

Gains from Developing Functional Transit Facilities in Bangladesh



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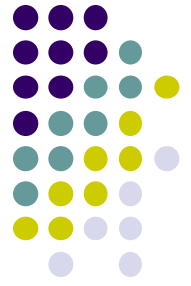
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Presentation Outline



- **Background**
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- **Comparison of Competing and Existing Routes**
- **Estimates of Total Traffic and Diversion Potential**
- **Costs of Transit to Bangladesh**
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- **Conclusions and Recommendations**



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Background

- Despite the evidence of complementarity, geographical proximity, basic transport infrastructure intra-regional trade is only about 5 percent of the total trade
- Due to lack of integration of transport systems in South Asia, the logistic costs are very high and range between 13-14% of the value
- The northeastern India (NEI) spends almost as much in transporting essential commodities from rest of India as the cost of commodities themselves
- Even though political commitment has ushered into a new era following the signing of the Joint Communiqué in January 2010, the economic implications of the expressed willingness have not been assessed



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Current Predicament of the Sub-Region

- ❑ **Fragmented sub-regional transport connectivity despite existence of basic infrastructures**
- ❑ **Rail:** Indian wagons come up to the border, and BR Locomotives pull them inside
- ❑ **Road:** No inter-country truck movement. Goods are transshipped at the border
- ❑ **Road:** India allows two designated routes only for bilateral trades between Bangladesh and Nepal and Bhutan.
- ❑ **IWT:** At a competitive disadvantage because of insufficient navigational aids, rapid siltation in the river beds, poor warehouse facilities, and narrow access roads to the ports of call



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Untapped Opportunities of the Sub-Region

- Absence of through transport connectivity among Bangladesh, Bhutan, Nepal, and India results in losses for all countries in terms of opportunity costs.
- A rail container from New Delhi takes 30-45 days to reach Dhaka. The same container could have been shipped from New Delhi to Dhaka in 4-5 days if direct rail connectivity and container movements were allowed.
- Bhutan and Nepal may benefit from transit facilities and accessing Mongla Port in Bangladesh for their international trade.
- *Thus, one can see that it is not a zero sum game. Instead, Bangladesh, Bhutan, India, and Nepal all stand to gain*



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Regional and Sub-Regional Initiatives

- The 12th SAARC Summit in 2004 called for strengthening transport, transit and communications links across South Asia.
- This initiative could not be materialized through SAARC due to numerous reasons, especially reluctance and occasionally deep suspicion of member countries.
- In January 2010, Bangladesh and India signed a historic ‘Joint Communiqué’. The communiqué touched upon bilateral, regional, and international issues.
- Implementation of ‘Joint Communiqué, especially the above provisions, will entail seamless movement of freight traffic not only between Bangladesh and India but also Bhutan and Nepal. In this process.



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Competing Transit Routes by Modes

- In conformity with GATT, 1994 (Article V, most convenient clause) and historical demands of Bhutan, India, and Nepal, several transit routes can be identified.

A. Road Transit Routes

RD-1: Guwahati–Dawki/Tamabil–Mawa–Bhanga–Narail–Jessore–Benapole/Petrapole–Kolkata

RD-2: Shilchar–Sutarkandi–Mawa–Bhanga–Narail–Jessore–Benapole/Petrapole–Kolkata

RD-3: Agartala–Akhaura—Mawa–Bhanga–Narail–Jessore–Benapole/Petrapole–Kolkata

RD-4: Guwahati–Dawki/Tamabil–Chittagong Port

RD-5: Shilchar–Sutarkandi–Chittagong Port

RD-6: Agartala–Agartala/Akhaura–Chittagong Port

RD-7: Kathmandu–Kakarvita–Phulbari/Banglabandha–Mongla Port

RD-8: Thimphu–Phuentsholing/Jaigaon–Chengrabandha/Burimari–Mongla Port

B. Rail Transit Routes

RL-1: Shilchar–Mahishashan/Shahbazpur–Dhaka–Mawa–Bhanga–Darshana/Gede–Kolkata

RL-2: Agartala–Agartala/Akhaura–Dhaka–Mawa–Bhanga–Darshana/Gede–Kolkata

RL-3: Shilchar–Mahishashan/Shahbazpur–Chittagong Port

RL-4: Agartala–Agartala/Akhaura–Chittagong Port

RL-5: Birgunj–Katihar–Rohanpur–Khulna–(by road) Mongla Port

C. Inland Water Transport-cum-Road Transit Route

IWT-1: Kolkata–Namkhana/Raimongal–Mongla–Narayanganj–Ashuganj–(by road) Agartala



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Comparison of Competing and Existing Routes

- All routes except **RD-7 and RL-5** seem to be advantageous in terms of distance.
 - For road, the maximum distance was found along competing route RD-7 at more than 1300 km and the minimum distance was found along RD-6 at only 253 km.
 - For rail, the maximum and minimum distance traveled would along RL-5 and RL-4 respectively.
- All routes except **RD-5 and IWT-1** seem to be advantageous in terms of travel time.
- All routes except **RD-1 and RL-5** seem to be advantageous in terms of transport costs.



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Estimates of Total Traffic And Diversion Potential

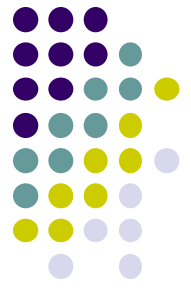
- Both inward and outward movement of volumes of freight traffic was estimated for the NEI states based on Indian government publication, KPT and private entities.
- As the NEI states are landlocked and the air freight facilities are under-developed, a conservative assumption is made that 30 percent of the inter-state freight is carried by rail and the remainder is carried by road.
- Aggregate data for the movement of international and domestic containers by rail were decomposed by taking into account of the size of NEI economies and applying the 70:30 ratio
- It was assumed that half of the freight traffic was carried by rail and the rest by road for Nepal while for Bhutan, in the absence of railways, all of the freight traffic is carried by road. **(Table 5)**



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Costs of Transit to Bangladesh

- A total of US\$ 1.8 billion investment is needed in road, ports and land port infrastructures and facilities. Of this about US\$ 257 million is prorated for transit facilities at different components of seven out of eight identified transit routes. **(Table 8).**
- Bangladesh would need to spend about US\$ 2.1 billion over five years for development of infrastructures along the rail transit routes. Of this amount, about US\$ 1.3 billion will be required for the transit freight traffic along four routes. **(Table 9).**
- All these activities would require about US\$ 40 million investment plus addition US\$ 3 million for the Akhaura land port. **(Table 10).**



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Benefits of Transit to Bangladesh

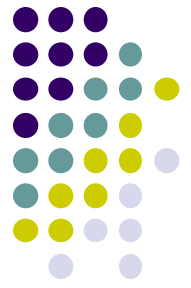
- The benefits are categorized into three types in each of the countries: (i) freight charges from transport services provided in their own territory, (ii) charges from the port(s) services provided, and (iii) charges “reasonable, having regard to the conditions of the traffic” (GATT Article 4) for allowing transit across their territory.
- It was suggested charging Bhutan, India, and Nepal at the minimum rate transit of fees of 7 cents a ton per km for road transit, 3 cents for railway and 2.5 cents for waterways based on best practices around the world (see Transport Cost Literature Review at www.vtppi.org).
- It was assumed that the road transit routes and IWT route would each carry 15 percent of the diverted traffic. The rest would be handled by the rail transit routes through Bangladesh.



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Benefit-Costs Estimates of Transit to Bangladesh

- Benefits-costs were analyzed at three levels
 - First stage, all road, rail and IWT routes were analyzed separately.
 - Second stage, all roads and all rail routes were taken together and analyzed.
 - Third stage, the aggregate cost-benefit analysis was carried out involving all the routes and modes.
- Opportunity cost of capital was taken at 12%.
- The IRRs are well above 12 percent; the BCRs are well above unity; the NPVs which indicate that the investments are worth making. **(Table 11)**



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A Few Concluding Remarks

- Although there has been overt and covert debates about the benefits and costs of transit to Bangladesh, these were replete with political overtones with distinct ideological convictions. No systematic and dispassionate economic analysis was done to go beneath the stream of political discourses both within the country and across nations in the sub-region.
- This analysis, first of its kind, has been carried out with the purpose of understanding the extent of gains that will accrue and to initiate interest and focused discussions.
- Overall policy reforms, accompanied by improved procedural and operational efficiency will ensure dynamic benefits.
- Therefore, a sustained effort to develop an entire package of policies for trade facilitation is required to realize the full potential of transit services.

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