Transhipment or transit for India?

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BANGLADESH has a unique geographical location within the region and has every possibility to become an economic hub. So we need to prepare ourselves to exploit the opportunity through broader regional connectivity. To this end, our infrastructure and other related facilities need to be urgently developed.

The Bangladesh government is considering multi-modal transport connectivity not only with India, Nepal or Bhutan, but also with China, Myanmar and beyond. We, the business community, fully agree with this approach.

Although South Asia has been one of the fastest growing and open economic regions in the world, intra-regional trade is still only 5 percent of total trade, as compared to 26 percent in Asean, 52 percent in NAFTA and 58 percent in the European Union.

But poor regional connectivity between Bangladesh and its immediate neighbours results in a loss of developmental opportunity for all concerned.

Surface transport networks in South Asia continue to remain fragmented due to historical and political reasons. As a result, their potential as levers of economic growth at the regional level remains largely unrealised, whereas in today's competitive world economy, transport costs are considered an extremely significant determinant of competitiveness.

Integrated and efficient surface transport networks are essential elements for enabling economic integration at any level, including linkage to any regional or global supply chain. Due to a lack of integration of the transport system in South Asia, logistic costs are high and range between 13percent and 14 percent of value, compared to only about 8 percent in the US.

According to the joint communiqué signed in January 2010, there has been an understanding to introduce transit trade through Bangladesh, among others, to connect the rest of India with its north-eastern states. The issue, however, raises serious questions relating to economic, political and sub-regional development strategies that need to be holistically dealt with. There are a number of bilateral issues of national importance that have remained unresolved, including but not limited to water-sharing, marine boundary and border demarcation. So the transit issue has to take note of these outstanding problems with our neighbours.

STAR/FILE

An Indian ship from Kolkata is anchored in the Meghna river, near Ashuganj port, on September 29.

Some experts say postponement of the transit agreement had been a blessing in disguise. It has given the Bangladesh government time to revisit the benefits to be derived from such a treaty. Now the government can undertake a needling cost-benefit analysis.

Apparently, the transit facilities will provide more benefits to India's seven states as the distance and time for transportation of goods will reduce by almost a third and thus, bring down costs significantly. Indian producers will be able to sell their products in the region at a lesser price and consequently, Bangladeshi businesses will lose opportunities for expansion of trade with these states.

It has been mentioned on various occasions that providing by transit facilities to India, Bangladesh will earn hundreds of millions of dollars a year as transit fees and related activities. But a research finding by Centre for Policy Dialogue (CPD) recently stated that Bangladesh could expect no more than $2.8 billion net present worth or value (NPV) over 30 years by providing transit to India. This is really a pittance compared to the investment required for infrastructure development in Bangladesh.

In order to develop infrastructure for transit traffic, it is estimated that Bangladesh would need to spend approximately $7 billion to improve existing facilities and build new ones to cater to additional traffic. These will include developing the road and rail sectors as well as Chittagong and Mongla Ports. In addition, the country would need to spend hefty amounts on operations and maintenance of infrastructure over a 30 year period.

Against such investment requirements, Bangladesh would earn only about $50 million annually in the first five years, when the facilities are being created along the routes identified. Once capital works are completed, the country would earn more; at a certain stage, earnings may reach to a billion dollars, according to Asian Development Bank (ADB).

The actual capital investment as well as maintenance costs will definitely be much higher than estimates when the physical work will begin. This is evident from our present experience with Padma Bridge -- the estimated cost of Tk 101.62 billion (about $1.5 billion) approved by ECNEC in 2007 has already increased to Tk 205.07 billion ($2.93 billion), which is double in four years, even before the start of construction.

Development of road infrastructure would not only require expansion of the existing highways or development of new ones, but also resettlement of people and loss of already scanty agricultural lands. The government should, therefore, appoint internationally reputed consultants to undertake detailed studies, including cost-benefit analysis, and develop a concrete action plan before progressing any further.

From a business point of view, operationalisation of the transhipment concept could be the best option for both Bangladesh and India. The practice of transhipment has been in operation throughout the world ever since trade expanded beyond borders and as such, an agreement to this end will resolve the long-awaited issue over transit requested by India. Such a treaty compared to the proposed transit plan will generate enhanced economic activity of several dimensions, including creation of employment and business opportunities. It will also address the security concerns of Bangladesh. In the event of transit, such a huge economic benefit of multidimensional nature will be denied.

In a lighter vein, "transit" may be termed living on 'rental' of inherited property and "transhipment" with building mills and factories to create employment, economic activity, wealth and future of the nation.

India is seeking transit facilities to its north-eastern states through road, railway and ports in Bangladesh. India has also opened up rail and surface routes for transit to link Nepal and Bhutan with Bangladesh. It is claimed that transit fees from Nepal and Bhutan would bring good revenue for Bangladesh.

But consider the facts -- Bhutan's GDP is less than $2 billion and Nepal's economy is not big either. Their economies are also inextricably integrated with the Indian economy. It is unlikely that a significant volume of cargo from Nepal or Bhutan (to and fro) would go through Bangladesh simply because they do not manufacture much exportable goods.

ADB and the development partners see Bangladesh gains too, from better roads, ports, railways and much-needed trade. In that event, movement of Indian goods from one part to another, by the Bangladeshi transport system could accrue huge economic benefits to Bangladesh.

Some quarters think that transhipment procedure would be cumbersome and time consuming. So long as the goods are in containerised form, and that is how they would travel in any case, there should not be any problem. Methods could be developed for seamless movement from one truck to another directly, at the borders. If needed, Bangladeshi trucks could go into the warehouses in India, and then deliver goods to another Indian point after traversing the territory of Bangladesh. The same procedure could be adopted for the railway as well.

It may be mentioned here that, when I was the president of Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) during 1992-94, we had a business meeting at FBCCI with the then Indian Commerce Minister Mr Pranab Mukherjee. I strongly recommended a transhipment agreement with India for which I was heavily criticised by a vernacular daily, on the following day. I am happy to note that recently CPD Chairman Prof Rehman Sobhan in one of his reviews also favoured transhipment concept.

It is strongly recommend that the concept of transit should be revisited and Bangladesh should go for a transhipment agreement to help India gain access to their seven north-eastern states.

We came to know from the newspaper reports that transit facilities for transport of Indian goods have already started through Ashuganj River Port. We also note that consignment coming from India is being given preference in crossing to Agartala over exportable commercial goods from Bangladesh which is rather worrying for us.

Transhipment or transit for India through Bangladesh is not a simple issue. Thus, before providing such facility, a detailed serious study must be undertaken by internationally reputed professionals/consultants, appointed through international tenders, to determine the benefit accruing to Bangladesh. Lessons should also be drawn about legal, administrative and logistical aspects of transit/ transhipment from international experience.

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RMG industry: a bright spot

KINGSHUK NAG

FROM a fledgling experiment to a $20 billion industry, the RMG sector today is the world's second largest apparel exporter with a 4.5 percent share in global garment exports.

At the beginning of the year, the RMG industry was bestowed with European Union's new rules meant for LDCs under the Generalised System of Preferences (GSP). Upon enforcement of the new rules of origin (RoO), Bangladeshi RMG exporters will enjoy duty and quota free exports for 100 percent of its RMG products into the EU market although Bangladesh imports fabric from other countries.

Earlier, under the RoO, EU disallowed entry of finished RMG goods, which had raw materials imported from another country. Unlike Bangladesh, Indian and Vietnamese exporters will still have to pay duty to gain entry into the EU market that therefore, increases the competitiveness of the Bangladeshi apparels. This relaxed rule has already resulted in exports shooting up more than 40 percent in February this year to a record $1.9 billion.

The US and the EU markets have traditionally been the most favourable export destinations for Bangladeshi apparel makers. Of the close to $20 billion RMG exports, more than 75 percent of these are shipped and find their way either to the EU or the US apparel stores.

However, there are hardly any news headlines across the world today that do not mention the embattled future that confronts both these giant economies. As a result, expanding the export basket and tilting it towards other robust economies like India will generally be viewed as common sense.

Common sense prevailed this September, although at the expense of the Indian apparel makers. As the Bangladesh premier was accused head over heels at one point of time for being too pro Indian by another "Battling Begum", it was about time that Bangladesh received the same amount of reciprocity from the Big Neighbour. In what has been termed as a "game-changer", Indian Prime Minister Manmohan Singh dished out the biggest economic favour that our country had ever witnessed. Although one of the other major deals broke off, India went ahead and extended duty free access to 46 Bangladeshi RMG items to the gigantic Indian market.

As soon as the Indian PM made his intentions on the Indo-Bangla RMG deal public, India's textile industry went bonkers over the decision, making the Indian press aware of the direct impact the deal would have on the lives of 35 million Indian workers. On the other hand, Bangladesh Garment Manufacturers and Exporters Association (BGMEA) was busy preparing the layout of a congratulatory advertisement to be published in different newspapers highlighting the success of Indo-Bangladesh friendship.

At present, Bangladesh has a quota to export only 10 million garment pieces to India and it took just 6 months for the riverine country to exhaust the quota set by the Indian government. As a result of the quotas, Bangladesh's RMG export to India is only worth $35 million compared to $20 billion in RMG exports worldwide.

AMRAN HOSSAIN

Workers are pictured at a garment factory in Gazipur.

India is Bangladesh's second largest trading partner with imports from India standing at $4.5 billion and exports to India amounting to a paltry $0.5 billion. This deal was primarily focused on reducing the $4 billion deficit and the only way to neutralise the huge trade gap was to give magnanimous concessions to Bangladesh's export sector. Any consumer goods market in India has to be huge, given its population and the Indian apparel industry is no different. The Indian clothing market stands at $30 billion annually and if Bangladesh captures 10 percent of the market, $3 billion in RMG exports would be achieved every year just from the Indian market. As a result, the deep hole in Bangladesh's trade deficit is possibly going to be plugged by the biggest cork you can ever imagine, gifted by India's PM.

"Men's underwear is moving out of China, but it's going to Bangladesh. It will not come here," says Ajay Shah at India's National Institute of Public Finance and Policy to Wall Street Journal (WSJ). A recent International Labour Organisation (ILO) report on minimum wages across the world states that Bangladesh has the lowest minimum wage at $58 in purchasing power parity (PPP) terms.

Vietnam's minimum wage at $84 is at least 40 percent higher than Bangladesh's minimum wage, and clearly represents a distinct cost advantage over its closest rival. India and China's minimum wages are at least 200 percent higher than Bangladesh's minimum wage. In a labour intensive industry where low cost is the only arsenal for survival, its not surprising to find Ajay Shah and many more economists sharing common view.

Not only labour costs but also duty free import of machinery and raw materials, along with periodic bouts of a devaluation of the taka, has made the local RMG industry globally competitive and capable of establishing Bangladesh as a hub for RMG exports.

Indian and Chinese garment companies are already shifting their manufacturing facilities to low cost destinations and foremost on their list of setting up a RMG units is Bangladesh. Indian bigwigs like Ambattur Clothing and House of Pearl have already set up operations in Bangladesh, looking to profit from the duty free access of Bangladeshi readymade garments to the Indian and EU markets.

The Multi Fibre Agreement introduced in 1974 was aimed at restricting imports from developing countries like India to developed countries by imposing quotas. However, Bangladesh was given preferential treatment and duty free access to the US and EU markets, which marked onset of the Bangladesh RMG sector for decades to come. Close to three decades later with increased access to the EU market and the Indian market, 2011 could well go down in history as the start of a new era in Bangladesh's RMG industry.

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