

Realising the Potential of Bangladesh's Location through Connectivity

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Introduction

- Rapid globalisation
 - rapid integration with regional and global economy
 - utilising a country's geographical location through connectivity
- 'Asian century'
 - Bangladesh is geographically located between two economic giants, China and India
 - imperative of Bangladesh to have greater connectivity
- A building block of a successful 'free trade area' is geographical immediacy
- Bangladesh has the potential to become regional economic and financial hub
 - stipulated in the 'Vision 2021'

Structure of the Paper

Following the introduction

Section 2: Advantages of Bangladesh's location as a gateway of South and Southeast and East Asia

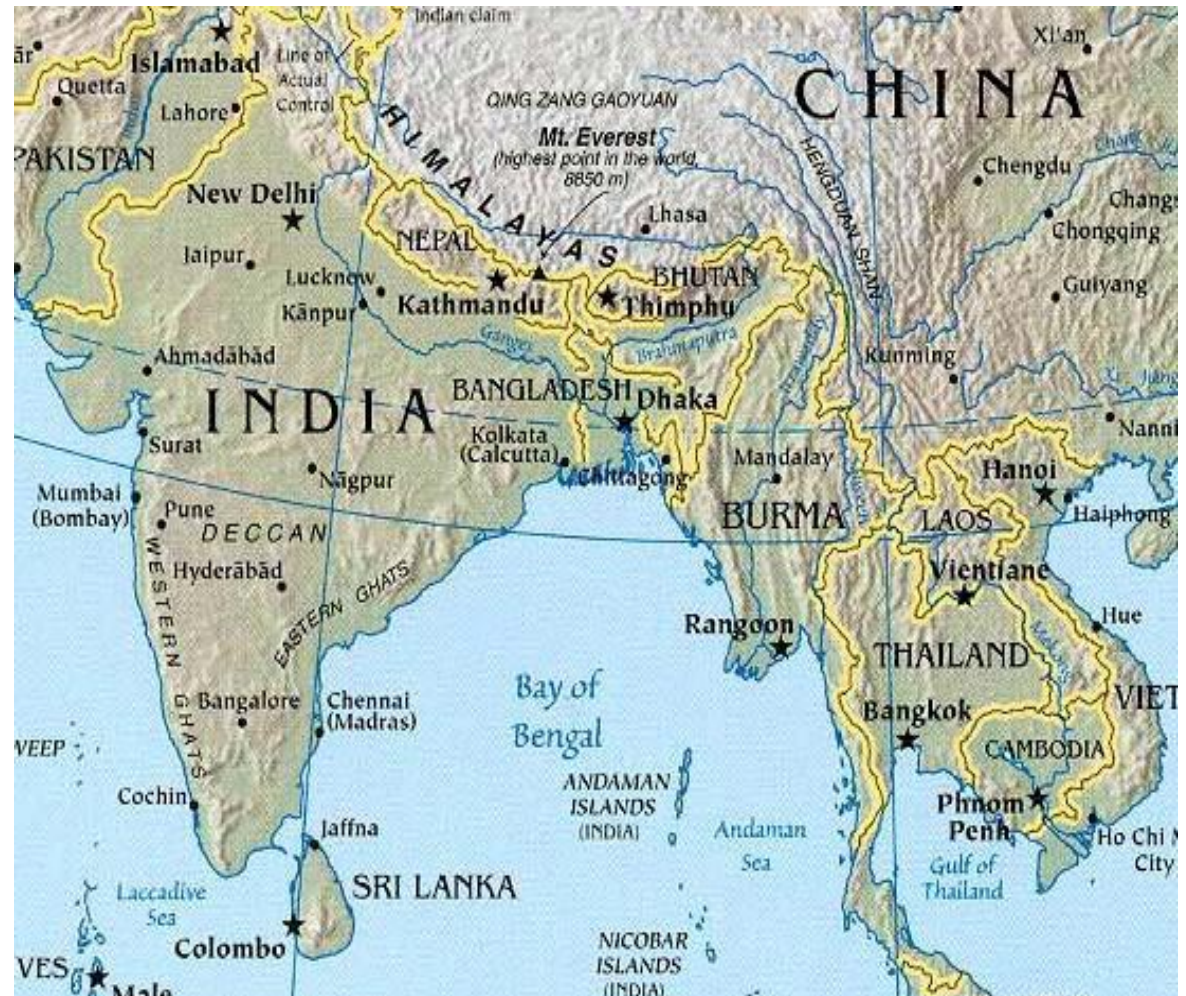
Section 3: Drawbacks in the area of connectivity and infrastructure

Section 4: How to derive maximum benefit out of the country's location

Section 5: Concluding remarks

Advantages of Bangladesh's Location

Geographic location of Bangladesh vis-à-vis China, South, Southeast and Central Asia can bring enormous benefits for Bangladesh



Sub-Regional Transit

- Bangladesh showed positive approach and will to sub-regional transit including India, Nepal and Bhutan
- Provide passage and logistic support for user fee
 - infrastructure in land inland water and sea
 - promote investment and economic development in extremely backward bordering districts
 - accumulate regional social capital through greater trust and cooperation

Proposed Transit Route with Indian NES



Legend: → Existing route → Transit route

Sub-Regional Transit ...

- Bangladesh has large trade deficit with India with increasing trend
- Trading in transport services with these countries can lessen this deficit considerably.
- Transport services
 - less likely to have market elsewhere outside this sub-region
 - opportunities of trading in transport services may not continue for long
 - might be alternative cost-effective means through technological advancement

Sub-Regional Transit ...

- As a gesture of friendship and cooperation towards India, the continued operation of a “Protocol on Inland Water Transit and Trade” approved in 1972
- Multi-modal transit - road, rail, IWT and sea port
- Two major dynamic benefits
 - much better economic relations with India and scope and scope of reducing enormous trade deficit
 - larger investment opportunities in Bangladesh, especially in the lagging behind bordering districts
- Reduce trade deficit through export of services

Sea: Gateway to the World

- Contribution of Rotterdam, Singapore and Hong Kong to development of the respective countries/territories
- Chittagong Port
 - Perceived to be over-utilised
 - On average about 40% of container holding capacity and 45% of cargo storage capacity remain unutilised daily
- Mongla Port
 - Large excess capacity of 61% of cargo and 40% of container handling
 - Containerised traffic can be transported through the IWT routes as specified under Inland Waterways Protocol Agreement.

Between India and China

- Bangladesh's proximity to India and China could be strength for western investors who are eyeing on developing goods and services for these two giants
- Bangladesh is developing a healthy economic tie with India
 - should also use road and rail links to connect to China using transit routes
 - will help Bangladesh to attract investment with no additional costs.

Regional Gateways of Bangladesh

Division	Key Features
Chittagong	<ul style="list-style-type: none">▪ Commercial capital▪ Has the largest seaport▪ Road links with Myanmar▪ Rail links to Tripura▪ Truly the gateway to Southeast Asia
Rajshahi	<ul style="list-style-type: none">▪ Connects to mainly the India state of Paschim Banga
Khulna	<ul style="list-style-type: none">▪ Connects to mainly the Indian state of Paschim Banga
Sylhet	<ul style="list-style-type: none">▪ Gateway to the Eastern Indian states with direct road linkages
Rangpur	<ul style="list-style-type: none">▪ Gateway to Northeast part of Paschim Banga, Nepal and Bhutan

Dividend from Myanmar

- Myanmar - traditionally seen to be Bangladesh's 'distant neighbour'.
- Recent political atmosphere in the country reveals that its economy is likely to vibrate in near future
- Immense interest of the western players in trade and investment with this country
 - matter of time for Myanmar to become visible as business and economic player in Southeast Asia
- It is also preparing to become the next chair of ASEAN in 2014
- Now it is a very high time to utilise Bangladesh's proximity with this country through greater connectivity, especially through land linkage.

Electricity Grid Connection

- Bangladesh's potential to become a middle income country as per 'Vision 2021' critically hinges on power generation
- untapped hydroelectric potential (estimated at 43,000 MW), which could be developed to provide for the 60 per cent of the population without electricity, as well as for export
- Bhutan's hydropower potential is estimated at 30,000 MW
- Consultation needed to construct gridline through India
- Bangladesh has already taken a major positive step by reaching agreement with India to allow in the short-to medium term
- Paschim Banga has a surplus power of 750 MW which could be imported if the grids were already compatible

Constraints: Sub-regional Transit

- “Water for transit” (?) with India
- Road connectivity with a very high congestion
- Transit clearance operation by BR may result in a short-haul operation with high unit cost, which likely to add to the BR’s yearly loss
- Onward clearance out of Ashuganj or the Chittagong port would entail short-haul operation, not enjoying economy of scale, it will prove costlier
- Core Committee has suggested that transit is not possible in the next three years due to inadequate infrastructure
- Finding a good time for offering has thus become uncertain

Transit Fee

- Transit fee is one of the key debated issues for everyone concerned, especially the stakeholders and civil society in Bangladesh
- ‘user fee’ of transit services should sufficiently cover the rate of return of investment in a reasonable period
- Lack of considerable investment to convert the sea and inland water ports into international ports, road, river and rail networks to establish connectivity
- Costs can be fully recovered along with a reasonable rate of return on investment through port fees and other infrastructure use charges
- Time cost (saving) and opportunity cost of investment on infrastructure have been left out of the proposed fee

Connectivity with BCIM

Welfare Gains from BCIM Economic Corridor (US\$ million)

Country	Only FTA	FTA + 10% Reduction of Transport Cost
Bangladesh	-191.5	857.21
China	4,032.93	10,100.26
India	-1,024.33	4,726.32
Myanmar	-212.74	782.25

- BCIM economic corridor can allow the countries to reach many Asian markets due to its advantageous geopolitical position
- would help the countries boost economic growth and open up for the wider global and regional markets
- Bangladesh -bridge connecting India and China
- However, currently there is no bilateral MFN transit among these countries
- Formal initiatives are yet to be taken to establish road and sea connectivity to facilitate the corridor.

Potential Economic Losses through Trade Diversion

- Would damage the NES of India as a captive market
 - Trade today may be growing but still remains modest
 - would expand Bangladesh's opportunities for trade through economic growth in this region
- Enable Eastern Bangladesh to emerge as a more competitive source of supply to NES than the rest of India
- Indian businessmen would find it more profitable to set up joint ventures across the Bangladesh border, to supply the North East or to process the abundant raw materials of the region
- Bangladeshi transport companies can be established as the principal carriers of India's transit traffic
- Bangladesh should look more into the entire Indian market
 - countervailing duty imposed on Bangladesh's RMG items

Way Forward: *Investment in Infrastructure*

- Should carefully assess whether it has necessary financing options for benefiting regional countries
- since transit is required by the neighbouring countries, they should come forward with finance to develop necessary infrastructure
- India should maintaining the navigability of the Bangladesh rivers
- Both Chittagong and Mongla would earn substantial revenues from the use of their facilities
- As a 'win-win' proposition, inter-modal optimality needs to be adequately looked into

Determine Pragmatic Transit Fee

- The most sensitive issue is to set a pragmatic transit fee that would benefit both providers and users
- Consider resource cost for the provision of transit facility
- Should reflect the fully costed infrastructure and equipment items procured, and set up and put to operation
- Prices should be reviewed annually & inflation-adjusted and costs of asset acquisition which have future rate of return
- Cover 'savings' due to transportation cost saving, time saving of user countries
- Fee should also cost of not to devote financial resources
- Savings to avoid the insurgency-prone northern long and roundabout route, thus avoid 'risk and uncertainty'
- Use the position as the 'third degree' price discriminator

Task Force on Connectivity with CIM

- Greater connectivity among BCIM for boosting growth and economic vibration
- The government is now considering it quite seriously
- Immediately form a high level task force including scholars, professionals and civil society actors in the relevant
- Devise the connectivity options and undertake projects to materialise

National Dialogue

- A number of irreversible achievements in the realm of Bangladesh-India relations
- Still considerable negative popular perception regarding transit in Bangladesh
- Commence national dialogue through all means
- National consensus and ownership can be developed regarding this extremely sensitive issue
- National institutions like BISS can take part in organising dialogues and public learning
- Help reduce the gap between imagined dangers and real benefits of transit

Many thanks!