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TRADE INDUCED EMPLOYMENT FUNCTION AND EMPLOYMENT MULTIPLIER: A CASE STUDY IN INDO-MYANMAR BORDER TRADE

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ABSTRACT

The wave of globalization had started winding since the late 1980's in many countries of the world. This led to a structural change in different sectors of economy in different parts of the world. One of such sectors is external sector which remained closed in many countries specially socialist countries for many decades. Many countries have started adopting export as engine of economic growth, and, import as means to acquire technological know-how and capital goods for promoting export sector. India's economy which had been under the License Raj for almost four decades, however, by the turn of 1990s, India had been in the new wave of globalization. As a part of project globalization, India adopted "Look East Policy" for opening up its economy to those neighbouring South East Asian countries. Under this policy, India signed the Indo-Myanmar Border Trade agreement on 21st January, 1994 with Myanmar in view of the needs and demand of the people of the North East India. However, border trade along the Indo-Myanmar border has been being witnessed trading of both formal and informal goods simultaneously. Therefore, this paper examines exclusively the items under informal trade; the institutional factors behind this informal trade; methodologies; employment function and employment multiplier.

KEYWORDS

Globalisation, License Raj and Look East Policy.

INTRODUCTION

Indo-Myanmar Border Trade was signed on 21st January 1994. Thereafter, on 10th June 1994 certain decisions were arrived at the delegation level talks co-chaired by the Commerce Secretary of India and Director General, Directorate of Trade, Ministry of Trade, Myanmar. The great inspiration behind this agreement was that trade across the Indo-Myanmar border is not only significant to accelerate trade relations between India and Myanmar but also to help in creating closer ties with countries lying to the east and south east of Myanmar (Sarma, 2005). Analyzing demand structures of Myanmar, we can visualise the demand structures of less developed ASEAN member countries having similar economic conditions and neighbouring with Myanmar. In regard to demand from these countries, some of the Indian manufactured goods manufactured by and procured from other regions of India to North East Region (NER) are informally exported to these countries through Indo-Myanmar border. Similarly, some of the importing goods to India from rest of the world have better cost-effective advantages when those are imported from these countries (Rao,et al. ,2004). If India wants to avoid excessive Chinese influences on these countries, the only way she can do is to keep close economic relations with these countries. Hence, keeping close economic relation with Myanmar is the first step and can be extended to these countries (Yumnam, 2005). But, the actual bilateral border trade was opened on 12th April, 1995. This border trade mentions only exchange of commodities produced domestically and mainly agro commodities. Permissible export-import commodities are so less in the signed list. In the border trade points along Indo-Myanmar international border, many commodities which were not permitted under the signed agreement are seen. These commodities vary their ranges from luxurious goods to highly manufactured goods. There are the reports of such goods to be imported informally through legalized check points. The prices of these informal goods are reported impressively low as compared to the prices of similar goods manufactured in India and their volume is suspected to be more than the volume of the commodities under legalized trade. Hence, the present paper deals with many issues which are classified into following six sections. The Data on the price change, transportation charge, and illegal collection of duties by underground groups are collected from traders and transporters. All these data are collected randomly. The section I itself is introduction and objectives; section II gives the signed agreements between India Myanmar on this border trade; section III gives the reasons why informal trade arises due to faults in the policies adopted by both governments; section IV gives procedure of the border trade; section V deals with possible methodologies; section VI shows calculation of employment function and multiplier.

THE SIGNED AGREEMENTS

This trade includes 22 items agreed upon exchangeable items from $ 1000 up to $ 20,000 with Guaranteed Receipt (GR) formalities as per DGFT PN No.289 (PN)/92-97. Under this system, traders should posses Import Export Code (IEC) allotted by DGFT. The items under this system are locally produced commodities, mainly agricultural produce and minor forest products as in traditional exchange as mentioned in the above. The RBI also formulated their policy in line with Indo-Myanmar trade agreement. It is mentioned in RBI Notification ie. RBI Circular (DIR Series) No. 17 dated on 16th October, 2000. Some of the main guidelines are given below:

Import from Myanmar to India shall precede export from India to Myanmar.

- There will be no monitory transaction under the barter trade arrangement.
- The export of goods from Myanmar to India should be completed within a period of six months from the date of import.
- Barter in terms other than the agreed 22 items will be liable to seizure/confiscation under the Customs Act 1962.
- Customs duties and cess will be chargeable as per the Customs Tariff Act 1975. Currently, for imports a rate of duty of 5 percent ad valorem is applicable on all items (for officially agreed goods).
- Only cess (an assessed tax is currently chargeable on exports from India to Myanmar on the officially agreed items.

REASONS FOR INFORMAL TRADE

The agreement signed allows only 22 exchangeable items which are mainly agro-product only. Items out of this agro product also, are not permitted to trade. But people living in both sides have diverse choices which were not collected and included among the permitted list. However, people living in both sides along the international border have similar culture, tradition and food items. They are found to be interdependent on the various items available on both sides. Only political boundary makes it difficult to their movement and commodities legally. In order to acquire their needs, they will import the out listed items informally. This is the main drawback of those government agencies to decide on list without proper understanding and consultancy with the local people. One of the most interesting points in that agreement is that both sides should not export and import those commodities originated from a third country apart from India and Myanmar. For India, those commodities are very sensitive to production in Indian side. Myanmar, according to India's policy makers is seen a country through where commodities from industrialized east Asian countries like south Korea, Japan, China and Thailand had been found to transit. These goods are mostly cloths and textile, electronic goods, commonly used day to day goods, etc. Such goods are produced in Indian side also and Indian policy makers keep them under sensitive list which are restricted heavily on their import. Such goods are made in those countries after analyzing the per capita income and demand structures of a developing country like India. These goods are dumping goods in their nature of prices and hence, India needs to check the import of such goods. However, people in NER whose Per Capita GDP is low, have strong desire to acquire them because they could not buy relatively costlier Indian made goods. Now they have two options ahead of them – either they should not consume the country made goods due to lack of income or they consume the foreign goods by importing them informally. At last they are succumbed to import informally as consumers can't be avoided from their choices by nature. India has produced commodities which ranges from agro based to highly sophisticate engineering goods and capital goods. However, the government policies permit to export those goods only through major ports. Exports of those goods are strictly restricted in such border trade. Some of such goods are highly demanded in Myanmar also. In real those goods should be allowed to their export to Myanmar. But these goods are available in Manipur which is the main gate of Indo- Myanmar Border Trade. Owing to heavy demand from the Burmese people, traders in Manipur feel to export it by hook or crook. Hence, traders from Manipur get them legally in the name of their use and export it informally out of legal rules.

"*Import from Myanmar to India shall precede export from India to Myanmar"* simply means the ambiguous unwillingness to this border trade. In the present world, such type of policy does not favour the genuine trade that people expect. The above mentioned policy clearly mentions that Myanmar should initiate its import at first then will be followed by our import from them. One critical point is that even though we have enough capacity to export to them, we cannot export. In the modern world, the new trade theory "oligopolistic" mentions the inevitable availability of many choices of consumers. Until we expose our export items to the consumers who reside other country, there is no means of advertising our export items. From this argument it can clearly be deducted that this trade policy doesn't favour much for the people. Moreover, North Eastern Region of India (NER) and Myanmar have similar topography and weather which make these people to produce the same commodity bundles on both sides. Whatever export or import from each other should be decided by the many factors which ranges from political ideology to the degree of integration of its economy with world economy. Let's suppose that owing to some natural calamities or political unrest, certain needy commodities (these are also produced in NER) are much demanded in Myanmar. In such situation, if governments of both countries apply such policy as mentioned above, trade will not bring any developmental programmes for people. Such ambiguous policies of governments will surely lead to informal trade.

"*Export from India and Import from Myanmar should be completed within a period of six months from the date of export and import"* which simply indicates that the border trade between these two countries is barter by nature. The agreement means that the value of export and import should be neutralized within six months. An interesting argument one can put forward is that if export from India can't be neutralized within the given period with the import from Myanmar, export should be banned until it is neutralized. Such type of lobby is not totally unacceptable and cross country international trade witness that some country have surplus and some with deficit. However, consumers' demand can't be restricted with such lobby. If export and import are not permitted by applying these conditions, traders on both countries will do trade informally. Therefore, such types of unacceptable lobbies are unfavourable.

As mentioned above, Moreh (Manipur) and Namphalong (Myanmar) are the adjacent trade points lying on both sides of international border between India and Myanmar. Similar types of border trades are also there between India and Pakistan; and India and Nepal. In these border trades, both formal and informal parts of such border trade could be found. The respective governments in their bi party agreements had agreed only limited range of the items to be traded mutually. That is the case of trade under formal category. If the consumers on both sides have the demand for that item out of the commonly agreed range, those items are found to be traded informally. However, the procedures of informal trade are found in different ways based on the agreements signed. In the case of trade between India and Pakistan, both governments agreed only limited the commodity basket. Traders can do business on these limited items. Those commodity out of this range, are imported to Pakistan from India through another route ie. India-UAE-Pakistan. India's trade with UAE covers more commodities than its trade with Pakistan. On the other hand, both Pakistan and UAE have freer trade compared to Pakistan's trade with India. Those commodities which are excluded in India's trade agreement with Pakistan are exported to UAE and then imported to Pakistan. This creates informal trade of India and Pakistan via UAE. In the case of India-Nepal trade, the form of informal trade is peculiar to that informal trade between India and Pakistan. India has free trade agreement with Nepal. Some of the Indian companies had opened its branches in this country also. Hence, Indian Government has to offer its import to our market with lesser duty barriers. On another side Nepal has also trade with many countries in the world through its route in Indian Territory. Taking the advantage of lesser duties, Nepal imports commodities from other countries through Indian ports and those commodities with are found to be deflected to Indian markets again. In such trade process, business firms having branches in both sides are keen to get opportunities on both countries (Taneja). The procedure of informal trade in Indo-Myanmar border trade is found again different from the procedures mentioned in the above two.

PROCEDURE OF INFORMAL BORDER TRADE

Indo-Myanmar Border Trade only confine to the notified trade points- Moreh in Indian side and Namphalong in Myanmar side which are adjacent places along the international border. However, Tamu which is mentioned as notified trade point in the agreement between India and Myanmar, Myanmar authorities had built up well structured market ie Namphalong very close to Moreh. According to customs office, the strategy behind the main construction of market close is that it reduces transport cost; increase the number of visitors from both countries easier and hence the quantum of trade also. It is also accepted that opening of market close to international border increases informal trade. The two trades are connected through a narrow strip road with two gates where the movement of people is checked by customs officials of both countries on their respective gates. People and traders can visit both trade points without pass. However, visitors in case to visit places other than these two trade points need pass. Customs offices open the gates at 8 am and allowed visitors to go back from there 4 pm. Most of the business shops at Namphalong are flooded with commodity items from other Asian countries. Those items are basically electronic goods, garments, textile products, soaps, detergents, etc. The numbers of shops which deal in the commodity items under legalized trade are small in number. Currency in transaction according to the signed agreement should be US$. However, presently Indian Rupee has been using as medium of transaction. According to customs officials, why traders are not using either US$ or Burmese currency in transaction is due to huge number of Indian buyers. Using of Indian Rupee in transaction reduces the burden of currency conversion on Indian buyers. Hence, all the commodity items outside the agreement have to be imported inside India. The procedure of the informal trade is interesting to comment. When a business man/visitor from India buys that informal commodity items and he about to cross the gates, needs to hire persons (intermediate, here manual transporters) who can consult to customs officials giving some hush money. Giving such hush money to the officials will allow that commodity to slip into our (Indian) territory. The amount of such money will be determined by the value of those goods that is the more value, the more we need to pay. The role of the intermediate persons in this trade movement is that they can bargain the amount of the hush money at minimal level. However, hush money they charged on intermediate persons are reported same. These persons could get their hiring charge as the cost for transporting those goods from the gate in Myanmar to reach the gate in Indian side which is transportation cost for a short distance. The customs officials at the gate have never invoiced the receipts from the import of these goods which openly mean informal trade. However, this informal trade through these gates is not allowed when higher customs officials from Shillong and Kolkata visit sometimes. Custom's burden at the gates is not the last. There are four or three more check-points at Moreh itself where these goods need to pass through. Traders to avoid further burden from state customs and excise officials, they need to consult the transporters (vehicles-bus, public carriers, etc) to hide the items by giving some hush money to them. Transporters also would keep these informal goods in hiding places or lowest rack of their vehicles and would cover it with the items of goods which are allowed by the signed agreement. At every check point, drivers negotiate the officials giving some lump sum amount of money for its transit. They would not show the exact number of the informal goods they are carrying. Sometimes these officials do check and if they find huge quantum of such informal goods, it is burden on the traders. However, these check posts are not the last barriers for traders. On their way to local market, they have to cross so many barriers. One of the most difficult barriers is the lump sum taxes levied by underground groups that are functioning parallel to existing state government. Even though traders can avoid of heavy taxes levied by state and central government informally, they can't avoid the negotiable taxes levied by such groups. Why their taxes are termed as negotiable is that the strategy of levying lies on the personal income quartiles and assets of the traders. Informal tax on traders of higher income groups are reported hardly negotiable. However, for those traders in lower quartile groups, it is negotiable and tax rates are much influenced by the fabricated grievance stories. It is also found that their taxes rates are also influenced by the closeness of connections with these groups which means the closer connection, the minimum tax rates; and the less degree of connection, the higher tax rates. Some of traders may have their owned shops and some of them may be intermediate between businessmen at border trade point and local businessmen. Traders who are having their own shops are reportedly those lying on the higher income quartile groups.

METHODOLOGIES

(a) TRADE FREEDOM (IN PERCENT)

The methodology used in finding out trade freedom score is derived from the methodology in Index of Economic Freedom, Heritage Foundation which is given below

Trade Freedom = $[\frac{Tariff(max) - Tariff(paid)}{Tariff(max) - Tariff(min)}]$***100 – NTB (20 or 15 or 10 or 5)**

Where, Trade Freedom represents the trade freedom in country *i*; Tariff(max) and Tariff(min) represent the upper and lower bounds for tariff rates (percent); and Tariff(paid) represents the ad valorem tariff rate (percent) in country *i*. The minimum tariff is naturally 0 percent, and the upper bound was set as 50 percent. An NTB (Non Tariff Barrier) penalty is then subtracted from the base score. The penalty of 5, 10, 15, or 20 points is assigned according to the following scale:

- **20**—NTBs are used extensively across many goods and services and/or act to effectively impede a significant amount of international trade.
- **15**—NTBs are widespread across many goods and services and/or act to impede a majority of potential international trade.
- **10**—NTBs are used to protect certain goods and services and impede some international trade.
- **5**—NTBs are uncommon, protecting few goods and services, and/or have very limited impact on international trade.
- **0**—NTBs are not used to limit international trade.

In this present study, Tariff (max) levied on these unofficial imported goods (specially on electronic goods and highly luxurious cloths) according to manual transporters (who are responsible in the movement of such goods from one border check point (say in Myanmar) to another (say in India) are recorded 50 percent (ad valorem) which is consistent with the rate given in index of economic freedom, Heritage Foundation. These transporters sometimes hide few of such items if it is comfortable to hide among many goods which enable them to evade tariff. Hence, the minimum tariff rate "Tariff (min)" on such hidden imported goods in such peculiar situation is assumed to be 0 percent. As far the agreement is concerned, these goods are totally banned in their import, so these manual transporters tell fabricated characters (regarding size, value and quantity) of imported goods. They bribe and at last tariff rate was fixed at around 8 percent ad valorem on most of the goods. Hence, Tariff (paid) is assumed 8 percent for this study. If customs official feel suspect, they do checking and if they find fabricated characters of the imported goods, either 50 percent rate is levied on those goods or not permitted for import. Hence, NTBs is assumed to bear 20 score since it is not permitted for its import. According to respondents which comprise of twenty manual transporters, fifteen vehicle transporters (from these border check points to the retailers) and thirty retailers, the following trade freedom score is constructed

Trade Freedom = $\{(\frac{50-8}{50-0})*100 - 20\} = 64$

This score simply gives the rough quantitative score which reveals that how far trade on such informal goods are restricted. However, trade freedom score of officially agreed goods as permitted in the signed agreement is assumed to gain higher score than these informal goods since they bear tax rate lower than the rate levied on informal goods. According the signed agreement the maximum tax rate on formal goods is 5 percent and applied tax (actually paid) is reported to be around 1 or 2 percent ad valorem and 0 score of NTB should be subtracted.

(b) FREEDOM FROM BANDH AND BLOCKADE (IN PERCENT): It is derived as follows

$[1 - (\frac{\text{Average number of days of bandh faced by traders}}{365})]*100$

However, data related to number of days of bandh and blockade is difficult in collection. Traders could not remind how many days they had faced. In this present paper it can't be calculated.

(c) FREEDOM FROM UNDERGROUND GROUPS: $[\frac{\text{Maximum illegal tax leivied by them} - \text{Actual amount of tax paid to them by a trader}}{\text{Maximum illegal tax leivied by them} - \text{Minimum amount of tax claimed by a trader}}]*100$

It is very difficult to get data on tax levied on traders by underground groups. According to some traders, amount of tax depends on the degree of connection with them and traders do not want to reveal the proper information on this. Hence, it is unable to calculate freedom from underground groups.

CALCULATION OF EMPLOYMENT FUNCTION AND MULTIPLIER

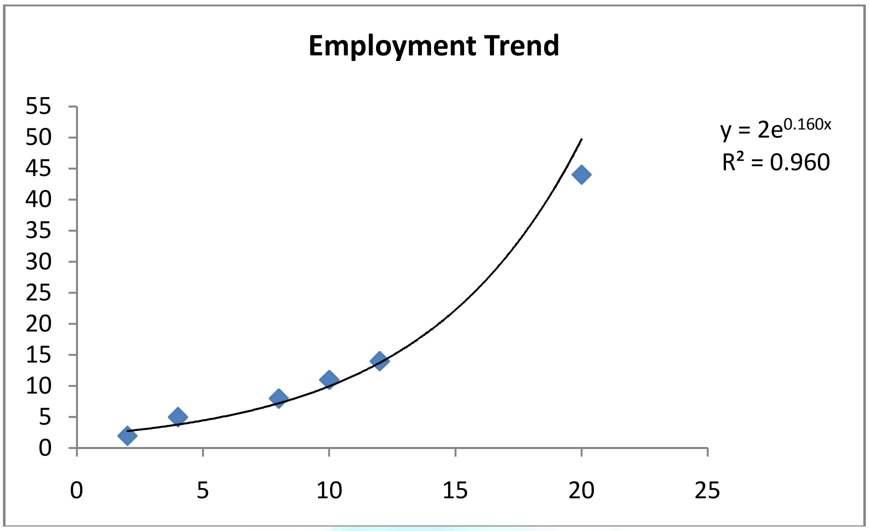
(a) EMPLOYMENT FUNCTION: It is important to find out employment function and multiplier to understand how much employment creation is made owing to this border trade. The procedures of this trade had already been mentioned in the above section. The distinguishing feature in this trade is that whenever goods cross subsequent stages of trade procedures, price is also increased in the form of transaction costs. This section shows percentage increase in price due to transaction cost (along with cumulative price change) and numbers of employment (as well as cumulative employment) are given in the following table. In this table number persons (state and central authorities, and underground groups) involved are those who are in touch directly in order to clear trade procedures. However, both central and state governments collect revenue in the form of tax (tariff) and hence the revenue might be spent in many developmental programmes which create employment for many people. These indirect employment procedures are not covered in this paper. In similar fashion, tax collected by underground groups may provide support for many people involved. The relevant figure shows employment trend (which shows function) depicted based on the data in last two columns of table.

TABLE 1.1: PARTICULARS OF FORMALITIES, PRICE INCREASE AND EMPLOYMENT

Particulars of activities and formalities	Percentage increase in price	Number of persons employed	Percentage increase in price (cumulative)	Number of persons employed (cumulative)
Manual transportation through border points	2	2	2	2
Transportation in vehicles	2	3	4	5
Final sellers activities	4	3	8	8
Clearance for underground groups	2	3	10	11
Clearance for State Customs and Police formalities	2	3	12	14
Clearance for Central Customs formalities	8	30	20	44

Source: Indo-Myanmar traders and transport drivers

FIGURE 1: EMPLOYMENT TREND



Source: Author's own calculation

In the figure, X-axis shows percentage increase in price level and Y-axis shows number of employment created. The trend line is in the form of exponential trend which shows number of employment whenever there is percentage change in price due to clearance of formalities. From the trend line, employment function is derived as hereunder:

$Y = 2e^{0.16x}$

Where, Y = Number of persons employed

X = Percentage increase in price

In this employment function, 2 is intercept and 0.16 is the employment growth rate and compositely it means that at a particular price increase, the number of persons employed can be calculated by using the above given exponential function. The limiting case of this exponential function is when price increase is zero (x=0) ie when there is no increase in price and even in this case also the least number of persons employed is 2. Hence, number of employment created due to trade is an exponential function of percentage increase in price. As the price increases subsequently due changes in hand, employment also increases exponentially. In general, employment creation can formulated as hereunder

$Y = ce^{ax}$

Where, Y = Number of persons employed due to trade

C = Intercept (minimum number of employment)

^{a} = Coefficient (which to be regressed)

X = Percentage increase in price

(b) EMPLOYMENT MULTIPLIER

According to economic literature, employment multiplier means ratio of change (increase) in employment to change (increase) in price level which is given by the slope of tangent line to employment function as given above:

Employment Multiplier = $\frac{dy}{dx}$ = Slope of the tangent to employment function $= e^{ax}.ca$

In this present study employment function, Y = $2e^{0.16x}$ the multiplier (slope of the tangent to function) is $2*0.16*e^{0.16x} = 0.32\ e^{0.16x}$. Therefore, in general the followings can be derived

- **Employment Function, $Y = ce^{ax}$**
- **Employment Multiplier = $e^{ax}.ca$**
- **Total number of persons employed for "n" units of commodities = $\int_1^n y\,dx$**

CONCLUSION

This paper shows exclusion of wide range of tradable commodities in the signed bilateral trade agreement which results in informal trade. Procedure in informal trade especially in its fright is peculiar one as compared to trade in formal trade. There is possibility of applying methodologies given by Economic Freedom Index, Heritage Foundation in this border trade. The calculated employment function shows that employment grows exponentially as price increases and derivative of employment function gives the trade induced employment multiplier.

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