade database, but the data is not being reported to the DGCI&S. A possible reason could be the small volume of trade being recorded at LCS Zokhawthar.

However, when comparisons are made between the border trade data reported by the authorities in Myanmar and the Indian authorities, large discrepancies are witnessed. The data on border trade provided by the Ministry of Commerce, Myanmar shows that border trade is much higher than indicated by Indian data sources (Table 10). In fact, in 2017-18, Myanmar statistics show significant border trade valued at US$ 91 million as compared to a negligible amount of US$0.02 as reported by India's DGCI&S. Another observation from Myanmar data is that, in recent years, trade volume through Zokhawthar-Rhi is almost the same as Moreh-Tamu.

Table 10: Total Border Trade between India and Myanmar as Reported by Different Authorities (Values in US$ million)

Year	Myanmar Stats	India Stats	
		DGCI&S	LCS Stats
2012-13	12	9	9
2013-14	45	13	13
2014-15	60	24	26
2015-16	72	20	23
2016-17	88	18	22
2017-18	91	0.02	0.4

Source: LCS Moreh, LCS Zokhawthar, Directorate General of Commercial Intelligence and Statistics (DGCI&S), India and Ministry of Commerce, Government of Myanmar

Discrepancies between Myanmar's and India's data can be observed both at Moreh-Tamu and Zokhawthar-Rhi (Table 11)

Table 11: India's Total Trade via Moreh-Tamu and Zokhawthar-Rhi (Values in US$ million)

	India's Total Trade via Moreh-Tamu		India's Total Trade via Zokhawthar-Rhi	
Years	**Myanmar Stats**	**India's LCS Stats**	**Myanmar Stats**	**India's LCS Stats**
2012-13	9	9	3	0
2013-14	26	13	19	0.3
2014-15	46	25	15	1
2015-16	46	20	26	3
2016-17	48	18	40	4
2017-18	46	0.1	44	0.3

Source: LCS Moreh, LCS Zokhawthar (India) and Ministry of Commerce, Government of Myanmar

7. Impediments to India-Myanmar Trade across the Land Border

Formal trade across the India-Myanmar land border involves high transaction costs both in terms of time and money. The primary factors that have for long accounted for the high transaction costs include poor connectivity, lack of quality infrastructure at border crossing points, limited trade financing instruments and rampant extortion of informal/side payments. In addition, after 'normalisation' of India-Myanmar border trade in December 2015 by the RBI the documentation requirements have sharply increased along with a change in the import tariffs on the Indian side.

7.1 Poor Connectivity between India and Myanmar

India-Myanmar trade continues to be conducted primarily through the sea route as connectivity across the land borders remains a long-standing issue. The India-Myanmar Friendship Road starting from Moreh/Tamu to Kyigone and Kalewa was built with Indian assistance and inaugurated in 2001. Referred to as the TKK Road it was resurfaced by India in 2009 and handed over to Myanmar. The road has eased movement between Tamu and Kalewa in Myanmar's Sagaing region bordering India, but beyond that, the road condition is not good between Kalewa and Mandalay.

The India-Myanmar-Thailand (IMT) trilateral highway was conceived in 2002 to connect Imphal the capital of Manipur to Bangkok via Mandalay in Myanmar. Widely dubbed as a 'game changer' the IMT highway is still awaiting completion. Myanmar was unable to repair/upgrade the several bridges along the Friendship Road which forms part of the trilateral highway and in 2012 during then PM Manmohan Singh's visit to Myanmar, India agreed to undertake the task. India also agreed to extend assistance to upgrade the 120 km Kalewa-Yargyi road segment in Myanmar to the standard of highways. However, India too has not been able to deliver the initially scheduled completion by 2016.

The latest update provided by the Indian government in January 2019 states that "India is undertaking the construction of two sections of the Trilateral Highway in Myanmar namely:

I. Construction of 120.74 km Kalewa-Yagyi road section, and

II. Construction of 69 bridges along with the approach road on the 149.70 km Tamu-Kyigone-Kalewa (TKK) road section

The works on both these sections were awarded on Engineering, Procurement and Construction mode in May 2018 for Kalewa-Yagyi section and November 2017 for the TKK section. The scheduled time for completion of both the projects is three years from the date of commencement at the project site by the executing agency."[21] A Motor Vehicles Agreement along with protocols for regulating and facilitating the movement of cargo and passenger vehicular traffic is also under inter-governmental negotiations between India, Myanmar and Thailand.

On the Indian side, of the 110 km road between Imphal and Moreh only about 40 km between Imphal and Tubul is two laned. Under the ambitious Bharatmala project, Imphal-Moreh road-widening has begun in 2018 and is being undertaken with ADB's loan assistance under the South Asian Sub-Regional Economic Cooperation (SASEC) Road Connectivity Investment Program. Further inland, the main highways that connect Imphal to Guwahati in Assam are via Dimapur and Kohima in Nagaland and travel time for goods is more than 14 hours for the distance of 476 km. The situation is expected to ease only when the proposed Jiribam-Tupul-Imphal rail link becomes operational.

Similarly, while the LCS at Zokhawthar started operating in 2004, the road condition between capital city Aizawl and Zokhawthar is extremely bad. The 27.5 km of the Champhai-Zokhawthar road was included in the "Mizoram State Roads Regional Transport Connectivity Project" sanctioned by the World Bank in 2014 but delays have marred the project progress. Across the border in Myanmar India has undertaken to build the Rhi-Tedim road that will help connect the Trilateral Highway through the Zokhawthar-Rhi border.

In this context, the proposed weekly cross-border bus service between Imphal and Mandalay has remained in limbo. A resolution for the introduction of the bus service between Imphal and Mandalay was passed by the Manipur Legislative Assembly way back in August 1, 2003. With the implementation of the "Land Border Crossing Agreement" on 8th August 2018 as enabling arrangement for movement of people across the India-Myanmar border it is hoped that the Imphal-Mandalay bus service will finally become a reality. As per the agreement, Moreh-Tamu and Zokhawthar-Rhi will henceforth operate as international entry/exit checkpoints for people on both sides holding a valid passport and visa.

7.2 Non-Tariff Barriers between India and Myanmar

Trade between India and Myanmar, particularly Myanmar's exports to India is dominated by agricultural products such as beans and pulses, betel nuts, leguminous vegetables etc. The trade of these commodities is regulated by Non-Tariff Measures (NTMs) that include Sanitary and Phytosanitary (SPS) measures and Technical Barriers to Trade (TBTs). NTMs

[21] "India-Myanmar-Thailand Trilateral Highway", PIB Release 03-January-2019 Available at http://pib.nic.in/newsite/PrintRelease.aspx?relid=187130

often become obstacles to trade as they may raise the costs for the exporter or may be difficult to comply with.

Recent studies by Taneja and Wadhwa (2018) and Naing and Nyein (2018) have identified several barriers to trade faced by exporters and importers in both countries. In both the studies, lack of adequate infrastructure at the border point emerged as one of the major barriers that have been impeding bilateral trade between India and Myanmar. The studies reported that at the Moreh-Tamu LCS, basic infrastructure facilities such as warehousing, cold storage for perishables, laboratories for testing etc were not available. For example, there are no lab testing facilities at the border point and samples have to be sent to Imphal which adds to the overall time and transaction costs of trading. Since testing is done at Imphal, it takes about 7 days to receive the sample report and thus traders have to incur huge costs related to unloading, loading and storage.

Naing and Nyein (2018) also point out that there has been no systematic collection of official regulations which could be understood as NTMs in Myanmar. There is no official database that records all these regulations. Nevertheless, a significant number of products are subjected to SPS measures such as marking, labelling and packaging requirements and TBT measures such as testing and traceability information requirements and export technical measures. Broadly, the products regulated through NTMs are chemicals and allied products, vegetable and animal products, machinery, electrical products and textiles. Since India exports a number of these products to Myanmar, the bilateral trade is affected due to lack of clarity and absence of a robust framework for application of NTMs in Myanmar (Ing et al. 2016).

7.3 Lack of Quality Infrastructure at LCSs

In order to assess the availability and quality of infrastructure facilities at LCS Moreh and LCS Zokhawthar a primary survey was conducted by the research team in 2018. Respondents were asked to rank the quality of infrastructure on a *Likert* scale (Table 12).

In terms of the availability of infrastructure facilities, out of 29 facilities on which the questionnaire sought responses, LCS Moreh had 17 while only 10 were available at LCS Zokhawthar. At LCS Moreh there is no Electronic Data Interchange (EDI) facility, animal quarantine, courier and postal services, food testing laboratory, weighbridge, etc. The LCS Zokhawthar has a weigh bridge. However, there are no telephone or internet services, security and scanning equipment, warehouse or storage facilities, currency exchange booths and no food testing laboratory, etc.

The LCS at Moreh has been operational since 1995 while LCS Zokhawthar was inaugurated in 2015. Nonetheless, with regard to the quality of infrastructure, the average score at LCS Moreh is 2.8 while at LCS Zokhawthar it is 2.7. The internet connectivity at Moreh is poor, the warehouse is largely non-operational and foreign exchange facilities are not provided by the bank branches. At LCS Zokhawthar the weighbridge lies in a dilapidated condition.

Table 12: Adequacy and Quality of Infrastructure at LCS Moreh and LCS Zokhawthar

Physical Infrastructure Facilities	LCS Moreh		LCS Zokhawthar	
	Available	Quality of Infrastructure	Available	Quality of Infrastructure
	Y/N	1= low 5= high	Y/N	1=low 5=high
Electricity	Y	3	Y	5
Telephone	Y	4	N	
Internet	Y	2	N	
EDI	N		N	
Security & scanning equip.	Y	2	N	
Weighbridge	N		Y	1
Warehouse	Y	2	N	
Open storage	Y	3	N	
Cold storage	N		N	
Parking for loaded vehicle	Y	3	Y	3
Parking for unloaded vehicles	Y	2	Y	3
Transshipment platform	Y	2	N	
Separate exports and imports zone	N		N	
Clearing agents offices	Y	4	Y	4
Customs & immigration	Y	5	Y	3
Passenger terminal buildings	N		Y	3
Fax, photocopy, etc.	Y	3	N	
Drinking water	Y	3	Y	2
Drivers' rest room	N		N	
Passengers rest room	N		N	
Health centre	Y	3	N	
Hotels and restaurants	Y	1	Y	1
Banks	Y	3	Y	2
Currency exchange booths	Y	2	N	
Courier/ post office	N		N	
Servicing / vehicle repair	N		N	
Food testing laboratory	N		N	
Plant quarantine	N		N	
Animal quarantine	N		N	
	Y=17	Avg. Score	Y= 10	Avg. Score
	N =12	2.8	N = 19	2.7

Source: ICRIER Survey 2018

The Government of India in 2006-07 had decided to upgrade the land customs station at Moreh to an Integrated Check Post (ICP). It was conceptualized that through this upgrade, all regulatory and security agencies would be housed within a single complex. The ICP at Moreh is designed on the model similar to the Attari ICP in the state of Punjab at the India-Pakistan border. The ICP has been finally inaugurated in January 2019 but currently, it is only facilitating passenger movement. An ICP at Zokhawthar has been approved but is yet to be constructed.

7.4 Limited Trade Financing Instruments

Another key constraint that has for a long time impeded formal trade across the land border between India and Myanmar is the limited availability of trade finance instruments for companies on the Myanmar side. The practice so far has been that international trade transactions are settled through countries such as Singapore using TT (telegraphic transfer) which is expensive on account of brokerage fees. Due to banking services being rendered expensive, trade suffers (Taneja et al., 2018). The bank charge for an average transaction of less than $100,000 through Singapore is $60-70. Direct settlement with Indian banks could reduce costs to $20-25.

The RBI Notification - RBI/2016-17/93[22], dated October 20, 2016, has allowed export import payments with regard to India-Myanmar trade using the Asian Clearing Union (ACU) mechanism. The ACU is a payment arrangement whereby the participants settle payments for intra-regional transactions among the participating central banks. However the MoU between RBI and Central Bank of Myanmar on currency exchange rate fixation is yet to be finalized. This has come in the way of direct banking settlements between India and Myanmar and both the Indian banks present in Myanmar - State Bank of India and United Bank (representative office) - route transactions through Singapore.[23]

Additionally, Indian banks are reluctant in accepting letters of credit (LC) from Myanmar banks. Indian banking norms require strict due diligence to avail credit facilities (as in LC), which many small and medium business operating in Myanmar fail to comply with.[24] However, most Indian importers insist on either advance payment or confirmed LC to do business with Myanmar, thereby increasing the cost of trade.

7.5 Informal Payments

Informal payments to personnel from various government departments and agencies are widely prevalent on both sides of the border. The reasons provided by traders for these payments include:

- avoid the documentation process that they perceive to be cumbersome;
- evade custom duties;
- speed up testing process or simply dodge the lab testing expenses since lab testing facilities are not available at the border;
- reduce the transportation time through multiple check points set up by police and security forces on the highways to curb illegal trade in arms and ammunition, drugs etc.

The share of informal payments in the transaction costs is further compounded by the payments that traders and transporters have to regularly pay to the various militant/insurgent

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[22] RBI/2016-17/93 A.P. (DIR Series) Circular No. 11 [(1)/14(R)] dated 20th October 2016. Available at https://www.rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=10653

[23] Banking curbs stagnating trade with Myanmar: businesses", The Hindu Business Line, January 9, 2018. Available at https://www.thehindubusinessline.com/economy/policy/banking-curbs-stagnating-trade-with-myanmar-businesses/article9960551.ece

[24] Ibid.

groups. For example, in Manipur, the Indian state that has historically been one of the worst affected by secessionist insurgencies as well as ethnic conflict in NER, the various militant groups have come to view the Moreh-Imphal route as a lucrative source of collecting funds for their 'cause'. This is especially so with outfits who have signed the Suspension of Operations (SoO) Agreement with the government and their 'social groups' justify such collections/tax as a means of sustenance for the surrendered cadres.

The ICRIER survey results illustrate the extent of the problem. For the purpose of the study, estimates of total transaction expenditures incurred for transporting 250 bags of betel nuts in one truckload from Myanmar through the Moreh-Tamu border were collected and official and unofficial payments were compared (Table 13).

Table 13: Estimates of Informal Payments

	Amount (in INR)	% Share
Transport and Clearing of Goods	45,925	44
Loading and Unloading Charges	10,400	10
Informal Payments to Government Officials and Personnel	13,600	13
Informal Payments to Social Groups	34,000	33
Total Transaction Cost (Moreh-Imphal)	**1,03,925**	**100%**

Source: ICRIER Survey 2018

Thus a trader incurs an estimated transaction cost of about one lakh rupees for a one time import of 250 bags of betel nuts in one truckload through the formal channel via the LCS at Moreh. The official costs include transportation and clearing of goods charges along with loading, unloading charges, weighment and storage charges and constitute about 54 per cent of the total transaction costs. This also includes charges incurred for lab testing of goods. Testing is done at Imphal and costs around Rs 15,600 per sample. It takes a minimum of 7 days which results in high storage charges. On the other hand, informal payments constitute 46 per cent of the total transaction costs incurred. Significantly the share of informal payments to government officials and personnel is about 13 per cent while informal payments to 'social groups' contribute 33 per cent to the transaction costs.

Indeed, informal payments to militants and their affiliated social groups have been cited by several traders in Myanmar as the key reason why they increasingly see the Rhi-Zokhawthar route as a better alternative to the Tamu-Moreh route even though it is longer and road condition is not good. This perception has gained traction particularly after the traders were forced to use the Rhi-Zokhawthar route to circumvent the 139 days economic blockade imposed by the NAGA militant groups in Manipur from November 1, 2016 to March 19, 2017.

7.6 Third Country Goods

The diversion of third-country goods – mainly from China and Thailand across the India-Myanmar land border for consumption in NER has been rampant and informal trade in these goods has flourished. If imported through the formal channel these third-country goods would be subjected to stringent Certificate of Origin (COO) and Rules of Origin (ROO) requirements as well as high tariffs. The popular commodities include cheap footwear, clothing items, blankets, crockery, processed food and beverages and cooking appliances. This kind of trade diversion can be attributed to Myanmar's "liberal" transit trade regime under its 'Foreign Trade Law'.

Myanmar's Foreign Trade Law applies limited trade transit procedures, permitting the movement of third country cargo from one vessel to another in port or the movement of goods to the port and then to another vessel (known as "retention procedures"). Traders who wish to tranship their goods need to undergo a simplistic customs procedure of filing a transhipment declaration with the Customs Authority of Myanmar using the 'CUSDEC-3 Customs Transhipment Form'. Moreover for all transit procedures, customs assesses a fee of only 2.5 per cent of the value of the cargo (Myanmar National Trade Portal, 2019). For the purpose of determining the import duty, the price in hard currency is converted into Kyat at the official exchange rate. The process results in artificially lowered price of the goods for the buyers in the final destination and gives stiff competition to the domestic producers (Indian Chamber of Commerce, 2019). Myanmar's easy transit trade policy contributes to the influx of third-country goods via the Indo-Myanmar border.

In recent years Indian exports via the formal channel are facing stiff competition and from Chinese goods in the domestic market in Myanmar. Not only are Chinese goods cheaper, business persons in Myanmar said that marketing strategies of the Chinese sellers are extremely effective wherein there is reduced demand for Indian goods (Table 14).

Table 14: Comparison of Chinese and Indian Marketing Strategies

CHINA	INDIA
Chinese exporters regularly survey market needs and consumer preferences and focus on goods in demand.	Indian exporters primarily focus on products they are already manufacturing.
Chinese exporters actively seek local business partners and establish long-term partnerships by investing in market penetration, competitiveness and risk sharing.	Indian exporters are mostly risk-averse and prefer the cash-down method.
Chinese exporters have actively sought to penetrate the domestic market in Myanmar beyond the big cities by opening several company branches, appointing agents, assigning representatives and providing after-sales services, technical assistances, etc.	Indian exporters do not have many company branches, agents or representatives in the smaller markets.
Chinese government organizes a large number of trade fairs, business matching, and promotion activities and easily provides product information.	India has a limited number of trade fairs, business matching, promotion activities and product information is not easily available.

Source: ICRIER Survey 2018

7.7 Concerns related to the Issue of Certificate of Origin

In the current scenario of 'normalisation' of Indo-Myanmar border trade, the issuance of Certificate of Origin (COO) has assumed greater importance in the formalisation and facilitation of cross-border trade between the two countries. To gain from the preferential treatment offered under the India-Myanmar Border Trade Agreement, the DFTP Scheme and the ASEAN-India Free Trade Agreement, issuing COOs becomes imperative. A COO is an international trade document which certifies that the goods exported are entirely obtained, produced, manufactured or processed in a particular country as per the applicable rules of origin. A COO can either be preferential or non-preferential in nature[25]. It is issued by a government authority or an agency appointed by the government (WCO, 2018).

In India, the Directorate General of Foreign Trade (DGFT), Ministry of Commerce appoints agencies which can issue a COO. The DGFT has assigned the Associated Manipur Chamber of Commerce, the Federation of All Manipur Importers/Exporters Chamber of Commerce and Industry, Indo-Myanmar Border Traders Union (IMBTU) and the Moreh Chamber of Commerce as the COO-issuing authorities. However, they are mandated to issue only non-preferential COO (DGFT, 2019). A lack of a preferential COO-issuing authority near the Indo-Myanmar border acts as an impediment for Indian exporters to benefit from the tariff preferences provided by Myanmar under the ASEAN-India FTA[26] (IISD, 2014).

Indian exporters based in Manipur and Mizoram have to travel outside of their respective states to get preferential COO, leading to increased costs and delays. The increased costs motivate the traders to undertake trade without proper COOs via informal channels. Development of the appropriate COO-issuing authorities near the border areas is imperative to facilitate cross-border trade between India and Myanmar. A robust system of issuing and assessing COOs at the LCSs along the Indo-Myanmar border will ultimately reduce transaction costs and help formalise trade.

7.8 Enhanced Tariffs on Imports from Myanmar via the Land Border under Normal Trade

After December 2015 'normalisation' of border trade across the India-Myanmar land border the imports from Myanmar are no longer eligible for the preferential duty rate of 5 per cent (the rate that was applicable under the Border Trade Agreement). An importer can only avail concessionary benefits by either opting for the ASEAN Concessions[27] or the LDC

[25] A Preferential COO is a document attesting that goods in a particular shipment are of a certain origin under the definitions of a particular bilateral or multilateral FTA. Non-preferential COO are the most common type of COOs which ensure that goods do not benefit from any preferential treatment and do not emanate from a particular bilateral or multilateral free trade agreement.

[26] Myanmar has been granted additional time to liberalize its tariffs on Indian imports; the country must liberalize its NT1 goods by December 31, 2018 and its NT2 goods by the end of 2021.

[27] Notification No. 46/2011-Customs dated 1st June 2011. Available at http://www.cbic.gov.in/htdocs-cbec/customs/cs-act/notifications/notfns-2011/cs-tarr2011/cs46-2k11

Concessions[28]. The concessions granted under these notifications are subjected to the 'Rules of Origin' criterion and are applicable only on the Basic Customs Duty (BCD). No concessions are offered on other duties like the Special Additional Duty (SAD) and Social Welfare Surcharges.

To illustrate the change in the duty regime for imports from Myanmar across the land border the duty rates applicable on the main border trade import items are compared with the LDC Concessions under normal trade (Table 15). The concessions provided for LDCs are either complete or partial in nature. The tariffs for these commodities have substantially increased from the 5 per cent applicable under barter trade to a range between 25 to 60 per cent under the normal trading mechanism.

Table 15: Tariff Comparison for Imports from Myanmar via the Land Border

HS Code	Commodity	Border Trade	Normal Trade		
		Effective BCD	BCD (%)	Extent of Tariff Concession (%)	Effective BCD after Concession (%)
8028010	Whole Areca Nuts	5	100	60	40
8028020	Split Areca Nuts	5	100	60	40
8029000	Other nuts	5	100	complete	0
9101110	Fresh Ginger	5	30	15	25.5
9101120	Dried Ginger	5	30	15	25.5
9041140	Black pepper	5	70	15	59.5

Source: Customs Tariff Manual, 2018-19, Government of India

Notes:

- Effective BCD is calculated on Assessable Value of USD 100.
- Under the barter trade regime all goods good could be imported at a duty rate of 5 per cent. Under the normal trade, BCD of the same goods is either 30 or 100. However, these goods receive concessions under the LDC Notification of 2008.
- Betel Nuts (with HS codes 8028010 and 8028020) receive partial exemption of 60 per cent, which makes the effective BCD on these codes equivalent to 40 per cent. In case of Betel Nuts with the HS code 8028090, a complete concession has been provided. Thus, its effective BCD has been reduced to zero.
- For Ginger (HS codes 9101110 and 9101120), the effective BCD is 25.5 per cent after it receives a concession of 15 per cent on its original BCD of 30 per cent.

[28] The ASEAN Notification no. 46/2011-Cus dated 01.06.2011 and the LDC Concessions Notification 96/2008-Cus dated 13.08.2008 offer import duty exemptions to good when imported from the countries appended in the notifications.

- In case of Black Pepper, the effective BCD is 59.5 per cent with a concession of 15 per cent on its original BCD of 70 per cent.

7.9 Increased Documentation and Procedures under Normal Trade

There has also been a substantial increase in the documents required and procedures to be followed for India-Myanmar trade across the land border after the abolition of barter trade and shift to normal trade for all commodities. To illustrate the change the documentation requirements and procedures under the three modalities of India-Myanmar trade via the land border are compared below (Table 16).

Table 16: Comparison of Documents/Procedures under the 3 Mechanisms of India-Myanmar Trade across the Land Border

Documents/Procedures	Traditional Exchange	Barter Trade	Normal Trade
Permanent Account Number (PAN)	×	✓	✓
Import/Export Code (IEC)	×	✓	✓
Sale/Purchase Contract	×	✓	✓
Letter of Credit	×	✓	✓
Bill of Entry	×	✓	✓
Bill of Export	×	✓	✓
Invoice	×	✓	✓
Price list	×	✓	✓
Certificate of Origin	×	✓	✓
GR Form	×	×	×
Let Export Order	×	✓	✓
Bank Certificate declaring that the account will be used to process remittances	×	×	✓
Import Manifest Report (within 12 hrs of the arrival of the goods at the LCS)	×	×	✓
Physical examination of goods (to determine tariff classification and valuation)	×	×	✓
Pass Out of Customs Charge (for Home Consumption after receiving the duty)	×	×	✓
Deposit into Warehouse (after receiving bond sum equal to double the duty)	×	×	✓
Ex-bond Bill of Entry (for clearance from Warehouse)	×	×	✓

Source: Souvenir of Workshop and Awareness Programme on Indo-Myanmar Border Trade, Department of Commerce and Industries, Government of Manipur

8. Conclusion and Policy Recommendations

With the RBI decision, in December 2015, to switch over completely to normal trade between India and Myanmar across the land border the expectation was that barter trade (which had formed the mainstay of the bilateral border trade) would become normal trade. In tandem, it was anticipated that bilateral trade across the land border trade would be enhanced with the dismantling of the restrictive regime permitting trade in only 62 commodities and instead providing for normal trade in all commodities. Instead, the irony is that normal trade has since become negligible and trade has primarily shifted to the informal channels.

The primary factors that have been responsible for such low trade volumes through the formal channel include high transaction costs due to poor connectivity, lack of quality infrastructure at border crossing points, limited trade financing instrument, and increased documentation requirements. To increase trade through formal channels the paper recommends the following:

1. **Awareness and Capacity Building Programs for Small and Medium Traders:** The lack of awareness and capacity to comply with the procedures and documentation required for normal trade on part of small and medium traders is widely recognized but little attempt has been made to address this by the authorities on either side of the border.

2. **Quality Infrastructure at the Border Crossings**: The lack of quality infrastructure, physical as well as soft infrastructure that greatly hinders speedy movement of goods across the border needs to be addressed on priority. The ICP at Moreh must be operationalised at the earliest and the upgrading of the LCS at Zokhawthar into the proposed ICP is imperative as it is fast becoming an important trading point for India-Myanmar trade across the land border.

3. **Streamline Trade Procedures:** Implementation of automated customs systems, electronic exchange of data, automated risk management; automated border procedures; electronic, electronic single windows and other related digital customs and trade facilitation initiatives would not only expedite the movement of goods across the border these would also reduce the scope for harassment and informal payments.

4. **Open More Trading Points:** The Avangkhu LCS in Nagaland should be notified for formal trade at the earliest.

5. **Set up Trade Finance Instruments & Bilateral Currency Swap Arrangement:** Trade financing instruments need to be put in place in Myanmar for smooth, safe and secure banking transactions between the two countries. On its part India should offer a Currency Swap Arrangement with Myanmar as is currently the practice followed by Reserve Bank of India with SAARC members. Such an arrangement would facilitate shift to normal trade as it would reduce transaction costs.

6. **B2B Interactions between Traders in Adjoining States across the Border:** Facilitation of direct linkages between traders in adjoining states across the border would likely reduce the role of agents and middle men and provide impetus to traders to use the formal channels.

7. **Border Haats for Local Populations:** In supporting the needs and livelihoods of local people border haats have been quite successful on the India-Bangladesh border. In the case of India and Myanmar the agreement to open border haats was signed in 2012 but little progress has taken place.

8. **Mechanism for Regular Consultations between Border Officials:** A mechanism for regular consultations between the officials of the relevant agencies in both countries is imperative for the smooth functioning of the border crossing points for trade. This would enable close cooperation in the daily management of the border posts and standardization and harmonization of recorded trade data.

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APPENDIX

Table 1: Top 10 Exports of India to Myanmar (at HS 6-digit)

2011-2012					2017-2018				
HS Code	**Commodity**	**Exports in US$ million**	**Share in Exports**	**Category by End Use**	**HS Code**	**Commodity**	**Exports in US$ million**	**Share in Exports**	**Category by End Use**
730511	Line pipe used for oil or gas pipelines longitudinally submerged arc welded having external diameter >406.4mm	205.6	37.7%	Intermediate Good	**300490**	Other medicine put up for retail sale	120	12.4%	Consumer Good
300490	Other medicine put up for retail sale	48.9	9.0%	Consumer Good	**721420**	Bars and rods containing indentations, ribs, grooves/other deformation produced during rolling process/twisted after rolling	71.6	7.4%	Intermediate Good
230400	Oil-cake and other solid residue w/n ground/in pellets form obtained from soya-bean oil extraction	25.7	4.7%	Intermediate Good	**170199**	Sugar refined not containing flavoring/coloring matter	66.9	6.9%	Consumer Good
721049	Other products of iron/non-alloy steel otherwise plated/coated with zinc	23.7	4.3%	Intermediate Good	**271019**	Other petroleum oils and oils obtained from bituminous minerals etc.	62.6	6.5%	Consumer Good
020230	Boneless	20.2	3.7%	Raw Material	**230400**	Oil-cake and other solid residue w/n ground/in pellets form obtained from soya-bean oil extraction	38.5	4.0%	Intermediate Good
300420	Other, containing antibiotics	10.5	1.9%	Consumer Good	**050100**	Human hair, unworked; waste of human hair	29.1	3.0%	Raw Material
401120	New pnuematictyres used on buses/lorries	9.3	1.7%	Consumer Good	**870193**	Other tractors, of an engine power exceeding 37 kw but not exceeding 75 kw	23.4	2.4%	Capital Good
300410	Medicaments containing pencillins/derivatives thereof	8.3	1.5%	Consumer Good	**721410**	Forged bars and rods	22.3	2.3%	Intermediate Good

2011-2012					2017-2018				
HS Code	**Commodity**	**Exports in US$ million**	**Share in Exports**	**Category by End Use**	**HS Code**	**Commodity**	**Exports in US$ million**	**Share in Exports**	**Category by End Use**
	with a pencillanic acid structure/streptomycins or their derivatives put up for retail sale								
960810	Ball point pens	6.1	1.1%	Intermediate Good	**890400**	Tugs and pusher craft	21.2	2.2%	Capital Good
870190	Other tractors	5.9	1.1%	Capital Good	**860290**	Rail locomotives excluding those of 8601 and 860210	21.2	2.2%	Capital Good
Total of Top 10 Exports		**364.3**					**476.8**		
Share of Top 10 Exports in Total Exports			**66.7%**					**49.3%**	
Total Exports to Myanmar		**545.4**					**966.2**		

Source: Directorate General of Foreign Trade, Ministry of Commerce and Industry, Government of India

Table 2: Top 10 Imports of India from Myanmar (at HS 6-digit)

2011-2012					2017-2018				
HS Code	**Commodity**	**Imports in US$ million**	**Share in Imports**	**Category by End Use**	**HS Code**	**Commodity**	**Imports in US$ million**	**Share in Imports**	**Category by End Use**
440349	Other tropical wood	347.8	25.2%	Raw Material	**071331**	Beans of species Vigna mungo, hepperr or vigna radiate, wilczek dried and shelled	207.8	32.5%	Intermediate Good
071331	Beans of the species vigna mungo, hepper or vignaradiata, wilczek dried and shelled	316.5	22.9%	Intermediate Good	**071360**	Pigeon peas (cajanuscajan)	133.4	20.9%	Intermediate Good
440399	Other wood in rough	303.4	22%	Raw Material	**440890**	Veneer sheets ply sheets etc of other wood	40.5	6.3%	Intermediate Good
071390	Other dried and shelled leguminous vegetables	223.6	16.2%	Intermediate Good	**440839**	Other of tropical wood	35.3	5.5%	Intermediate Good
071339	Other beans dried and shelled	83.7	6.1%	Intermediate Good	**440729**	Other	32.8	5.1%	Intermediate Good
071320	Chickpeas (garbanzos) dried and shelled	34.1	2.5%	Intermediate Good	**071339**	Other beans dried and shelled	31.2	4.9%	Intermediate Good
271019	Other petroleum oils and oils obtained from bituminous minerals etc.	11.2	0.8%	Consumer Good	**071320**	Chickpeas (garbanzos) dried and shelled	29.3	4.6%	Intermediate Good
071333	Kidney beans including white pea beans dried and shelled	8	0.6%	Intermediate Good	**071390**	Other dried and shelled leguminous vegetables	21.4	3.4%	Intermediate Good
281410	Anhydrous ammonia	6.8	0.5%	Intermediate Good	**720260**	Ferro-nickel	13.4	2.1%	Intermediate Good
50100	Human hair, unworked; waste of human hair	5.9	0.4%	Raw Material	**780110**	Refined lead	10.5	1.6%	Intermediate Good
Total of Top 10 Imports		**1341.0**					**555.6**		
Share of Top 10 Imports in Total Imports			**97.0%**					**86.3%**	
Total Imports from Myanmar		**1381.2**					**639.6**		

Source: Directorate General of Foreign Trade, Ministry of Commerce and Industry, Government of India

Table 3: Top 5 Export items from India to Myanmar via Sea (2017-18)

HS Code	Commodity	Value(US$mn)	Share
72142090	Others	71.58	9%
17019990	Othrrefnd sugar includng centrifugal sugr	66.91	8%
30049099	Other medcne put up for retail sale n.e.s	35.20	4%
27101920	Aviation turbine fuel (ATF)	33.06	4%
23040030	Meal of soyabean,solvent extracted (defatted) variety	30.34	4%
	Total Export via Sea	841.70	100%

Source: DGCIS, Ministry of Commerce and Industry, Government of India

Table 4: Top 5 Export items from India to Myanmar via Air (2017-18)

HS Code	Commodity	Value (US$mn)	Share
30049099	Other medcne put up for retail sale n.e.s	30.75	25%
05010010	Human hair,unworked; whethr or not washd or scoured	26.94	22%
27101920	Aviation turbine fuel (ATF)	5.57	4%
30049079	Other antihypertensive drugs	2.84	2%
30042019	Other cephalosporins and their derivatives	2.80	2%
	Total Export via Air	124.48	100%

Source: DGCIS, Ministry of Commerce and Industry, Government of India

Table 5: Top Export items from India to Myanmar via Land (2017-18)

HS Code	Commodity	Value (US$mn)	Share
27101930	High speed diesel (HSD)	0.02	100%
	Total Export via Land	0.09	100%

Source: DGCIS, Ministry of Commerce and Industry, Government of India

Table 6: Top 5 Import items from Myanmar to India via Sea (2017-18)

HS Code	Commodity	Value (US$mn)	Share
7133100	Beans of the sppvignamungo,hepper or vignaradiata,w	207.77	33%
7136000	Pigeon peas (Cajanuscajan)	133.37	21%
44089090	Others	39.56	6%
7133990	Other dried leguminus vegetables	31.15	5%
7132000	Chickpeas (garbanzos) dried and shld	29.31	5%
	Total Import via Sea	639.07	100%

Source: DGCIS, Ministry of Commerce and Industry, Government of India

Table 7: Top 5 Import items from Myanmar to India via Air (2016-17)

HS Code	Commodity	Value (US$mn)	Share
03028910	Hilsa (tenualosailisha) fresh or chilled	0.20	36%
61102000	Jerseys etc of cotton	0.04	7%
62046200	Trousers,bib and brace overalls, breeches and short	0.02	4%
05010010	Human hair,unworked; whethr or not washd or scoured	0.03	4%
61043300	Jackets of synthetic fibres	0.01	2%
	Total Import via Air	0.57	100%

Source: DGCIS, Ministry of Commerce and Industry, Government of India

Table 8: List of Items under Indo-Myanmar Border Trade

List of items	
1)	Mustard/Rape seed
2)	Pulses & Beans
3)	Fresh Vegetables
4)	Fruits
5)	Garlic
6)	Onion
7)	Chilies
8)	Spice (excluding nutmeg, cloves, mace, cassia & cinnamon)
9)	Bamboo
10)	Minor forest products (excluding teak)
11)	Betel Nuts & Leaves
12)	Food items for local consumption
13)	Tobacco
14)	Tomato
15)	Reed broom
16)	Sesame
17)	Resin
18)	Coriander seeds
19)	Soyabean
20)	Roasted sunflower seeds
21)	Katha
22)	Ginger
23)	Agarbatti
24)	Bicycle's Spare parts
25)	Blades
26)	Bulbs
27)	Cosmetics
28)	Cotton fabrics
29)	Fertilizers
30)	Imitation jewellery
31)	Insecticides
32)	Leather footwear
33)	Life saving drugs
34)	Menthol
35)	Mosquito Coils
36)	Paints & Varnishes
37)	Spices

List of items	
38)	Stainless steel utensils
39)	Sugar & Salt
40)	X Ray paper & Photo paper\
41)	Agricultural machinery/equipments/tools
42)	Bicycle
43)	Bleaching powder
44)	Coal
45)	Edible Oil
46)	Electrical & Electric Appliances
47)	Fabricated steel products
48)	Garments /readymade garments/cloths
49)	Handlooms and handicrafts items
50)	Hardware/minor construction materials and electrical fittings
51)	Lime
52)	Medicines
53)	Milk powder, Tea, Edible oil, beverages
54)	Motor Cycles & Motor Cycle Spare Parts
55)	Other items such as electronic/musical instruments, stationary item, torch light,
56)	Plastic items: water tank, buckets, chairs, plastic pipes and briefcase,
57)	Rice, Wheat, Maize, Millets & Oats
58)	Scented tobacco
59)	Semi precious stone
60)	Sewing machines
61)	Textile fabrics
62)	Three wheelers/cars below 1000 CC

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