

RESTORING COMMONSENSE INTO INDO-BANGLADESH RELATIONS

Transit and trade

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NOW that India and Bangladesh are seeking to establish a more constructive pattern of relationships they are, in a spirit of friendship, seeking to resolve some of the outstanding problems which I have identified earlier. Most of these issues are readily solvable with the application of some goodwill and much commonsense and are being discussed extensively in our media. I will, therefore briefly focus on only two of these themes, trade and transit, where I have more exposure to the issues involved.

From transit to exporting transport services
Transit appears to be the most vexed issue today. Much newsprint and talk time on TV has already been invested on this issue so I will only focus on two aspects of the issues which are particularly contentious: security and economics.

The arguments over security remain the most mystifying since they articulate an apprehension that transit could be used by India to convey arms across our territory which could be used to crush the insurgency underway in Assam. It is self-evident that we should not involve ourselves in the conflicts of our neighbours but this should be established as a universal principle. Ironically, perhaps the one occasion where transit has surfaced as a security problem appears to have been back in 2004, when people in authority within Bangladesh were willing to permit landing facilities in a public enterprise in Chittagong, to be used to provide transit for the delivery of arms from abroad to insurgents in a neighbouring country. No one back then appears to have lost much sleep over the political and security implications implicit in such a misuse of our transit space.

How far India would be at all interested in using our transit facilities for military purposes needs to be explored by those who are more knowledgeable on this subject than myself. Presumably, India, which has been coping with insurgencies in the North East for 60 years, has established a reasonably efficient and secure logistical chain across the land corridor north of Bangladesh to service its forces in the North East. It needs to be clarified why, after all these years, India's military planners would be at all inclined to expose this supply chain to the uncertainties and hazards of movement across a foreign country. Nor indeed has anyone in

Bangladesh, to my knowledge, ever contemplated any such possibility of permitting India or any other country to move troops or military hardware across Bangladesh as part of any agreement on transit. There are any number of international protocols, backed by increasingly sophisticated screening apparatus set up at international borders, to ensure against movement of arms and other contraband items by a foreign country across international boundaries.

Whilst security concerns relating to transit appear to originate in a misperception of military logistics, issues of economic loss and gain from transit appear to be more relevant. Economic logic guided India and Pakistan after 1947 when they became two separate countries. Between 1947 and the Indo-Pakistan war of 1965, the rivers of the then East Pakistan were a principal means of trade communication between West Bengal and North East India. Some of the biggest corporate enterprises in East Pakistan at that time such as the Joint River Steamer Company, Bengal River Services and Pak Bay, profitted greatly from carrying goods to and from Kolkata and Gowhati in Assam. The government of East Pakistan invested heavily in ensuring that these transit routes remained serviceable and sought foreign aid to improve the efficiency of our transit facilities. River transit was discontinued at the outbreak of the 1965 war between India and Bangladesh.

This river transit across Bangladesh was resumed in 1972 but the river routes had, in the intervening years, been silted up, night navigation equipment was in a poor state, so that India's transit traffic, diverted from the river route to longer rail and road connections within India, did not find it economic to return to the river routes. Today our rivers are in such poor shape that night navigation, even by Bangladesh's vessels, remains a risky proposition. The chance of the river route emerging as a major artery of transit traffic thus remains improbable until we make major investments to resuscitate our river routes. Such investments in Bangladesh's most cost-effective means of transport should be made irrespective of whether we wish to attract transit traffic to enhance the carrying capacity of our rivers.

The issue of large investments is no less relevant for our road and rail system. As we are witnessing today, during the period of heavy traffic during Eid, our transport infrastructure appears quite inadequate to meet even our domestic needs. Even without transit traffic Bangladesh will need massive investments in our road, rail and riverine infrastructure if we are to even approximate our aspirations to graduate to a middle income country by 2021. In such circumstances all future investments designed to meet the infrastructure needs of transit traffic need not be exclusively attributed to transit. Any intelligent forecasting of Bangladesh's transport needs would indicate that an economy growing at 7-8%

would generate much more internal traffic than transit traffic with the much less developed economy of the North East. Indeed, the transport needs of Indo-Bangladesh traffic would make even bigger claims on our infrastructure than will transit traffic.

The occasionally argued proposition that denial of transit would preserve the North East as a captive market for Bangladesh is another questionable proposition. Trade with our "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 North East through better transit facilities would expand

I would like Dr. Manmohan Singh, who is not only a reasonable and decent human being but is also a distinguished professional economist, to make the following announcement during his visit to Bangladesh: "On the occasion of this historic visit I wish to declare before the people and particularly the business community of Bangladesh that, as of today, Bangladesh should treat India's market as its own domestic market. I guarantee your exporters unrestricted access to this market and invite you to build partnerships with India's business sector to make full use of this market. We will constitute a committee of Indian and Bangladeshi experts to work out, within the next 6 months, the modalities of fully implementing such an arrangement."

our opportunities for trade not reduce it, because it would stimulate economic growth in this region. Indeed, in the near future improved connectivity with the North East would ensure that Eastern Bangladesh could emerge as a more competitive source of supply to the North East than the rest of India. Indian businessmen would, thus, within a more open trading system, find it more economic to set up joint ventures across the border in Bangladesh, to supply the North East or to process the abundant raw materials of the region. The operative issue is to use improved transport connectivity to establish stronger economic links between the North East and Bangladesh. The fact that four chief ministers from North

East India are accompanying Dr. Manmohan Singh to Dhaka for the summit indicates that such a prospect has not escaped the attention of the government of India, which is adopting a more inclusive approach to these negotiations. It is notable that 2 of the 4 ministers from the North East in Dr. Singh's delegation are from opposition parties! At CPD we have, for many years in the course of various Indo-Bangladesh and regional dialogues, argued that Bangladesh should situate the issue of Indo-Bangladesh transit in a broader regional context associated with our commitment to the establishment of an Asian Highway and Railway. Bangladesh should, accordingly, project its future as the Singapore of the land routes, connecting Yunnan Province and South East Asia with South Asia. Transit traffic between West Bengal and North East India or across Bangladesh, to our ports in Chittagong and Mongla, should be viewed as a part of such a programme of improved regional connectivity. This transit facility should also involve Nepal and Bhutan who should be encouraged to treat Chittagong and Mongla as their own ports.

In developing Bangladesh's strategic location as a major economic resource Bangladesh should not just limit itself to renting out our land mass to earn revenues from transit. We should certainly negotiate the best terms we can for the use of our transit facilities. However, in my assessment Bangladesh would sell itself short if we did not seek to add value to our offer of these facilities to India. Our principal economic gains should be derived from exporting transport services to those countries that would use our transit facilities. Both Chittagong and Mongla port authorities would, thus, be able to earn substantial revenues from the use of their facilities. Eventually, the economic benefits from our prospective investment in a deep sea port would be enhanced by serving a regional rather than just a national market.

Bangladesh Railways as well as the private road transport industry in Bangladesh should aspire to extract the maximum benefits from transit traffic by preparing to carry the transiting cargo and passengers across Bangladesh to and from North East India. Bangladesh Railways as well as our container trucks, should aim to pick up cargo from Kolkata and points beyond, for delivery across Bangladesh to Agartala and other locations in North East India. Similarly, Bangladesh's IWT industry should establish itself as the principal cargo carrier across our waterways to and from the North East. Indeed, if we resume export of IWT services to India it would also provide a stimulus to Bangladesh's fast growing shipbuilding industry which would build the carriers to service this enhanced river traffic. Exporting such transport services to India would contribute to the development of industry in Bangladesh which could draw in partners from abroad and would generate employment and investment in the transport sector as well as in support services for the transport industry in Bangladesh.

Establishing Bangladeshi transport companies as the principal carriers of India's transit traffic would have the advantage of eliminating controversy over heavy Indian trucks transiting Bangladesh with its implications for their high load factor damaging our roads, as well as the less relevant issue of national security. I am not sure if we

have seriously raised this issue of Bangladesh exporting transport services to India, in our official negotiations with India. When such an issue was raised in civil society-based Indo-Bangladesh dialogues, the idea received a positive response from our Indian colleagues. If we can package this proposal intelligently this can be presented to India for consideration in the next round of negotiations, as a win-win proposition. By the time Bangladesh has enhanced the carrying capacity of our local transport infrastructure, a number of well equipped transport companies should be fully prepared to provide competitive transport services to Indian customers serving the

North East or engaged in Indo-Bangladesh trade.

Similar joint venture trucking companies could be set up in partnership with Nepal and Bhutan. Bangladesh railways could also enhance its revenues by offering it services to transit traffic from India, Nepal and Bhutan. The end result of opening up such opportunities to Bangladesh's transport sector would be the graduation of an as yet minor domestic industry into a major multinational industry exporting transport services as well as developing a transport manufacturing industry and servicing sector for transit traffic.

We should keep in mind that while India has much to gain from transit it has managed quite well without it for the last 45 years. It has invested in building land and river links with Myanmar to connect the North East with Sittwe Port. It has negotiated with both Thailand and Myanmar to develop the Asian Highway so it can bypass Bangladesh. It is now up to Bangladesh to reconnect ourselves with these transport opportunities. It requires an exceptionally negative mind set to punish ourselves by not availing ourselves of the enormous advantages available to us by our fortunate geographic location. The answers again lie not in disconnecting ourselves from our neighbours but in identifying all possible ways of benefitting from our location.

Statesmanship over trade

Trade cooperation between India and Bangladesh has moved forward, though this process has taken much longer than was necessary. In this area, India's tardiness to move forward has been costly to both sides. India's exports to Bangladesh have grown exponentially over the years so that, along with China, it is Bangladesh's largest source of imports. Indeed, if we take into account unofficial exports across our borders, India is the largest source of imports into Bangladesh. Whilst Bangladesh's exports to India have lagged behind it has also expanded five-fold over the last 5 years and has crossed \$500 million in 2010-11.

India's export growth to Bangladesh has little to do with special preferences provided to India. After all, the biggest growth in Indian exports was registered during the two BNP regimes in 1991-96 and 2001-2006. Saifur Rahman, finance minister in those two periods, could hardly be termed as a special friend of India, for stimulating their exports to us, though he played an important role in liberalising Bangladesh's global import regime. Within a competi-

tive global system Bangladesh's private sector has found it profitable to do business with India. Bangladesh's RMG as well as textile sector is today an important customer of Indian fabrics, yarn and cotton which are then converted into garment exports to the US and EU, our principal markets. When we

feast on *seekh kababs* we are quite possibly using beef extracted from a smuggled Indian cow; when we tune in to our private TV channels much time is spent in watching Indian movies and other such entertainment programmes. Large numbers of Bangladeshis travel to India to utilise their health care, education and tourism services as well as make pilgrimages to religious shrines. All these choices are made by private Bangladeshi consumers so that the growth of India's exports is an essentially market driven process. As the improving quality and competitiveness of India's economy further adds value to their proximity our imports of goods and services will also continue to increase.

As it stands, Bangladesh cannot hope to match this growth of imports from India nor does it make much economic sense to complain about our growing trade deficit. I have yet to know of any newspaper article or seminarist raise any concern about the fact that China's trade surplus with Bangladesh exceeds that of India and will also continue to grow in the future. Bangladesh's export capacity is constrained by our production struc-

ture. 75% of our exports in fact consist of RMG where India also has a highly competitive and indeed much larger industry, than ours.

While India has been slow to open up its import opportunities for Bangladesh and has operated a variety of non-tariff barriers (NTB) which have constrained our export opportunities, we should not get too carried away by the possible gains to us from the lifting of these restrictions. The constraints to expanding exports to India do not originate exclusively from India's restrictive trade regime. After all India's import market now exceeds \$300 billion and is being accessed by a variety of exporters from Asia, such as China, Vietnam, Thailand and Indonesia without the benefit of any tariff concessions. Indeed, even Pakistan's exports, which are exposed to a variety of restrictions by India, exceed those of Bangladesh. Our small and rather undiversified industrial and export structure limits our export opportunities no less than India's import restrictions.

As it transpires, India has already permitted duty free exports from Bangladesh under the Saarc concessionary provision for least developed countries (LDC). The real problem is the size of India's negative or sensitive list which denies this tariff concession for a variety of goods of export interest to Bangladesh. Over the years and through intense negotiations this negative list has been cut down to 460 items. Even this figure is ridiculously high for a country with one of the world's largest economies. This list still includes RMG, Bangladesh's most competitive export. India has recently offered us a quota of 8 million garments which we can export, duty free, to India, which has now been raised to 10 million items. Our competitive RMG exporters have already utilised this quota within the first 7 months of the calendar year 2011. We have, in recent negotiations prior to the visit of Dr. Manmohan Singh, presented a list of 61 commodities of export interest to Bangladesh, to be removed from the negative list. Of these, 47 items are from the RMG sector for items where Bangladesh is particularly competitive. It is reported that such a concession may be offered by India during the forthcoming summit in Dhaka which would significantly enhance our exports to India.

Rather than continue with this dance of the seven veils, where India offers export opportunities to Bangladesh on a piecemeal basis, the time has come for a bold and decisive gesture on the part of India which has little to lose in opening up its markets to Bangladesh. Ideally, I would like Dr. Manmohan Singh, who is not only a reasonable and decent human being but is also a distinguished professional economist, to make the following announcement during his visit to Bangladesh:

"On the occasion of this historic visit I wish to declare before the people and particularly the business community of Bangladesh that, as of today, Bangladesh should treat India's market as its own domestic market. I guarantee your exporters unrestricted access to this market and invite you to build partnerships with India's business sector to make full use of this market. We will constitute a committee of Indian and Bangladeshi experts to work out, within the next 6 months, the modalities of fully implementing such an arrangement."

Such a statement which should, ideally, have been made by an Indian prime minister at least 20 years ago, will not immediately lead to a surge of exports from Bangladesh into India. Our exports, led by our RMG exports to India, may possibly cross the \$1 billion mark in the next year which will partly reduce our trade deficit. The more significant outcome of Dr. Singh's statesmanlike gesture will be to change the business horizons of Bangladeshi entrepreneurs who will begin to explore all possible opportunities to access this market of 1.2 billion people. In this task they will seek out not just partners from India but from the rest of the world from those companies who will hope to use Bangladesh's

geographical proximity as an export platform to access one of the largest and fastest growing markets in the world. The enormous business opportunities across our immediate borders will not just encourage the flow of foreign investment into Bangladesh but would significantly enhance and diversify our industrial structure. Such a trans-

formation in the horizons of our business sector will make large numbers of one of Bangladesh's most influential and resourceful communities into stakeholders in the improvement and sustainability of Indo-Bangladesh relations.

Commonsense should have persuaded the Indian leadership that the political gains from opening its economy to Bangladesh would be significant whilst the economic costs to its much stronger economy would be negligible. By dragging their feet on the issue of duty free exports from Bangladesh, India gratuitously built up antagonism in areas where they had prospective friends. This was poor politics as well as economics. It remains to be seen whether Dr. Manmohan Singh, on September 6, 2011, will rise to the occasion through an act of statesmanship which could have a transformative effect on Indo-Bangladesh relations.

(Concluded)

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