

Asian Highway: Dream or a reality?

The Asian Highway (AH), a cooperative project among Asian countries providing a link to Europe, was conceived in 1959 by the United Nations Economic and Social Commission for Asia and the Pacific (UN-Escap) to promote regional cooperation. Dr. M Rahmatullah, former Director (transport) of UN-Escap, now the Transport Policy Adviser, TSMR program at the Planning Commission, indicates how Bangladesh has been wasting time for wrong reasons, by not signing the Asian Highway Agreement, which has kept Bangladesh from becoming a part of the super highway. He identifies the authorities' negligence, their inability to understand the importance of AH and lack of commitment to uphold the country's interests, as some of the reasons. The interview was taken by M. Abul Kalam Azad, a senior reporter of *The Daily Star*.

Which AH routes are crossing Bangladesh?

The AH1 passes through Benapole-Jessore-Kanchpur-Dhaka-Sylhet-Tamabil. AH2 passes through Banglabandha-Hatikamrul-Dhaka-Kanchpur-Sylhet-Tamabil and the international sea ports, Chittagong and Mongla are connected to AH1 and AH2 by AH41 so that the ports can also serve the regional needs if required. Depending on Myanmar's interest and agreement, AH41 could also be extended through Myanmar to Thailand.

Initially, Bangladesh offered two entry/exit points on the North-East corner of Bangladesh as part of its proposal. In 1993, UN-ESCAP asked all AH member countries to indicate as to which roads of their national network could form part of the Asian Highway network (AHN). Apart from the routes mentioned earlier, Bangladesh also proposed, in addition to Tamabil, Austagram (Sylhet)-Karimganj (Assam) route which could have provided a much shorter link to Tamu via Imphal. Tamu is the border point with India, which Myanmar offered for AH connection with India, and then through India to Bangladesh. Myanmar proposed road connections also to China and Thailand, but none to link Bangladesh directly.

Is Tamabil the best option for Bangladesh?

Bangladesh chose the Tamabil route about 600 kilometers to Imphal from Sylhet. It was a suicidal decision. This route passes through a mountainous region across four Indian states through which vehicles can move only slowly, as the gradients are steep. Trucks with heavy loads will have difficulties in moving, fuel consumptions will be huge, making travel costly. There was no reason for choosing this route since

the alternative route through Austagram would have been shorter by around 200 kilometers. But the then communications minister, as official record shows, chose the route without realising its adverse consequences.

What was the reason for choosing Tamabil?

I was the Director (Transport) of UN-Escap at that time and I found no logic behind this selection. As far as my knowledge goes, the route was selected without considering its viability or the interests of Bangladesh. It was a big blunder, for which the country will suffer for years to come. Tamabil is not suitable for India, Myanmar, Bangladesh or for any movement between South Asia and South-East Asia. When countries submitted their route proposals in response to UN-Escap, India offered the Astagram-Karimganj route. An independent study of UN-Escap also found the Austagram route as the most suitable, as it was the shortest route and passes through level terrain. But the then Bangladesh authorities were unable to understand it and appreciate the reality. I heard some communications ministry top policymaker saying: "Since India has offered this route, it must have some deep interest in it, so we can't go for it."

Why has Bangladesh failed to connect itself with AHN so far?

The subsequent initiatives after the wrong selection of the route put Bangladesh into further difficulties. During 1997 and 1998, UN-Escap, together with the Centre for Policy Dialogue (CPD) and full support of the then government, took the initiative to create awareness about AH. The civil society of Bangladesh asked for a change of the route from Tamabil to Austagram. UN-Escap took it up with the government of India, but without any success.

The BNP-led four party government started talking about a Chittagong-Teknaf route. It was argued that if Tamabil was the route of the AHN, it would ultimately provide India a transit facility. It was a gross misconception and lack of understanding, since the AHN agreement and transit are two different matters.

The government continued talking about the Teknaf route although proper initiative was not taken at all in this regard. According to Articles 10 (2), 11 and 14 of the AH agreement, only those countries which had signed the agreement were eligible to propose a change in the route plan. Against this backdrop, Bangladesh cannot propose an amendment to the route unless it becomes a signatory to the agreement. But the then Bangladesh authorities continued talking about amending the route without taking the initiative to convince Myanmar to agree to a possible direct AH route from Bangladesh to Thailand through Myanmar, and taking the initiative first to be a member of the AH agreement so that it could propose an amendment.

What steps does Bangladesh need to take to sign the Agreement?

Since Bangladesh did not sign the Agreement by December 31, 2005, it has to ratify the Agreement first and then sign. Those countries, which signed the Agreement by the deadline are now ratifying it. It's highly encouraging that Prime Minister Sheikh Hasina has asked the communications ministry to take necessary steps to sign the Agreement. As part of the ratification process, the cabinet should approve the decision to join the AH as early as possible, following which, it should also be approved by the parliament. Following parliamentary debate, the government can go for signing the Agreement; Bangladesh can't waste more time since

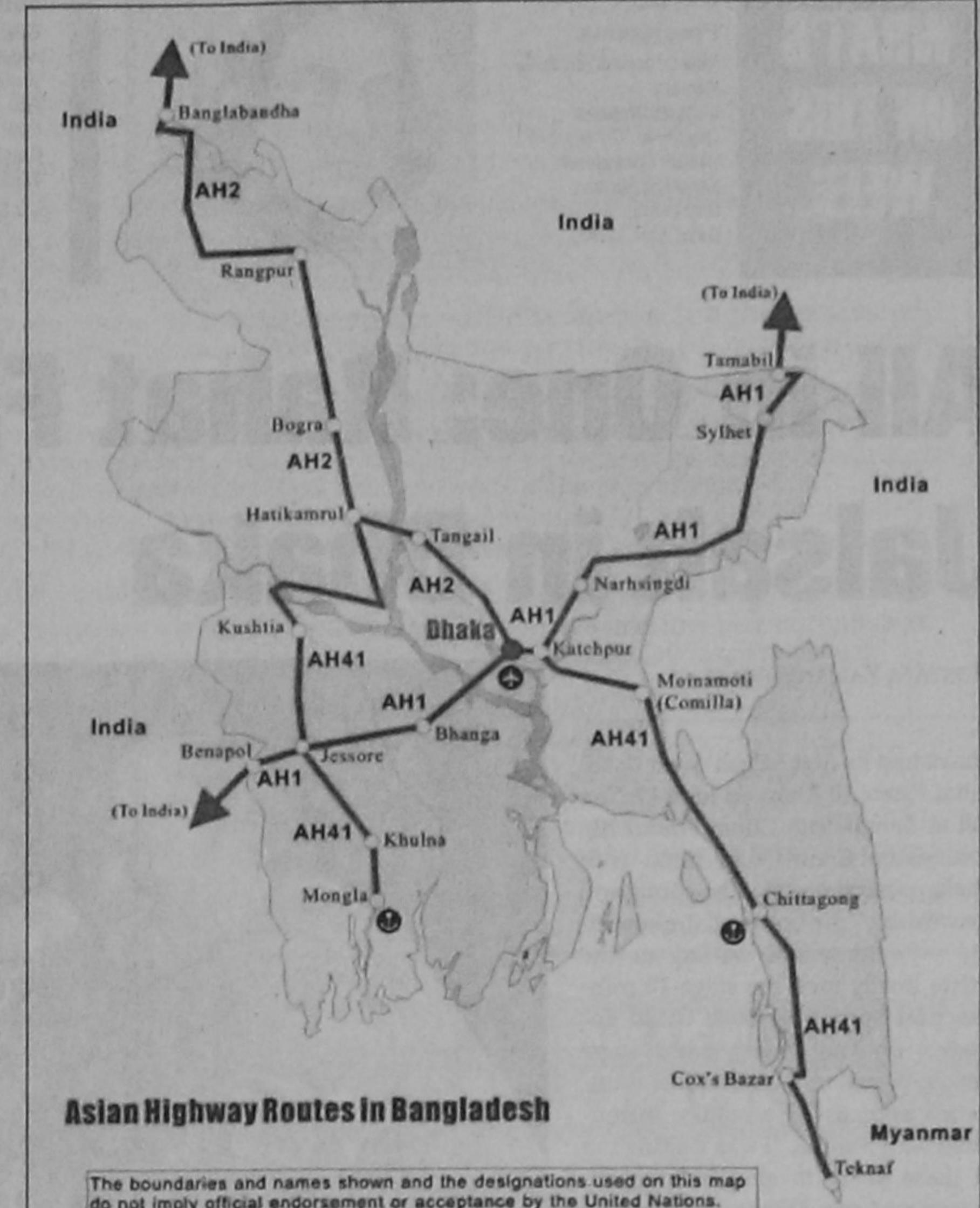
the delay in becoming a part of AHN has already damaged our reputation. What can Bangladesh do to amend the routes?

After signing the Agreement, Bangladesh should mobilise the opinion of other member countries that the current AH1 route between Sylhet and Imphal is not suitable for any of the member countries. It must convince other Asian countries that the Sylhet-Astagram-Karimganj-Imphal route will reduce the distance by about 400 kilometers, thereby reducing time and travel costs. After obtaining the support of India and other member countries, and fulfilling all the requirements as per the Agreement, Bangladesh should apply for amendment of the Tamabil route.

Concerning a possible AH route through Chittagong-Gundum-Myanmar to Thailand, Bangladesh needs to pursue the matter first with Myanmar as the most concerned country. If Myanmar agrees, it should pursue the matter next with India, being the most effected country. Once these two countries are agreeable to a direct AH link through Myanmar, with Thailand and South-west China (Yunnan Province), Bangladesh can bring in a proposal for amendment jointly with Myanmar, India and other linked countries provided it has fulfilled all other requirements as necessary under the agreement.

What about Chittagong-Teknaf route? Is it possible?

The best possible route for Bangladesh to South-East Asia is Chittagong-Gundum-Myanmar route as it will be a direct and shorter route. But it may need quite a bit of effort to achieve. Myanmar finalised its route through Tamu region because it has a reasonably good quality road of AH standard in that part of the country. On the other hand, Myanmar does not have such a quality road in its Arakan region through which the Gundum road will pass. This route can be possible only if Bangladesh can convince Myanmar to build an AH standard road along Gundum-Myanmar, with financial and technical support from China and Thailand. The foreign minister of Thailand, during his recent visit to Bangladesh, has hinted in that direction. The Kunming Provincial Administration had earlier expressed interest in the deep seaport project of Bangladesh. All these possibilities need to be seriously pursued



through diplomatic channels. In this case, Bangladesh shall have to get the support of India as well as it will be an effected party here. So, it will be quite a tough task for Bangladesh to get the Gundum-Myanmar route established, but the possibility should not be ruled out at all.

If Bangladesh agrees to the Tamabil or Austagram route, does it mean giving India transit benefit?

The AH network agreement and transit are two completely different issues. Article 15 (clause 3) of the AHN agreement says: "Nothing in this agreement should be construed as acceptance of an obligation by any party to permit the movement of goods and passenger traffic across its territory." For movement of goods and passengers in the form of "transit," there must be a separate agreement. Those who use "transit" as an excuse are ignorant about the

AHN and agreement concerning transit movement.

Why is connection to AHN so important?

The AHN, an international network of 1,41,000 km of standard highways crisscrossing Asian countries with links to Europe, was conceived in 1959 with the aim of promoting regional cooperation among the mainland countries of Asia. Once Bangladesh becomes a part of this globalised network, it will get connected with the countries located both to the east and the west. It will also open up huge opportunities from the economic point of view as the AH will be providing shorter routes for movement of goods and passengers, leading to huge savings in transport costs. Once Bangladesh is included in the network, donors and private sectors from across the globe would find Bangladesh an attractive place to invest in.

Ambitious, conservative or realistic?

This piece attempts to analyse the macro-economic setting against which the budget has been framed and argues that the macroeconomic targets are indeed realistic under the current global economic environment but implementation of the budget will be extremely challenging.

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INCE the budget speech of Finance Minister Muhit, there is a debate going on through the media (electronic and print) about the real character of the budget and its macro-economic context. In their initial reactions to the budget speech, many notable personalities with economic policy background characterised the budget as ambitious and highlighted the difficulties that the government will face in implementing its expenditure program and the revenue target.

In contrast to this initial reaction, the day after the budget presentation the Center for Policy Dialogue (CPD) rejected this view and characterised the proposed budget as conservative. This piece attempts to analyse the macro-economic setting against which the budget has been framed and argues that the macroeconomic targets are indeed realistic under the current global economic environment but implementation of the budget will be extremely challenging.

Is the real GDP growth target of 5.5% in 2009-10 too low? If we look at it from Bangladesh's recent growth performance it certainly appears to be unambitious. Bangladesh achieved real growth rates of 6% or more in recent years and the estimated growth rate in the current fiscal year is also 5.9% despite the unfavourable external environment.

However, the past is not necessarily a good predictor of the future, particularly when the external environment has changed so dramatically. Most dynamic economies in the world like China and India were growing at 13% and 9% levels in recent years, but the adverse economic environment has dramatically reduced their growth rates by 3-6 percentage points in 2008-09 and only a modest improvement from those low levels is projected for 2009-10. Global economic growth is projected to contract by 2.7% (1.3 to 2.7) in 2009, under different projections by the IMF, World Bank and the OECD. Global trade is also projected to decline by 9-13% in 2009. Against this background, real GDP growth of 5.5% in 2009-10 to many analysts may even appear optimistic.

Bangladesh economy is certainly passing through a soft patch at the moment and the slackness is likely to continue through most of 2009. Opening of letters of credit for imports have declined by more than 20% on average during the last 6 months (December-May), a phenomenon never seen before, although to a large extent due to lower global commodity prices. This lower level of LC opening will translate into correspondingly lower import payments in the coming months, generally with a 3 to 4 month lag. Export growth has also declined markedly, and except for textiles, all other major exports have been falling

at double-digit rates (ranging between 14 to 36%). Textile export, which was growing at 24% in the first half, has markedly slowed down to 2.6% in April 2009. Domestic investment has declined, as reflected through the amount of term loans disbursed through July-March 2009 which declined by 9.6% over the corresponding period in 2008. Against this background, it would not be realistic to expect the economy to grow by more than 5% in the first half of the fiscal year (Table 1).

The growth target envisaged in the budget implicitly allows for a rebound in the second half of the fiscal year. The underlying rate of growth in the second half is 6%, which is by no means conservative for Bangladesh. For this to happen, manufacturing sector needs to expand by more than 7% in the second half of the year. Export growth in the next fiscal, which usually is the main engine of growth for the manufacturing sector, may not even reach 10% even with a strong rebound in 2010, given the current weakness in export performance and the outlook for the rest of 2009 (Table 2).

On the inflation side, although current inflation rate is about 5%, the target of 6.5% in the budget appears realistic in view of the underlying price pressures in the economy. After several months of steady decline, the rate of inflation appears to have bottomed out in March at 5.04%, and may have

started to move up with the reversal in the trend recorded in April (Figure 2). Although we should not make any strong statement based on one-month data, this turnaround in inflationary behavior is not entirely surprising. First, non-food inflation has been steadily increasing in Bangladesh for the last 4 months. Second, despite the falling rice prices in the domestic market, commodity prices in general have started to increase globally since January.

Finally, the budget's fiscal stance will increase government borrowing from the banking system creating pressures on liquidity expansion during the execution of the budget. Against this background there is not much scope for having a lower inflation target and adopting an extremely easy monetary policy (like in those economies where inflation is virtually zero or negative).

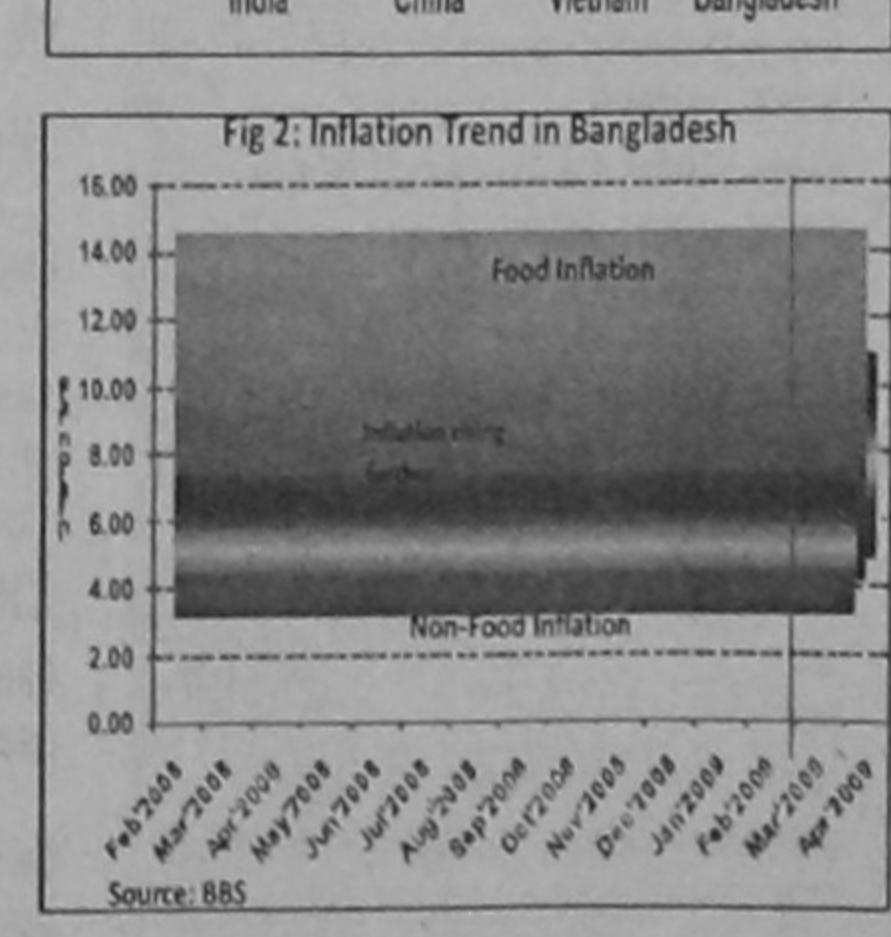
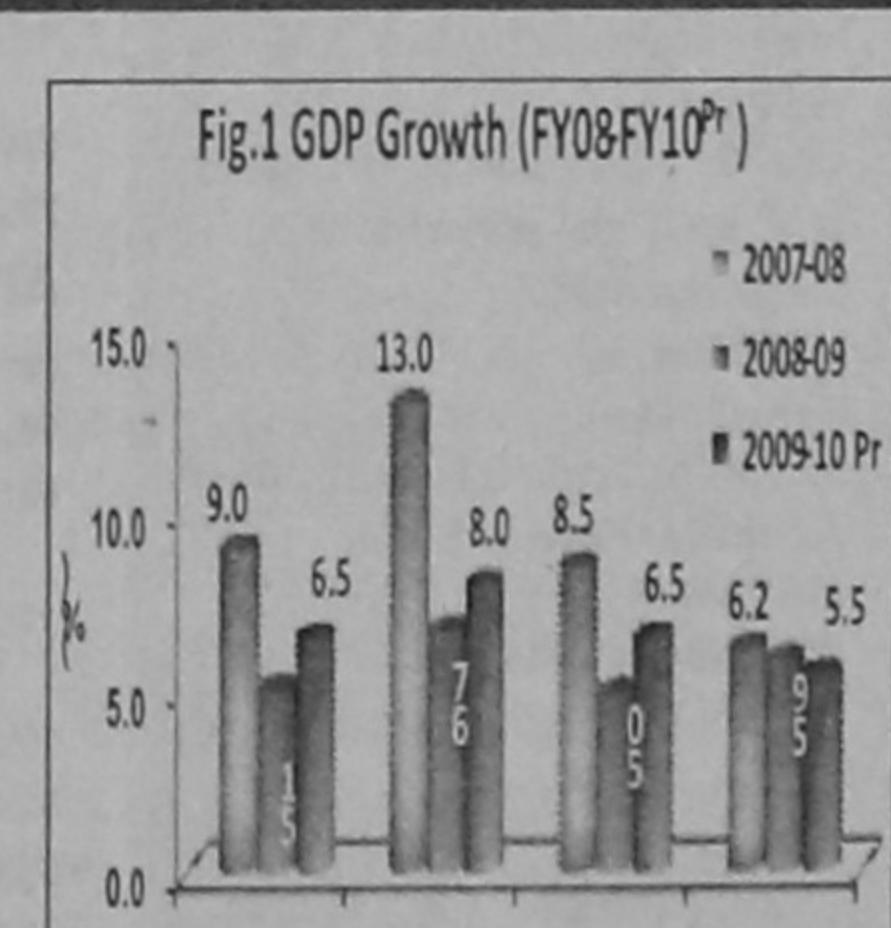
Is there scope for boosting growth further through the budget? Certainly fiscal policy is an instrument in the hand of the government to stimulate the economy. If one says that the budget's fiscal stance is conservative, it may give the impression that there was scope for using the budget to boost further domestic demand and thereby the growth objective. The only way that could be done is by increasing the overall fiscal deficit further. However, the real question is could a further expansionary fiscal stance be funded in a non-inflationary manner?

Table 1 Growth Rate in 2009-10(%)				
Sector	Share (%)	First half	Second half	FY 2009-10
Agriculture	21.0	3.6	3.6	3.6
Industry	30.0	5.0	7.0	6.0
Services	49.0	5.6	6.5	6.1
Total	100.0	5.0	6.0	5.5

	H1	H1	Total
FY09	7748	7771	15519
Growth (%)	19.0	2.0	11.0
FY10	7962	8925	16887
Growth (%)	2.8	14.8	9.0

Already the government will need to borrow a record amount from the banking system under the announced budget even after assuming a record amount of external financing to cover the deficit. It would not be rational to think that the government would be able to secure more than the \$2.6 billion in loans and grants (assumed in the budget) from external sources in 2009-10. Then, a larger fiscal deficit would lead to a correspondingly larger borrowing from the banking system, further crowding out the domestic private sector. Such crowding out would have a much more severe impact by early 2010 when domestic private sector will start expanding at a faster pace following the global trend. The business community is rightly concerned about this adverse impact of the budget.

Certainly life would have been much easier if governments could achieve higher growth rates simply by setting higher GDP growth targets. Ultimately GDP growth would depend on a combination of economic and non-economic factors of domestic and foreign origin, and fiscal policy can only play a limited role in the overall context. For Bangladesh, more important short-term factors would include improvements in the external environment and alleviation of the power shortage and other infrastructure bottlenecks. If the global economic environment improves fast and in a robust man-



ner, the government succeeds in implementing the ADP effectively, and the execution of budget does not crowd out private sector borrowing. Bangladesh may in the event end up achieving GDP growth of 6 percent or more. But there is no basis for putting such a target a priori in the budget.

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