

Chapter 7

Trade and Regional Cooperation

Like the other seven states of the north-east, Meghalaya also faces the disadvantages of remoteness from the mainland of the country. It has to generate not only internal trade — with other states of the north-east and the country as a whole — but also external trade with neighbouring countries, such as Bangladesh. This chapter has been divided into two parts: external trade, and internal trade.

7.1 EXTERNAL TRADE: THE IMPORTANCE OF TRADE WITH BANGLADESH*

It is very well recognised that openness to trade and investment accelerates growth and reduces poverty. An expansion in trade enables a developing state to reap economies of scale, strengthens backward linkages for manufacturing activity with resources of the region, helps move production up the value chain, and accelerates the growth process based on comparative advantage (Brunner, 2009; Brunner and Allen, 2005). Open trade helps attract investments into the region and, with it, new technology which can increase productivity. The dynamics of the openness of the developmental process of an economy results not only in higher incomes but also ensures faster trickle-down to poorer and disadvantaged sections of society.

Moving up the value chain and achieving comparative advantage in production and activities, however, requires identification of products with significant export potential, and geographical mapping of countries with the potential to expand trade. The state has tremendous potential to develop horticulture, floriculture, organic food items including tea, spices, forest-based environmentally sound processed wooden goods, handlooms including sericulture and handicrafts, besides mineral based produce such as coal and limestone, and industries such as cement. With an enabling policy environment, connectivity, and infrastructure, it should be possible to move up the value chain in these products and export the processed products to the neighbouring market in Bangladesh.

Expanding exports and moving up the value chain requires opening up for trade and attracting investments. Access to land and sea routes through neighbouring countries, particularly Bangladesh, will significantly reduce transportation costs of both commodities and people in Meghalaya. Similarly, given the distance of Meghalaya from other regions in the country apart from the NER, promoting trade between the state and Bangladesh could benefit the residents of both. Trade facilitation through diplomatic initiatives, and development of border infrastructure, therefore, is extremely important. In fact,

* This section is based largely on Rao, Govinda M, "Promoting Trade and Investment in India's Northeastern Region" Working Paper Series on Regional Integration No. 30. Asian Development Bank, 2009.

strengthening infrastructure and connectivity could expand trade with not merely the neighbours but also with East Asian and South East Asian countries.

An analysis of India's trade with the countries neighbouring the NER does not look optimistic. In general, India's exports to South Asian countries as a ratio of its total exports in 2008–09 were just about 5 per cent, and the share of South Asian imports in total imports was an abysmal 0.63 per cent. In contrast, India exported almost 11 per cent of its total exports to ASEAN countries and its imports were close to 9 per cent. Similarly, there has been a sharp increase in trade with China in recent years and in 2008–09, India's exports to China constituted 5.06 per cent of the total, and its imports accounted for 10.68 per cent of total imports. Unfortunately, there is no information on the volume of trade of the NER with contiguous countries.

7.2 BORDER TRADE WITH BANGLADESH

The partition of the country disrupted the age-old trade and communication links for the state of Meghalaya. It abruptly stopped the free and open trade with the districts of Sylhet and Mymensingh which became part of East Pakistan (which later became Bangladesh). To revive some of these linkages, measures have been undertaken by the central and state government: several old roads have been made functional to revive border trade, and several of the land border points have been converted into land custom stations (LCSs) on the international border between Meghalaya and Bangladesh.

Of the 17 LCSs being used for border trade in the NER, eight are located in Meghalaya, four each in the Khasi-Jaintia Hills and the Garo Hills; these are Dawki, Borsora, Mahendraganj, Gasuapara, Dalu, Baghmara, Shella Bazar, and Bholaganj. For want of authentic data either from official or non-official sources, it is difficult to know the precise nature and extent of border trade from these LCSs. The problem is essentially rooted in the ways in which trade takes place, which is broadly divided into two types — official and unofficial. While trading activity through official channels is recorded at the different LCSs, unofficial trade is more often designated as illegal trade or simply trans-border smuggling. Further, the LCSs in Meghalaya are mainly used for the export of raw materials and locally produced perishable items, and it is difficult to estimate how much of these commodities are exclusively produced within the state and then exported to Bangladesh.

Table 7.1: Exports of Agriculture and Horticulture, March 2007 to January 2008

Produce	Quantity	Value (Rs)
Dawki		
Orange	2,576,530 Nos.	1,922,395.10
Citrus Fruit	49,080 Nos.	71,955.00
Mahendraganj		
Bamboo	177 MT	126,765.00
Ginger	155 MT	1,120,224.00
Tamarind	80 MT	267,304.00
Total		3,508,643.10

Source: Commissioner, Customs, Government of Meghalaya

Presently, items exported to Bangladesh from Meghalaya are mainly those which are available in the hills of the state (see Tables 7.1A and 7.2A in the Annexure). People living in the border areas have been traditionally cultivating crops such as oranges, bananas, betel nuts, betel leaves, and bay leaf, and selling them at border *haats*. The system was almost institutionalised, but as a result of numerous barriers and formalities imposed by governments on both sides of the border, these cultivators are unable to export these crops through the official routes. Under the circumstances, a large section of cultivators use unofficial channels to export their products.

Meghalaya thus primarily exports mineral and horticultural products to Bangladesh, which constitute almost 90 per cent of the total exports from the NER. Coal and limestone, two major mineral products found in the southern belt of Meghalaya, are exported through the LCSs at Dawki, Borsora, Mahendraganj, Baghmara, Gasuapara, Dalu, and Mankachar (Assam). In fact, there exists a complementarity between the resource base of the hills of Meghalaya and the nearby plains of Bangladesh. A cement factory at Chhatak in Bangladesh, for instance, fully depends on Meghalaya for limestone. Likewise, the tea gardens, jute mills, and brick manufacturing units in Bangladesh largely depend on coal mined in Meghalaya.

7.3 THE WAY AHEAD: RECOMMENDATIONS FOR IMPROVING BORDER TRADE

Economic isolation has been a major reason for stagnancy in Meghalaya, and acceleration in growth can be achieved only by expanding trade and investment in the state. This calls for opening up the trade routes and promotion of trade relations with the neighbouring countries and creation of excellent infrastructure and connectivity to facilitate movement of people and goods, and attract investment. The large volume of investment required to accelerate the rate of growth also requires heavy investments in infrastructure, not only on the Indian side but also on the side of Bangladesh, which does not have the required volume of resources to create world class infrastructure. Institutions will have an important role not only in making neighbouring countries realise the importance of

expanding trade, promoting understanding between them, and providing the necessary funds for financing the large requirements in infrastructure. The ADB has experience with such initiatives in the Mekong sub-region and elsewhere, which could be applied along the state's border with Bangladesh.

7.3.1 Strengthening Infrastructure

As stated earlier, for Meghalaya to catch up with the living standards in the rest of the country, a massive increase in investment is required. Much of this will have to come from the private sector, including foreign investment. The most important condition for attracting private investment to the state is the provision of good infrastructure. Provision of quality infrastructure not only enhances the quality of life but also dictates the pace of economic activity, and the nature and quality of economic growth.

So far, the state's poor connectivity within the state, with its neighbouring states, and the rest of the country has virtually isolated its residents. The high dependence on road transportation has hampered intra-regional mobility and has hindered the development of markets. The blocking of access to Chittagong port and the land route through Bangladesh has closed access to sea transportation. Good transportation networks are necessary to interlink potential growth centres, promote tourism, connect to border trade points, and support economic, social, and security needs. Apart from transportation infrastructure, an expansion in markets and trade depends on the existence of good quality supply of power, an efficient telecommunications network, border infrastructure, etc.

7.3.2 Government Support

Meghalaya needs to take full advantage of the various central government funded schemes like ASIDE, EDF-NER, etc., to increase exports with Bangladesh.

The ASIDE Scheme

The government has launched the ASIDE (Assistance to States for Development of Export Infrastructure) scheme to promote infrastructure for exports. The funds are broadly meant to be used for creating new export promotion industrial parks and zones (including special economic zones and agri-business zones), augmenting facilities in existing zones, and developing complementary infrastructure such as connection roads, and freight stations. Since 2002–03, the government of Meghalaya has utilised Rs 49.06 crore under ASIDE. It approved 30 projects at a total cost of Rs 97.16 crore, of which 16 projects have been completed (May 2010).

Table 7.2: Funds Released to Meghalaya under the ASIDE Scheme
(Rs lakh)

Year	Amount Allocated/Sanctioned	Amount Released
2002–03	200	200
2003–04	250	250
2004–05	572	572
2005–06	834	834
2006–07	917	917
2007–08	917	299
2008–09	917	889
2009–10	917	917

Source: Department of Commerce, Government of India

Export Development Fund for North East Region (EDF-NER)

With a view to promote exports from the NER, a North East Cell has been set up in the Department of Commerce, and an Export Development Fund (EDF) was set up to promote exports from the region. Activities eligible for assistance from the EDF include: setting up of pioneering/pilot projects aimed at exports; provision of equipment and machinery for the pioneering pilot projects aimed at exports; creation of common facilities for facilitating exports; facility for testing and standardisation as well as quality improvement of export products; funding related to the exchange of trade delegations; and any other activity as notified by the Department of Commerce having a bearing on export promotion in the NER.