

The transit test for government

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It is unfortunate that the economic affairs adviser to the prime minister has been persistently pleading for allowing free transit facility to India for transporting goods from its western and southern parts to its Eastern and North-Eastern states. The adviser has cited WTO rules to justify his plea.

The WTO provisions cited in this regard are, however, irrelevant to the issue in question, because the relevant articles relate to transit only, by which is meant transporting goods from one country to another country via a third country. The issue at hand is different, because what India wants is to transport goods from one part of India to another by using Bangladeshi territory. The desired traffic movement does not therefore fit into the WTO's definition of transit, as no third country is involved, but takes the form of a corridor facility given to India for transportation of goods to its different parts. Bangladesh is thus under no obligation to allow India to transport goods from its Western states to Eastern and North-Eastern states (these being the two parts of the same country) through its territory.

Bangladesh nevertheless considered the disadvantages suffered by India because of the geographical separation of its two parts by Bangladesh territory and agreed to discuss the issue as a gesture of good neighbourliness and in the spirit of Saarc. The matter should, however, be negotiated bilaterally so that the arrangement brings benefit to both countries. The issue of giving transit facility (which actually is a corridor facility) to India came to the fore several years ago when it was given to understand that Bangladesh would earn huge revenue if a transit agreement could be reached.

Now, what gains will accrue to Bangladesh if free transit facility is

offered to India? WTO rules do not permit levying customs duties on transited goods but never prohibit charging fees to recover various types of costs the transit-providing country has to incur. The probable charges that could be realised from Indian businesses, traders and consignors in the name of administrative costs, port-use costs, environmental costs, costs of additional surveillance staff needed to ensure safety and stop pilferage of Indian cargo, provisions of highway patrol to ensure that Indian cargo is protected against robbery and on-transit mishaps, cost of port development, extra manpower to deliver services, etc. will cover only their actual costs and bring no net gain to Bangladesh. These are all additional costs, which are not normally incurred by government when Bangladeshi goods move across the country. What benefit will then be reaped by Bangladesh in exchange for the transit facility given to India, when Bangladesh will not even get peanuts from the deal?

Again, what about meeting the huge costs of new road infrastructure, developing and upgrading the old ones, and the repair and maintenance of road infrastructure to allow smooth movements of large convoys of heavy Indian traffic of several hundred 15-20-tonne trucks/lorries every day on the roads? These costs will need to be recovered by charging appropriate fees for allowing movements of Indian goods through Bangladesh. For convenience sake, all these different fees may be summed up to constitute a lump sum of royalty payment and determined through negotiation between the two governments.

The starting point for such negotiation could be the costs currently borne by Indian traders for transporting goods through Shiliguri corridor and the savings in costs they might achieve by transporting the goods through Bangladesh. A study



conducted for the Ministry of Commerce in 2000, in which the present scribe along with a colleague of his at the University of Dhaka was involved, presents evidence of the likely gains for India from the transit deal. For example, the distance between Kolkata and different destinations in Eastern and North-Eastern Indian states across the 32 kilometre strip of long-winding railways and hazardous mountain roads along the Shiliguri corridor (Chicken Neck) varies between 1,400 kilometres and 1,800 kilometres, whereas the distances between Bangladesh's western border -- say Benapole -- to its eastern borders -- say Akhaura and Tamabil -- are just 437km and 686km, respectively. In terms of time and money, the cost of transporting goods from western and southern states of India to Eastern and North-Eastern parts through the Shiliguri corridor is thus enormously high, compared to the alternative of transporting goods via the Bangladesh territory. The likely savings to Indian traders are also immensely high. This is the reason why India has been so keen over the years on getting the transit facility.

Another potentially big saving will accrue to the Central Government of India. While conducting the afore-

mentioned study for the MOC, it was revealed to the study team that the Central Government of India spent about IRS 70 billion every year in connection with the transportation of goods from the western and southern parts of India to its eastern and north-eastern states through the Shiliguri corridor. This cost is made up of several components, but government subsidy constituted a significant part of the cost. This subsidy is given by the Central Government of India to facilitate transportation of goods between Shiliguri and different industrial locations within the Eastern and the North-Eastern states. Among other components of the cost to the Government of India are expenditures incurred for the maintenance of road infrastructure and for ensuring security and safety of cargo that moved along the roads.

It is worth mentioning here that the Central Government of India provides transport subsidy to promote industrial development in the Eastern and North-Eastern states, which are categorised as industrially backward. The industrial units located within these states are the recipients of this subsidy. The subsidy, introduced in 1971, is equivalent to 50 percent of the transport costs of industrial raw materials

between Shiliguri and the locations of the industrial units, and also 50 percent of the transport costs of finished goods from the locations of the industrial units to Shiliguri.

If a transit treaty is now signed between Bangladesh and India, the Government of India will not need to incur these huge expenses, and the resultant savings would be available for spending on more productive purposes elsewhere. This means that the benefits derived by India from the transit facility will be not merely the large savings in costs to Indian businesses, traders and consignors for transporting goods through Shiliguri, but also the savings in the central government's expenditure on transport subsidy given to industrial units in East and North-East India. An obvious outcome of granting transit facility to India without charging any fee will be that Bangladesh will henceforth finance industrial development in India's Eastern and North-Eastern states to the tune of IRS 70 billion (in 2000 prices) every year.

There is another significant cost to Bangladesh, which is being overlooked. The transit agreement is very likely to lead to a diversion of much of the imports of Eastern and North-Eastern states from Bangladesh since goods produced in the western and southern Indian states will now be easily available, and at lower costs, in East and North-East India.

In any case, a win-win situation for both the countries would prevail if Bangladesh charges royalty for allowing movements of Indian goods through its territory, and India in turn would part with a portion of its savings to Bangladesh. The actual amount of royalty payments per annum can be determined through negotiation between the two governments. To put it simply, even if India agrees to pay just about a half of its savings of IRS 70 billion, i.e., IRS 35 billion, as royalty to Bangladesh in

exchange for the transit facility, the net gain to India will still be considerable. At the same time, Bangladesh will also earn a sizeable amount of income and make a gain after meeting all direct and indirect costs of the transit facility. Bangladesh's bargaining ability and negotiating skills will be an important factor while determining the actual amount of royalty payment.

It should be emphasised here that the lump sum annual royalty is to be paid in exchange for the transit facility granted to India. It should not be mixed up with the cost of movement of goods. The royalty will be paid whether or not any physical movement of goods takes place through Bangladesh routes during the currency of the treaty.

Unfortunately, the economic affairs adviser's public statement in favour of granting a free transit facility, saying that charging any fee on transit will be an uncivilised act, has weakened the negotiating stance of the government. One would wonder why the adviser did not draw on the experience of transit facilities provided by different countries (Suez and Panama canals, for example), which bring billions of dollars of revenue to their respective governments. The adviser's statement has also caused an embarrassment to the core committee appointed by the government to look into the pros and cons of the transit issue and make suitable recommendations. The people of the country are not against allowing transit or corridor facility to India but the government should be prudent enough to derive maximum possible benefits from the deal and promote and defend the country's economic interest at present and in the long run.

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COPING WITH JAPAN'S NUCLEAR DISASTER

Living with radiation

A spreading cloud of economic and human costs

THE ECONOMIST

A pen-like dosimeter hangs around the neck of Katsunobu Sakurai, the tireless mayor of Minamisoma, measuring the accumulated radiation to which he has been exposed during the past two weeks of a four-week nuclear nightmare. The reading of 43 microsieverts is about the dosage he would get from a single chest x-ray. No cause for alarm, then. Yet he believes the radioactive particles from the Fukushima Dai-ichi nuclear-power plant, 25km from his office, have led this once-prosperous city of 70,000 into a fight for its life.

About 50,000 inhabitants who lived closest to the plant have been evacuated or have fled since radiation levels started to rise after the March 11th tsunami -- which also left at least 1,400 of the town's residents dead or missing. Even though external radiation has since returned to near-harmless levels, Mr Sakurai fears many of Minamisoma's evacuees may never come back.

Three worries predominate. One, the information passed out by the government and Tokyo Electric Power (TEPCO), which owns the Dai-ichi plant, may be unreliable. Two, the plant is still unstable, at risk of suddenly emitting vastly greater amounts of radioactive particles. Three, the longer it takes to stabilise, the more lasting damage wind- and waterborne radiation may do to the livelihoods of the farmers and fishermen who are the economic lifeblood of the community. If they go, so does the town.

These worries resurfaced on April 7th when TEPCO started to inject nitrogen into one of the plant's six stricken reactors. That was to prevent a repeat of the hydrogen explosions that blew radiation out of the plant soon after cooling systems failed in the wake of the tsunami.

Even before that news, Mr Sakurai was saying that he was fearful of another explosion. It was why he continued to discourage hope that the town could get back to normal. "The lack of information is making people deeply stressed and frustrated," he said.

The prompt dissemination of accurate information is not happening, though. By April 6th TEPCO had managed to staunch the leakage of highly contaminated water from one of the damaged reactors that had produced levels of radioactive iodine 7.5m times the legal limit in one sample of seawater. But that was not before fish-



Sushi chef Mitsuru Tamura uses a radiation detector on seafood before it is prepared in Manhattan's Sushi Yasuda restaurant in New York City on Friday. The restaurant has begun using the detector as a precautionary measure due to consumer concerns over possible radiation contamination in seafood from the nuclear emergency in Japan.



ermen about 70km south of the plant had caught tiny sand-eels, known as konago, with larger than normal traces of radioactive iodine and caesium. The unwelcome discovery prompted Naoto Kan, the prime minister, to issue a new safety standard for levels of radioactivity in marine products. Knowing the public's fears of unsafe food (and no doubt encouraged by the promise of compensation), the local konago fishermen had already pulled in their nets for the season.

The fear of contamination is spreading internationally, too, and the government is learning that it is not enough just to present scientific evidence about radiation levels. On April 6th India suspended all Japanese food imports. Neighbouring South Korea expressed concern that it was not warned about TEPCO's decision to dump low-level radioactive waste into the sea to

make room to store more toxic stuff on land. South Korea does not share a sea with Fukushima. But South Korea, like Japan, has a vibrant seafood culture. Rational or not, perceptions matter.

With more emotion than sense, electronic components, machine parts and even towels made far from Fukushima have required radiation checks or been turned back by Italy and China, among others. The Japanese authorities have not helped by falling back on technocracy rather than a more sympathetic response. Shippers have urged the government to issue certificates that would assure foreign ports that goods are radiation-free. Instead, Japan expends its energies mainly attempting to convince shippers about the safely low levels of radiation in the country at large. "The question is how to reduce anxiety, not present science," says Katsunori Nemoto

of Keidanren, Japan's business lobby.

At a time when the Japanese economy needs help, to date around 50 countries have imposed restrictions on Japanese imports. America, which buys one-sixth of Japanese farm exports, has put products from Fukushima and three other prefectures on a watch list. The European Union has named a dozen prefectures that need radiation tests, yet traders in these places report a lack of testing equipment. In one case, says an executive at a Japanese trading house, tuna that arrived in America was set aside by customs, rotting before it was inspected. A sake brewer on a sales trip to Las Vegas noticed that Japanese food was off the menu at hotels.

So far the direct economic impact of radiation fears on exports is slight. Fishing and farming account for a very small part of Japan's total exports, even if a disproportionate share in Japan's stricken north-east. Even so, the reputation for high quality enjoyed by Japanese-sourced food will probably suffer.

At home, the impact on domestic demand may be much bigger. Economists say fears of radiation dampen consumer confidence and extend as far south as Tokyo, which is 250km from the Fukushima plant. Some pundits want the government to launch a publicity blitz to urge ordinary Japanese to spend more. It may do little good, especially coming from a government that does not inspire confidence. Many ordinary Japanese unaffected by the tsunami and nuclear mess either feel sympathy for the victims or are ashamed to be seen enjoying themselves. The Japanese tendency towards self-restraint, or jishuku, is back in force. People are cutting back on everything from shopping trips to hanami parties to view the spring cherry blossom.

As for Minamisoma, its residents are fed up with paying the price for a nuclear accident at a plant that brought them little benefit -- after all, it sent nearly all its electricity to Tokyo. Takashi Shibaguchi, a 41-year-old acupuncturist who lived on the outskirts of the town, says he will never return home, even though he has no money and is sleeping on the floor of an evacuation shelter with his wife and four-year-old daughter. He is rational about the radiation risks to himself, but fears his daughter growing up in such a potentially poisonous environment. "I'm done with it," he says.

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