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REALISING THE POTENTIAL OF BANGLADESH'S LOCATION THROUGH CONNECTIVITY

Abstract

Bangladesh is geographically located between two Asian economic power houses — China and India. The gravity model of international trade theory implies that geographical proximity leads to higher volume of bilateral trade. However, very little or no trade takes place among the smaller countries in South Asia that are closely located even though individually they trade more with distant industrialised countries. This clearly implies that there may be other factors, such as lack of transport connectivity and related logistical constraints that give rise to high transaction costs leading to low trade. Nevertheless, Bangladesh has the potential to establish itself as a regional economic and financial hub. It has also been stipulated in the Vision 2021 of the Government of Bangladesh and demonstrated political will through a number of initiatives. Given this backdrop, this paper tries to explain the avenues for tapping the potential of Bangladesh's location through greater connectivity. It also attempts to uncover the whole issues of connectivity given the locational advantage of Bangladesh, identifies the existing bottlenecks that are hindering in deriving multiple economic benefits and suggests how to address these constraints. It reveals that the country has got unique location in the middle of two economic power houses, which, if wisely utilised, can provide wide ranging benefits to vibrate economically.

1. Introduction

In the age of globalisation when the promising countries are proceeding towards rapid integration with regional and global economies, an increased propensity is seen towards utilising a country's geographical location through connectivity. Incidentally and perhaps blessed with contemporary history of the 'Asian century', Bangladesh is geographically located between the two contemporary economic power houses — China and India that speaks volume about the imperatives of Bangladesh to have greater connectivity with them in all possible ways. One of the five building blocks of a successful 'free trade area' is geographical immediacy,¹ given

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¹ Nihal Pitigala, *What Does Regional Trade in South Asia Reveal about Future Trade Integration? Some Empirical Evidence*, Policy Research Working Paper No 3497, Washington, DC: World Bank, 2005.

that the neighbours have greater connectivity. The gravity model of international trade theory implies that geographical proximity leads to higher volume of bilateral trade as the 'distance elasticity' of trade turns out to be negative.² Indeed, the countries in relative geographical nearness tend to trade more with each other than with distant countries due mainly to lower transport and communications costs in standard case.³ Regional trade in South Asia tends to be India-centric, which is the immediate neighbour for all other countries except Afghanistan. However, very little or no trade takes place among the smaller countries in South Asia that are closely located even though individually they trade more with distant industrialised countries. This clearly implies that there may be other factors, such as lack of transport connectivity and related logistical constraints that give rise to high transaction costs leading to low trade. Beside trade, lower investment and other mutually beneficial economic collaboration are at sub-optimal level due to significant connectivity constraints.

Bangladesh has the potential to establish itself as a regional economic and financial hub. It has also been stipulated in the "Vision 2021" of the Government of Bangladesh (GoB) and demonstrated political will through a number of initiatives that include forming a National Core Committee and conducting a study for offering regional transit facility. Given this backdrop, the present paper tries to explain the avenues for tapping the potential of Bangladesh's location through greater connectivity. Thus, the paper has been structured as follows. Apart from the brief prelude, section 2 describes the advantages of Bangladesh's location as a gateway of South, Southeast and East Asia, and as a trade and transport corridor for landlocked countries and territories through land, water and sea. Section 3 explains the existing drawbacks in the area of connectivity and infrastructure that include land, water and electricity grid connectivity. Given the opportunities and constraints, section 4 suggests how to derive maximum benefits out of the country's location. Finally, concluding remarks have been made in section 5.

2. Advantages of Bangladesh's Location

Bangladesh's geographical position is very important in the region for economically highly beneficial exchange and cooperation. Cooperation literally means that one party would provide some benefits to the other on a reciprocal basis. Geographic location is an important factor both in trade and communication for an individual country in a regional/sub-regional grouping.⁴

² See, for example, J. E. Anderson, *Gravity, Productivity and the Pattern of Production and Trade*, Working Paper No 14642, Massachusetts: National Bureau of Economic Research, 2009.

³ A. Deardorff and R. M. Stern, "Multilateral Trade Negotiations and Preferential Trade Arrangements", in A. Deardorff and R. M. Stern (eds.), *Analytical and Negotiating Issues in the Global Trading System*, Ann Arbor: University of Michigan Press, 1994.

⁴ M. Rahmatullah, "Regional Connectivity: Opportunities for Bangladesh to be a Transport Hub", *Journal of Bangladesh Institute of Planners*, Vol. 2, 2009, pp. 13-29.

Map 1: Bangladesh's Geographical Position

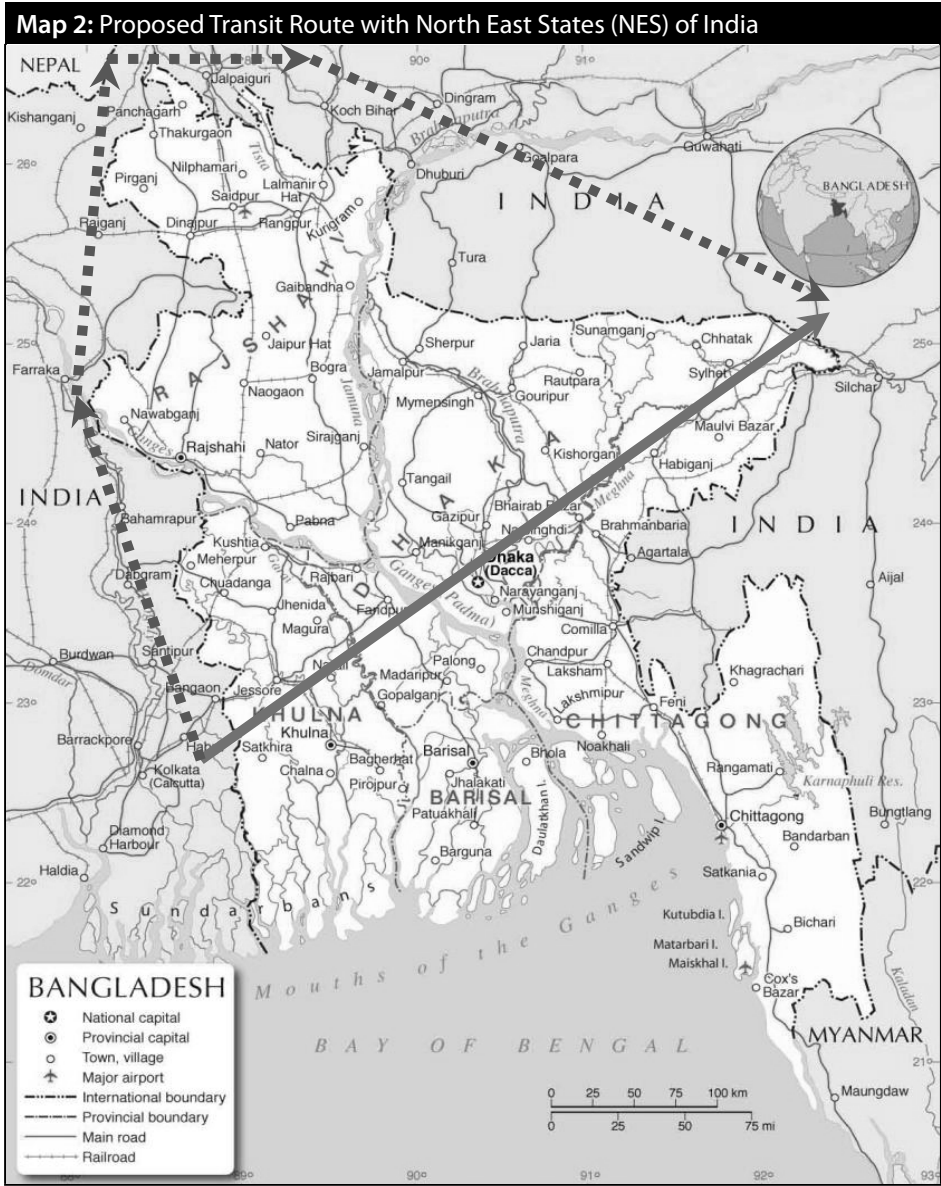


Central location of a country in a regional grouping provides her not only with cheaper transportation, communication and trade facilities but also the option to choose the goods or services and the location or countries which best suit its economic and political interests. Thus, the geographic centrality of Bangladesh to China, South, Southeast and Central Asia can bring enormous benefits for Bangladesh.⁵

2.1 Transit

Considering the significant potential of economic benefits, the Government of Bangladesh has demonstrated positive approach and will to have a sub-regional transit including India, Nepal and Bhutan. The primary objectives of the transit package are to provide passage and logistic support in exchange of user fee through improving infrastructure in land, inland water and sea, promote investment and economic development in extremely backward bordering districts and accumulate regional social capital through greater trust and cooperation.

⁵ M. Kabir, A.B.M. Ziaur Rahman and S. M. Hossain, *BIMSTEC-Japan Cooperation in Energy Sector: Bangladesh Perspective*, Discussion Paper No 24, Kolkata: CSIRD, 2007.



Currently, Bangladesh has large trade deficit with India and some deficit with both Nepal and Bhutan with increasing trend. Trading in transport services with these countries can lessen this deficit considerably. In this backdrop, it is important to realise that these transport services are less likely to have any market elsewhere

outside this sub-region. At the same time, it is also important to recognise that these opportunities of trading in transport services may not continue for long because there might be alternative cost-effective means through technological advancement and contract with another country like Myanmar. Therefore, this issue has to get urgent attention of the policymakers and the relevant governments. If this opportunity is tapped carefully, Bangladesh can easily emerge to be a “transport hub” of the sub-region consisting Nepal, Bhutan and Northeast India.⁶ This would result in a win-win situation for all the sub-regional countries.

As a gesture of friendship and cooperation towards India, the continued operation of a “Protocol on Inland Water Transit and Trade” was approved in 1972 allowing India to make use of the six designated inland water transport routes for transit of India’s freight traffic across Bangladesh. It required India to pay transit fees for maintenance of the river navigability and use of Bangladeshi vessels. It was subsequently renewed in the early 1980s. Additional demand for broad-based multi-modal transit transport operation across Bangladesh, utilising all modes of transports (sea and river ports) requires a comprehensive Transit Agreement.

The ‘transit’ proposal now in place is comprehensive that includes India, Nepal and Bhutan and intends to utilise Bangladesh’s road, rail, inland waterways and the sea and river ports. It would entail multi-modal transport operation at Chittagong, Mongla and Ashuganj ports and onward clearance of traffic both by road and railways.

Effective implementation of transit agreement hinges on two main preconditions. First, transit will be a functional procedure through Bangladesh that will allow unhindered movement of goods between West Bengal and the North Eastern States (NES) of India, with no significant waiting time at the border or *en route* due to inspections or trans-loading. Second, Bangladesh will have adequate mechanisms to recover the costs associated with required infrastructure and services, according to agreed international principles on freedom of transit.

India would gain much from lower transport cost for its own trade as well as international trade with the NES. Transit would also benefit Nepal and Bhutan to carry out international trade through using river ports and Mongla and Chittagong sea ports with much lower time and transportation costs. Bangladesh would benefit significantly from better utilisation of its port facilities and associated fees, reduced trade costs with India resulting in higher volume of trade and opportunity to upgrade its transport network financed by user charges. It would bring about two major dynamic benefits: (a) much better economic relations with India and scope of reducing enormous trade deficit and (b) larger investment opportunities in Bangladesh, especially in the bordering districts which are lagging behind.

⁶ M. Rahmatullah, *op.cit.*

How would transit help reduce trade deficit? It would be primarily through export of services. The transit from India through Bangladesh to India (or 'in transit') is similar to the use of port services. Also, Nepal and Bhutan will use Bangladesh territory for trading with India and rest of the world. Therefore, Bangladesh will export services of using road, rail and waterway infrastructures and earn 'user fees' or 'service charges'. Consistent with WTO rules, the service charge would be based on the principle of cost recovery, rate of return on investment in infrastructure and environmental pollution charge among others.

A recent study of gravity model indicates the statistically significant growth of Bangladesh-India bilateral trade if transit is allowed. The study also shows that Bangladesh's total exports to India would be increased by 182 per cent in the case of Bangladesh-India full FTA, while Bangladesh-India full FTA with improved connectivity would increase Bangladesh's exports to India by almost threefold (297 per cent); in the case of India the corresponding increases would be 126 and 172 per cent, respectively. Thus, improved connectivity would increase Bangladesh's exports to India at a higher rate than that of India to Bangladesh.⁷

The other dynamic benefit that Bangladesh can gain would be larger investment in lagging regions because of vibration in the bordering local economy. Most of the bordering districts belong to backward regions that have low connectivity with growth centres. There is a strong positive relationship between connectivity and development of lagging regions.⁸ A good example is Bangabandhu Jamuna Bridge that helped improve socio-economic performance of northwestern districts of Bangladesh significantly through connectivity with growth centres. Investments in infrastructure for providing transit to Bhutan, Nepal and India especially for connecting the NES with the mainland through the ports in Bangladesh is also likely to improve connectivity for the relevant lagging regions of Bangladesh. This would connect the lagging regions with nearby growth centres and attract investments in the bordering areas in trade and establishing new industries as feedback effect. This would help address the developmental constraints of these areas.

2.2 *Sea: Gateway to the World*

Keeping other things constant, the countries that have access to sea have the scope to economically perform better than the land-locked countries. International experience suggests that the contribution of important sea ports, such as Rotterdam, Singapore and Hong Kong to development of the respective countries/territories is

⁷ P. De, S. Raihan and S. Kathuria, *Unlocking Bangladesh-India Trade: Emerging Potential and the Way Forward*, Policy Research Working Paper 6155, Washington, DC: World Bank, 2012.

⁸ For example, see, General Economics Division, *Outline Perspective Plan of Bangladesh 2010-2021*, Dhaka: Bangladesh Planning Commission; and Planning Commission, *Creating a Place for the Future: Paper Supporting the Framework for Economic Growth Pakistan, 2010-2021*, Islamabad: Government of Pakistan.

significant.⁹ Even though Bangladesh has some drawbacks as a downstream country in terms of flow of water of trans-boundary rivers, it has a considerable advantage of accessing sea and scope of using it as the gateway between Central, South and East Asia. In addition, Bangladesh can utilise a dynamic source of revenue for economic growth through opening up its two sea ports and investment further beyond the purview of proposed sub-regional transit.

The huge container traffic in the Chittagong sea port gives an idea that it is over-utilised. But actually it is not so. The fact is that a study found over-utilisation of the manual container handling capacity of this port.¹⁰ Expert opinion revealed that there is still significant overall capacity of the port currently being unutilised, which can be used through opening up the port for regional countries with pragmatically determined user fees.¹¹

The Chittagong Port is the largest sea port in Bangladesh, located by the estuary of the Karnaphuli River in Patenga near Chittagong city. It provides a major gateway for the country's external trade. Its present handling capacity is 32,017 TEUs (Twenty Foot Equivalent Unit) and storage capacity is 79,000 metric tons. On average about 40 per cent of the container holding capacity and 45 per cent of the cargo storage capacity are remaining unutilised daily. In other words, this significant unused holding and storage capacity can easily be used by the interested landlocked neighbouring countries and territories.

Mongla Port is the second largest sea port of the country located at Bagerhat district. The present handling capacity is 6.5 million metric tons of cargo and 50,000 containers per year. In FY2011-12 it handled some 2.48 million metric tons of cargo and 30,000 TEUs of containers. It means that there is large excess capacity of 61 per cent of cargo and 40 per cent of containers handling. Cargo can be transported in all seasons from the port through road and river ways. Containerised traffic can be transported through the Inland Water Transport (IWT) routes as specified under Inland Waterways Protocol Agreement.

2.3 Between India and China

Bangladesh is located as a bridge between Central, South and East Asia. Through better land, air and sea connectivity Bangladesh can become an Asian commercial hub. It is clear that geography can be a hugely positive asset for

⁹ S. Ahmed, "The economics of transit", in *Global Economy: Anniversary Issue (Part Five)*, Dhaka: Policy Research Institute of Bangladesh, 2011, available at http://www.pri-bd.org/index.php?option=com_content&view=article&id=269:the-economics-of-transit&catid=46:global-economy&Itemid=60, accessed on 12 June 2013.

¹⁰ S. Munisamy and G. Singh, "Benchmarking the efficiency of Asian container ports", *African Journal of Business Management*, Vol. 5, No. 4, 2011, pp. 1397-1407.

¹¹ Interview with Dr. Mozibur Rahman, CEO of Bangladesh Foreign Trade Institute and the Chair of the National Core Committee on regional transit proposal.

development of Bangladesh. Exploiting this locational advantage by improving and expanding port services and by providing connectivity between Central, South and East Asia can add a new source of economic growth for Bangladesh.

The ongoing changes in the Chinese economy indicate two strategic opportunities for Bangladesh — first, many of the labour intensive manufacturing are going to migrate out of China and so Bangladesh could position itself as an effective alternative, and second, global investment funds previously going to China are now on the move and are looking for new countries and Bangladesh could grab this opportunity.

China’s growth was largely driven by the state-owned companies in its initial period. This was not the case in India. China took an early lead and used its strength in technology and knowledge to adapt new technologies to increase its economic growth rate. India, on the other hand, was left behind and it is only recently that it accelerated its economic growth using its strengths in the services sectors particularly in the software technology, education and health care.

Table 1: Regional Gateways of Bangladesh

Division	Key Features
Chittagong	<ul style="list-style-type: none"> ▪ Commercial capital ▪ Largest sea port ▪ 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 Indian state of West Bengal
Khulna	<ul style="list-style-type: none"> ▪ Connects to mainly the Indian state of West Bengal
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 North Eastern part of West Bengal, Nepal and Bhutan

China and India are now two giants with possibility of becoming among the top economies of the world in the next decade. Bangladesh could take advantage of such a shift in the global economy by quickly integrating with these two big economies. The proximity of Bangladesh to India and China could be strength for Western investors who are eyeing on developing goods and services for these two giants. In this regard, while Bangladesh is developing healthy economic ties with India, it should also use road and rail links to connect to China using transit routes. Such a move will help Bangladesh to attract investment with no additional costs.

Using locational advantage, Bangladesh can devise strategies to establish

itself as a regional hub for banks, finance and insurance markets and related services to businesses, design expert level services for enterprises — like architectural, forecasting, marketing, education, training and research services. Such services, when provided outside the country from Bangladesh shall be treated as net 'export'. This will help Bangladesh establish itself as a global hub for knowledge-based services utilising local and also foreign expertise.

2.4 ***Dividend from Myanmar***

Myanmar is traditionally seen to be Bangladesh's 'distant neighbour'. However, recent political atmosphere in the country reveals that its economy is likely to vibrate in near future. Major international powers like the USA, European Union and Japan have already expressed their interests while the US President and Japanese Prime Minister have recently paid visits to Myanmar. Immense interests of the Western economies in trade and investment with this country implies that it is only a matter of time for Myanmar to become visible as a business and economic player in Southeast Asia. It is also preparing to become the next chair of ASEAN in 2014. It is now high time to utilise Bangladesh's proximity with this country through greater connectivity, especially through land linkage.

Bangladesh is currently suffering from increasing trade deficit with Myanmar. Even though Bangladesh has a good export potential of pharmaceuticals, leather goods, vegetables and textiles and readymade garment (RMG) items to bridge the unfavourable trade gap, the existing poor connectivity has been restraining to realise the untapped potential. The road linkages between these two neighbours could be facilitated through the southern route of proposed Asian highway. In addition, upgradation of roads connecting land customs station at Teknaf should be improved to facilitate cross-border trade and human movement. On the other hand, inland water and sea route transportation should be promoted to increase bilateral trade flow.

2.5 ***Electricity Grid Connection***

Bangladesh's potential to become a middle income country as per 'Vision 2021' critically hinges on power generation. Even though the country has made some progress in electricity supply, there is a considerable gap between demand from industrial sector and supply from within. Most of the recent progress is due to a short-term measure of 'quick rental' whose cost-effectiveness and long term viability remains a big question. Therefore, it is imperative for the country to import electricity from the neighbours like India, Myanmar, Nepal and Bhutan.

Hydropower is the dominant source of commercial energy for Bhutan and its major revenue comes from hydroelectricity exports to India. Nepal and Bhutan have

potential to export electricity to Bangladesh. Nepal has large 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.¹² To realise their potential, there is a need for starting consultation to construct gridline through India from which India can also benefit through electricity import to NES.

Grid connectivity is also important to import power from India. Bangladesh has already taken a major positive step by reaching an agreement with India to allow electricity imports in the short to medium term. Currently, West Bengal has a surplus power of 750 MW which could be imported immediately if the grids were already compatible.

3. Constraining Factors

3.1 *Implementing Sub-regional Transit*

The government has in principle agreed to provide regional multi-modal transit including road, rail, Inland Water Transport (IWT) and sea. As mentioned above, a National Core Committee has been formed by the Government of Bangladesh to suggest modalities, routes and possible transit fee. However, the process was stalled following the unsuccessful attempt to conduct the Teesta water sharing treaty when Indian Prime Minister visited Bangladesh in September 2011. Since then no effective attempt has been made to implement regional transit, which seems to be the case of "water for transit". Some progress was, however, achieved for undertaking transit individually with Bhutan and Nepal. A draft agreement has already been exchanged with Bhutan.

Bangladesh highway system is characterised by small inter-district road connectivity with a very high congestion. It is built with inadequate attention to design standard, required for a rising level of traffic. Road building in Bangladesh is prohibitively costly. The country is devoid of basic building materials, such as aggregates, bitumen, etc. Standard of road required for operation of container load of transit traffic will be very high, hence expensive to build and maintain. Heavy road traffic will also inflict serious environmental damage. Besides, costs of fuel, vehicles, bitumen, all import items will further go up over time. Consequently, cost of transit requiring multiple transfer and trans-shipment need costly short-haul clearance into India.

¹² M. Kabir *et al.*, 2006, *op. cit.*

Table 2: Road Congestion in Bangladesh¹³

Division	Population	User per km road
Barisal	9,560,965	8,149
Chittagong	28,412,959	7,400
Dhaka	45,671,403	11,259
Khulna	17,201,007	9,336
Rajshahi	19,130,454	5,375
Rangpur	16,197,295	7,915
Sylhet	9,286,812	6,071
Bangladesh	145,460,895	8,614

Railway has been suggested to be the most beneficial for transit.¹⁴ Despite recent initiative to rejuvenate Bangladesh Railway (BR), it is yet to be revived from the moribund condition. However, the potential demand for transit services suggests that BR can tap into a large and profitable market. This is a unique opportunity to revive the BR and undertake a concerted effort to reclaim its share in the freight market. Nevertheless, transit clearance operation by BR may result in a short-haul operation with high unit cost, which is likely to add to the BR's yearly loss.

India intends to use the Chittagong and the Mongla sea ports as well as the river port of Ashuganj. Transit traffic seeking multimodal operation would be costly because of trans-shipment operation. A container load will require the use of expensive cargo handling equipment, specialised jetties, cranes and trained manpower, warehouses, etc. Onward clearance out of Ashuganj or the Chittagong port would entail short-haul operation, by road or rail and not enjoying economy of scale, will prove costlier. Chittagong port has limited prospect of natural expansion and constrained by limited draft virtually all ships have to be lightered at the outer anchorage. Mongla is a cheaper deep-water port, about 60 miles inland with minimum tidal effect. It would provide direct transfer of Indian transit cargo from ships on to river barges for their up-country dispatch for delivery into India. Mongla port suffered due to withdrawal of water by India and long period neglect in maintenance dredging. It may need one-off capital dredging and with regular maintenance, the port can be brought back to its potential handling capability.

Given the overall status of road and railway, the Core Committee has suggested that transit is not possible in the next three years due to inadequate infrastructure, thereby offering trans-shipment so that the overall infrastructure to support transit can be developed in the interim. The Committee estimated that 17.3 million cargos can be transported per year when 'full transit' is provided, but 10 per cent (1.8 million cargos) can be transported in trans-shipment. The Committee suggested 17 routes

¹³ E. Haque, G. Pananek and M. Kabir, *Transforming Bangladesh – from Plans to Actions*, Dhaka: FBCCI, 2011.

¹⁴ K.A.S Murshid, "Transit and Trans-shipment: Strategic Considerations for Bangladesh and India", *Economic & Political Weekly*, Vol. XLVI, No 17, 2011, pp. 43-51.

through road, rail and waterways and investment of Tk. 470 billion would be required for infrastructure development.

Finding a good time for offering has thus become uncertain. Also, it is important to address the persisting popular perception which is considerably against it. In the midst of not achieving a national consensus, the full support from all corners is not likely to happen, which would pose barrier in reaping full benefit of it.

3.2 Transit Fee

Transit fee is one of the key debated issues for everyone concerned, especially the stakeholders and civil society in Bangladesh. It is believed that the 'user fee' of transit services should sufficiently cover the rate of return of investment in a reasonable period. To convert the sea and inland water ports into international ports, a range of investments will be needed in terms of road, river and rail networks to establish connectivity between regional countries. Investments in port capacities, port facilities, dredging, etc. will be needed. Costs can be fully recovered along with a reasonable rate of return on investment through port fees and other infrastructure use charges.

The Core Committee has suggested the following items to be covered in the fee: (i) €8-11 per ton/km fee for goods transport through road, (ii) €5-6 per ton/km fee through rail and (iii) €2-3 per ton/km fee through water. Two types of fee/costs are involved: fixed and variable. Fixed costs include customs and land port services and entrance of foreign vehicles. Variable costs for road and rail involves land acquisition, land damage, administrative, institutional, security, accident, traffic/container jam and environmental and noise pollution. Variable costs for waterways is slightly different, which include design of river route with dredging, administrative, institutional, security, accident, traffic/container jam, environmental and noise pollution, water pollution and fuel price adjustment. Some important cost items such as time cost (saving) and opportunity cost of investment on infrastructure have been left out of the proposed fee.¹⁵

3.3 Connectivity with BCIM

Bangladesh, China, India and Myanmar (BCIM) forum has turned out to be a new hope for Bangladesh in the midst of slow progress of South Asian Association for Regional Cooperation (SAARC) and non-demonstrated results of Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) to connect the region with Southeast Asia. The promotion of the development of an economic corridor has now become a key interest of regional leaders that will physically connect the sub-region to promote trade and investment. Bangladesh is surrounded mostly by

¹⁵M. Kabir, "Transit to India: How to Optimise Benefits", Paper presented at *BIISS-IDS Dialogue*, BIISS, Dhaka, 28 March 2012.

India on all sides except for a small border with Myanmar to the far southeast and the Bay of Bengal to the south. It provides a unique opportunity to establish connectivity with India and China via Myanmar through land routes and directly through sea. Integration of strategically located sub-regional areas, viz. NES of India, Bangladesh, Myanmar and southwest of China that constitute a natural economic zone, is widely believed to have significant potential to generate considerable economic benefits through trade, investment, energy, transport and tourism.¹⁶ The recent performances and dynamism of India and China as Asian economic powerhouses can provide wide range of prospects for growth and development of Bangladesh if tapped carefully.

Table 3: Welfare Gains from BCIM Economic Corridor (US\$ million)¹⁷

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

The BCIM economic corridor can allow the countries to reach many Asian markets due to its advantageous geopolitical position. If established, this corridor would help the countries in utilising advantages of each other to boost economic growth and open up for the wider global and regional markets, viz. Southeast and East Asia. Bangladesh is seen to be the bridge in the economic corridor connecting India and China. Trade distance between China and South and Southeast Asian countries would be significantly reduced through land connectivity between China and Bangladesh and China's access to the Bay of Bengal through Chittagong due to China's proximity with Bangladesh. The economic corridor hinges on two critical pillars, viz. industrial zones and infrastructure construction and cooperation. Industries such as processing, manufacturing and commercial logistics would be expanded through developing industrial zones along the corridor, thereby accelerating growth of large and medium-sized cities along the corridor. Many Chinese enterprises and foreign enterprises in China are likely to move to Bangladesh once the corridor is established due to very high wage rate in China compared to that of Bangladesh.¹⁸ Only a small percentage of reduction of transport cost along with a free trade area would lead to significant welfare gains for Bangladesh.¹⁹ However, currently there is no bilateral Most Favoured Nation (MFN) transit among these countries. Formal initiatives are yet to be taken to establish road and sea connectivity to facilitate the corridor.

¹⁶ M. Rahman, H. Rahman and W. B. Shadat, *BCIM Economic Cooperation: Prospects and Challenges*, Paper 64, Dhaka: CPD, 2007.

¹⁷ P. De, "Cooperation in the Areas of Trade, Investment and Finance: Challenges, Prospects and the New Agenda", Paper presented at the 11th BCIM Forum Meeting, Dhaka, 23-24 February 2013.

¹⁸ B. Shihong, "Trade corridor helps rejuvenate Asia", available at <http://www.globaltimes.cn/content/786402.shtml>, accessed on 22 June 2013.

¹⁹ P. De, *op.cit.*

3.4 *Grid Connectivity and Power Trade*

Besides promoting domestic production, the Government of Bangladesh has initiated regional approach in power generation and grid connectivity to bridge the gap between ever increasing demand for and domestic supply of electricity. Cooperative measures have been initiated bilaterally with India and regionally through SAARC, South Asia Subregional Economic Cooperation (SASEC) and BIMSTEC sharing of hydropower through cross-border connectivity and capacity development. It is expected that hydro power potential of Nepal, Bhutan and NES of India could be utilised for the benefit of the entire region as sub-regional electricity grid could enable flow of surplus electricity within the countries and minimise the gap between national demand and supply.

An MoU has been signed between Bangladesh and India to promote exchange of power through grid connectivity between the two countries and encourage joint venture investment in power generation especially in NES. These would allow establishment of grid connectivity for power trading between the two countries. Study revealed that the most effective option would be to establish an interconnection between Bheramara in Bangladesh and Baharampur in India. The project aims to establish a 400 KV, 30 Km double circuit line from Bheramara to Baharampur and establish a 500 MW 400/230 KV back-to-back high voltage direct current (HVDC) substation at Bheramara. In proposed Bheramara HVDC centre, existing Ishwardi-Khulna (South) 230 KV double circuit transmission line was designed loop in-loop out 5 km. The transmission line was designed for an ultimate power flow of 1000 MW. This cross-border trading with India opens up possibility for power trading with Nepal and Bhutan as well. A negotiation for power trading with Myanmar is also going on to import 500 MW of hydropower from Myanmar by 2017.

Despite these positive events, implementation of grid connectivity is taking much longer time given the mounting demand in the country. Also, realising the hydropower potentials of Nepal and Bhutan for Bangladesh's consumption is remaining far from reality.

3.5 *Potential Economic Losses through Trade Diversion*

One of the biggest apprehensions regarding regional transit is that it would damage the NES of India as a captive market for Bangladesh. However, counter-arguments reveal that trade with captive market today may be growing but still remains modest as may be expected from one of India's most underdeveloped regions. Opening up the NES through better transit facilities would expand Bangladesh's opportunities for trade, not reduce it, because it would stimulate economic growth in this region. In near future improved connectivity with NES would enable eastern Bangladesh to emerge as a more competitive source of supply to NES than the rest

of India. Indian businessmen would, within a more open trading system, 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. Also, Bangladeshi transport companies can be established as the principal carriers of India's transit traffic to eliminate controversy over heavy Indian trucks.

It is also suggested that rather than the narrow NES, Bangladesh should look more into the entire Indian market which is almost open due to duty-free access despite the fact that recent countervailing duty imposed on Bangladesh's RMG items has raised heavy criticism among the business community and triggered anti-Indian sentiment in the country.

4. Way Forward

The above discussion reveals that Bangladesh has got a unique geographical location that can be utilised to derive multi-prong benefits through better connectivity. Therefore, a number of pragmatic measures have to be taken into consideration in order to establish multi-modal connectivity to become a regional hub of trade, investment and services.

4.1 Investment in Infrastructure

Bangladesh requires substantial investment in connectivity-related infrastructure to achieve double-digit growth, which would also serve the purpose of transit. Even without transit traffic Bangladesh will need massive investments in road, rail and waterway infrastructure to graduate to a middle income country by 2021. Thus, there is an argument that Bangladesh should invest significantly on quality infrastructure that would be a double dividend to provide transit to regional countries. However, Bangladesh should carefully assess whether it has necessary financing options for benefiting regional countries given its other competing sectors, such as education, health, agriculture and social safety and security. Also, since transit is required by the neighbouring countries, they should come forward with finance to develop necessary infrastructure. There are multilateral institutions like World Bank, Asian Development Bank, Japan International Cooperation Agency, etc. which would be highly interested to finance transit infrastructure.

There are apprehensions regarding utilisation of the sea ports and inland waterways as well for transit. The use of Chittagong port and the Ashuganj river port would require container handling and inter-modal transfer and trans-shipment and onward clearance on uneconomic railway and road transport, their use may be exceptional, not routine for transit. Indian freight traffic would benefit optimally from the use of low cost Bangladesh IWT system. IWT operation was popular even during

the Bengal River Services (BRS) operation on the comparable routes during the British days. Given the expertise in ship building, Bangladesh can help build suitable vessels for India. IWT operation can be further enhanced if the related river channels are regularly dredged. India should be seen to have great interest in maintaining the navigability of the Bangladesh rivers, which it can help accomplish by augmenting the flow of water on all the international rivers, *e.g.*, the Ganges, Teesta, Brahmaputra, etc.

Both Chittagong and Mongla would earn substantial revenues from the use of their facilities. The substantial untapped capacity of Mongla port can be made good use of through capital dredging and developing a connecting rail route. Chittagong sea port needs significant capacity expansion.

To the benefit of the two parties (a 'win-win' proposition) inter-modal optimality needs to be adequately looked into. Also, there should be fuller understanding of the origin/destination of the transit traffic, its commodity composition, economic cost of each individual transport of both the countries and economic cost of the relatively backward NES, the ultimate user of the facility, so that optimum economic benefits can be derived.

4.2 Determine Pragmatic Transit Fee

As believed by many, the regional transit agreement would be beneficial for increasing trade, promoting Bangladesh to utilise its advantageous geographical location to access the sea by regional countries and help the backward regions in accessing better connectivity and access to adjacent growth centres. However, the most sensitive issue is to set a pragmatic transit fee that would benefit both providers and users.

Even though the Core Committee has suggested a number of items in the transit fee by mode of transport in road and waterways, a number of further items and issues need to be further considered to determine a reasonable transit fee. It should consider resource cost for the provision of transit facility, based on engineering quantity and cost estimates, covering civil works and equipment and resource cost then adjusted upward to incorporate financing charges to include cost of borrowing, both foreign and local.

Pricing for the transit should be based on cost covering principle. Prices should also reflect the fully costed infrastructure and equipment items procured and set up and put to operation. Final set of prices may be subject to project completion, on actual costs incurred and adjustments made against cost overrun. Therefore, prices to be reviewed annually and inflation-adjusted, maintenance costs of both periodic and regular and costs of asset acquisition which have future rate of return.

Transit fee should consider India's 'savings' due to transit/trans-shipment. It should also cover 'savings' due to transportation cost saving, time saving of user countries. If the regional countries do not come forward with finance, the fee should also include cost of not to devote financial resources for essential physical infrastructure, transport and traffic equipments and their maintenance. It will also include savings to avoid the insurgency-prone northern long and roundabout route, thus avoid 'risk and uncertainty' in the transportation of its goods. Thus, Bangladesh's position as the 'third degree' price discriminator should be utilised as there is no other lucrative alternative than Bangladesh for the sub-regional countries.

4.3 Form Task Force on Connectivity with BCIM

Greater connectivity among BCIM is widely believed to be a new hope for Bangladesh for boosting growth and economic vibration in the midst of slow progress of regional cooperation that the country belongs to. The government is now considering it quite seriously. To realise the benefits rapidly out of the conceived economic corridor, the government should immediately form a high level task force including scholars, professionals and civil society actors in the relevant field to devise the connectivity options and undertake projects to materialise it with funding from domestic and international sources.

4.4 Start National Dialogue

In the last few years a number of irreversible achievements have been observed in the realm of Bangladesh-India relations. However, there is still considerable negative popular perception regarding transit in Bangladesh. Therefore, it is very important to commence national dialogue through all means — print and electronic media, seminar and symposium and scholarly deliberations so that a national consensus and ownership can be developed regarding this extremely sensitive issue. National institutions like Bangladesh Institute of International and Strategic Studies (BISS) can take part in organising dialogues and public learning. It would help reduce the gap between imagined dangers and real benefits of transit.

5. Conclusion

The paper tries to explore the issue of connectivity given the locational advantage of Bangladesh, identifies the existing bottlenecks that are hindering for deriving multiple economic benefits and suggests how to address these constraints. It reveals that the country has got unique location in the middle of two economic power houses in Asian century, which, if wisely utilised, can provide wide ranging benefits to vibrate economically. Providing transit to the neighbours is likely to open up the scope of export of transport services for which there is currently no market

outside the region. It can be used to reduce the trade gap with India, Nepal and Bhutan. But there are certain caveats like export diversion from the NES of India, huge investment is required which would compete with other critical social sectors to get public finance, uncertain timing and risk of omitting important items like time savings of user countries, avoiding risks and uncertainties and opportunity cost of investment to develop required infrastructure. These drawbacks can be addressed through looking at the entire Indian market rather than narrow NES, letting the lagging regions through connecting with the nearby growth centres that would enable them to perform well, introduce multi-modality of transit rather than adding congestion on the roads and devise a pragmatic user fee so that Bangladesh can use its geographical location as the third degree price discriminator.

Beyond the regional transit, BCIM economic corridor is considered to be one of the biggest opportunities that can be used for exporting transport service, boosting cross-border trade and commerce, expanding the market to Southeast and East Asian countries and becoming a regional hub between India and China. High level task force has to be formed by Bangladesh government to determine modalities, timing and investment requirement to respond to this opportunity of sub-regional cooperation. Finally, there is a need for national understanding, consensus and ownership regarding the benefits of greater physical connectivity to realise advantages of the strategic location which must be obtained through national dialogue, debate, information sharing and public learning.