

CHAPTER 12

Deepening Bangladesh-India Connectivity: Realising the Emerging Opportunities

Mustafizur Rahman

Context and Importance of the Discussion

Regrettably, South Asia has continued to remain one of the most disconnected regions in the world. However, it is encouraging to note that in recent years several initiatives have been set in motion to reverse this situation. In this context, the initiatives to deepen multimodal connectivity between Bangladesh and India merit special mention since these have a far-reaching impact and importance for the two countries as well as for the region. For Bangladesh, these developments are of crucial significance from the perspective of realising its developmental aspirations in the twenty first century.

That *geography matters in development* is by now a proven statement. It is widely recognised that Bangladesh has a natural advantage to potentially emerge as a regional transport hub thanks to its strategic location as a gateway to the Bay of Bengal (with a large hinterland going back to southern China), as a transit route between western part of Bangladesh and Northeastern states of India and as a major link in the SASEC (South Asia Subregional Economic Cooperation) transport network that connects Western Asia with the ASEAN and East ASEAN regions. Indeed, realisation of the opportunities that could originate from this unique geo-economic and geo-strategic location should be seen by Bangladesh as a major driver of its socio-economic development going forward in the twenty-first century. This should also be seen by Bangladesh as an important source of revenue in the form of export of transport and connectivity services, involving India and other neighbouring countries.

As may be recalled, in FY2022-23, India imported about US\$ 714.0 billion worth of goods, while Bangladesh's export to India was about US\$ 2.1 billion

(less than one-third of 1.0 per cent of India's total global import). On the other hand, Bangladesh's import from India, of US\$ 15.2 billion, was about 17.0 per cent of the country's global import (in FY2021-22). So the question to ask, and actions to take, concern identifying concrete steps which would enable Bangladesh to take advantage of the growing import market of India. Not that Bangladesh is not making some headway in the right direction: it took Bangladesh 47 years to cross the milestone of US\$ 1.0 billion export to India, in 2017; in contrast, it took only five years to cross the landmark of US\$ 2.0 billion in 2022. There is a growing understanding in Bangladesh that the challenge at hand is to identify and implement appropriate strategies to tap into the expanding import market of India, through enhancement of supply-side capacities, attracting Foreign Direct Investment (FDI), stimulating product diversification, reducing lead-time and raising price competitiveness.

Closer multimodal transport connectivity could play a critically important role in view of the above. The cost that the traders, producers and consumers are paying on account of lack of good connectivity, and the resultant high cost of transport, is evidenced by a recent World Bank Report which estimates that exporting from Bangladesh to Nepal (by land, via India) was 1.5 times costlier than exporting from Bangladesh to Sao Paulo in Brazil. In view of this, an efficient bilateral multimodal connectivity with India could not only help reduce transport costs and raise trade competitiveness, but also play a critically important role in the wider and broader scenario of bilateral cooperation. The major challenge here lies in identifying appropriate modalities to realise the attendant possibilities in a manner that delivers *win-win outcomes* for both the participating countries.

In view of the above, Section I traces the evolution of the discussion on Indo-Bangladesh connectivity by highlighting the shift in the discourse in recent period. Section II presents a review of some of the ongoing measures to deepen multimodal transport connectivity between the two countries. Section III identifies the opportunities to take the bilateral transport initiatives forward towards win-win outcomes. The discussion is rounded up with some concluding remarks.

Shift in the Discourse on Connectivity

There was a time when establishing closer transport connectivity with India was taboo in Bangladesh and was met with strong opposition from powerful quarters, driven by a number of concerns and reasons. These were related to political considerations, security apprehensions and doubts as to whether Bangladesh would

benefit at all from connectivity arrangements with India. The realities on the ground, however, have since changed. Over the recent past, the mainstream discourse in Bangladesh has shifted from ‘whether to provide connectivity’ to ‘how best to negotiate any such deal, and how to address the attendant concerns of Bangladesh and safeguard its interests and how this could be done in a way that assures win-win outcomes for both the countries’.

There are several reasons for this change in the perspective and the mindset. These call for a closer look.

The economic advantages of closer bilateral cooperation, through transport connectivity, investment connectivity and trade connectivity have become increasingly evident in recent years. The experience of regional cooperation and integration involving countries of the neighbourhood regions has revealed the benefits of harnessing deeper integration among geographically contiguous regions and helped to change the perspectives (the ASEAN-wide cooperation; Mekong Delta cooperation; SIJORI growth triangle that include Singapore, Johor State of Malaysia and Rio state of Indonesia; and others).

Experience on the ground and research and analysis bear out that developing value chains with India will not only benefit the two countries, but also strengthen global integration of the Bangladesh economy from a position of strength. This is visible most prominently in the case of Bangladesh’s export-oriented readymade garments (RMG) industry. For example, the large bilateral trade deficit with India is in part because of the significant import of cotton, yarn, fabrics, accessories and related machineries from India. These imports helped Bangladesh maintain a large (about US\$ 9.0 billion) trade surplus with the US where more than 90.0 per cent exports from Bangladesh constituted RMG products.

The argument that transport facilitation with India is mainly import facilitation also proved to be without merit. It needs to be emphasised that it is not the Government of Bangladesh that imports from India; it is the country’s private sector that does most of the imports. And they do so because the business people find it cost-effective and profitable to source from India. Imports from India allow the consumers in Bangladesh to get agricultural commodities and inputs and other goods at competitive prices, which helps maintain food security and reduce price volatility in the country. These imports allow the Bangladeshi entrepreneurs and producers to get intermediate products and inputs at competitive prices and with a short lead-time; a large number of export-oriented industries in Bangladesh import intermediate goods and raw materials from India at competitive

prices, as was noted above. RMG backward linkages through imports from India help Bangladesh to remain competitive in the global market (RMG accounts for 84 per cent of Bangladesh's total exports; Bangladesh is the second largest exporter of apparels in the world with 6.0 per cent of the global market). The bottom line is the profit motive that induces the private sector of Bangladesh to source increasingly from India instead of from other countries. With India's economic and technological development over the recent years, its labour and capital productivity has been on the rise. This, and supply-side capacity and production diversification, have allowed Indian goods to gain competitive strength against those coming from many of Bangladesh's traditional import sourcing countries. Hence the import diversion is in India's favour.

A concern which used to be voiced rather often, related to the loss of the so-called *captive market of Northeast India*. The argument is that Bangladesh will lose the Northeast market if it provides transport connectivity to India, through its territory, for movement of goods between the western and eastern parts of India. It is well known that the Northeastern region, which includes the seven sister states of India, remains a relatively underdeveloped economic zone of India. The purchasing power in the Northeast states has been significantly lower than the rest of India, as also that of Bangladesh. As is well known, historically Bangladesh's exports to the Northeastern states has been very low when compared to not only her global exports, but also in terms of exports to India. A major reason driving this is the low purchasing power of the Northeastern states. India is at present investing heavily in these states. Connectivity through Bangladesh could be a significant win-win for both the countries in this context. This will facilitate the ongoing development work in the Northeastern region and significantly reduce the cost of transporting goods to carry out India's ambitious development plans for the region. An economically prosperous Northeast would have greater capacity to import from Bangladesh than at present. So the argument about losing the captive market was untenable.

It is a fact that Bangladesh has a large and growing bilateral trade deficit with India. But this should not be overplayed – in a globalised world it is not bilateral deficit but global trade deficit that should be the reason for concern.

However, this is not to say that Bangladesh should not place greater emphasis on increasing its exports to India, but to draw attention to the fact that bilateral trade deficit with India, as was noted earlier, allows Bangladesh to maintain a trade surplus with many countries such as the US the UK and the countries in the

EU which are key destinations for Bangladesh's export of apparels. All these help Bangladesh reduce the global trade deficit. Apparels constitute about 47.0 per cent of Bangladesh's exports to India; a significant part of these exports use imported inputs from India. The important and pertinent question to ask is, why have Bangladesh's export earnings from India remained so low, and how these could be increased by taking advantage of the expanding import market of India.

One recalls the time when Bangladesh allowed India to transport heavy machinery and equipment for the Palatana Power Plant in Tripura (by riverine transport from Kolkata to Ashuganj, and then via road from Ashuganj to Agartala). Bangladesh is now importing 100 MW worth of electricity from the plant. The price of electricity is Tk6.43 per unit or kilowatt-hour and with the transmission cost added the import price will stand at Tk6.71 per unit.¹ These infrastructures are contributing to the economic development, higher standard of living and the consequent higher purchasing power of people in the Northeast. The argument here is that when such development-induced purchasing power of these states rises, it is bound to be reflected in higher imports from Bangladesh.

Ongoing Initiatives to Deepen Bilateral Multimodal Connectivity

Bangladesh has signed a number of bilateral agreements and Protocols with India in recent years in areas of multi-modal connectivity. As may be recalled in this connection, some transport connectivity between the two countries existed historically, preceding the emergence of an independent Bangladesh. However, these connectivity were was ruptured following the India-Pakistan war in 1965. Some of these, such as the Akhaura-Agartala rail link, are being revived only now. The bilateral Protocol on Inland Waterways Transit and Trade was signed in 1972 (with eight Protocol routes). The Coastal Shipping Protocol was signed more recently, in 2015. India has offered Bangladesh free transit for exports to Nepal and Bhutan. These two countries already have land transit deals with New Delhi which allows Nepalese and Bhutanese vehicles carrying export-import goods to come to the Bangladesh border points. Bangladesh has allowed India the use of Ashuganj river port for multimodal transport of cargo (through riverine and road routes) to Agartala. Regular transit between Bangladesh and Northeast of India by using the Chattogram and the Mongla ports was granted in April 2023. The cargo from these two ports can be transported using 16 transit routes as agreed by the two countries.²

Currently, Bangladesh is investing a considerable amount of resources in building its transport infrastructure. Medium to long-term viability of some of

these – including the Padma bridge and the rail link over the bridge – will be ensured if these play a role in harnessing sub-regional economic cooperation (Bangladesh, Nepal, Bhutan and the Eastern states of India). Expected economic and financial returns from these infrastructures will rise significantly if the benefits of the sub-regional cooperation could be reaped.

Several roads are being built at present, which, besides meeting Bangladesh's domestic transport needs, will also facilitate road connectivity between Bangladesh's western and Northeast India, by taking advantage of the transit agreement. As per the coastal shipping Protocol, Indian vessels will now be able to use Bangladesh's ports (Mongla and Chattogram), and goods can then be transhipped to trucks for onward journey to the Northeastern states by road. Standard Operating Procedures (SOPs) have been agreed upon for transshipment of goods from Chattogram and Mongla ports through road, rail and water routes: to Agartala via Akhaura, Dawki (Meghalaya) via Tamabil, Sutarkandi (Assam) via Sheola and Srimantapur (Tripura) via Bibir Bazar. Some roads in Bangladesh are being upgraded keeping the emerging needs in mind. Several roads and transport-related infrastructures are being built as part of the three lines of credit which India provided to Bangladesh over the past years (in 2010, 2015 and 2017, worth about US\$ 8.0 billion).

One could add a number of other connectivity-related initiatives which are ongoing. The recently commissioned friendship pipeline supplying high-speed diesel from Numaligarh Refinery Limited in Assam to 16 districts in northern Bangladesh is yet another example. The pipeline will help reduce transport costs for Bangladesh by about 40 per cent. Also, the BBIN Motor Vehicle Agreement, signed in 2015, could provide an important opportunity to facilitate vehicular movement between India, Bangladesh and Nepal (Bhutan has decided to remain an observer for the time being). The MVA could prove to be an important step towards seamless multimodal connectivity in the Eastern part of South Asian region.

The Search for Win-Win Outcomes

The important issue for Bangladesh, and also for India for that matter, is to take advantage of the aforesaid Agreements and Protocols, investment, infrastructures and other bilateral initiatives in a way that best serves the interests of both countries, by generating win-win outcomes. In all negotiations – be it bilateral, trilateral and multilateral – there are concerns and national interests which each party needs to take cognisance of while searching for ways to arrive at consensus-driven

resolutions and solutions. There are questions of offensive and defensive interests, issues of offers and requests, and there may as well be non-negotiable elements. This is a common feature in any negotiation. In case of Bangladesh and India, it is through bilateral discussions that attendant concerns will need to be addressed and resolved.

For Bangladesh, for connectivity, the involved issues concern both those of *principle* (modalities of sharing benefits and costs through fixation of fees, charges, tolls etc.) and of *operationalisation* (putting in place the necessary connectivity-related infrastructure and measures).

In view of the above, issues of cost-sharing and benefit sharing are important considerations for Bangladesh from the perspective of establishing seamless multimodal connectivity with India. In addition to the fees and charges, cost-sharing needs to address issues of sharing the various expenditures related to the construction, use and maintenance of the multimodal connectivity infrastructures: for example, costs involved in keeping the rivers navigable; maintenance and depreciation cost; payment of road use tolls; costs associated with incremental air pollution, environmental degradation and congestion; sharing of costs to build new transport corridors, geared mainly to provide transit facilities to India, to name a few. The principle of proportionality should guide the fixation – in case of existing roads, marginal costs involved in the use of multimodal connectivity may be considered, while in case of new corridors to be built primarily for purposes of transit, both countries could share the cost, by keeping in view the asymmetries in the use of the particular link (cost-sharing ratios could, however, vary over time and will need to be fixed through regular bilateral discussions).

Some of the corridors will have asymmetric use, to mainly benefit the Indian economy and to serve the interests of Indian transport operators and businesses. It will be in India's interest to share the associated costs (in accordance with proportional use of the infrastructure). An enlightened and strategic perspective on the part of India will be of advantage to both the countries. It may be noted in this connection that the aforementioned principle is in accordance with the relevant GATT Article with regards to providing Transit facilities by one country to another.

One recalls that when the bridge on the *Padma* was being built, India converted US\$ 200 million from the first line of credit into a grant and contributed the amount towards construction of the bridge. If the *Padma* bridge is to be elevated from a mere *transport corridor* to an *economic corridor* (which will be required if the expected internal, financial and economic rates of returns are to be realised),

the *Padma* bridge will need to serve not only as link between southern Bangladesh and rest of the country, but also as a sub-regional transport nodal point that services the needs of the adjoining regions of India as also Nepal and Bhutan. The bridge has the potential to emerge as a major connectivity link to Mongla and other ports in Bangladesh and as a key infrastructure for cross-country vehicular movement. One is persuaded to believe that this broader perspective has informed India's decision to make the aforementioned grant. Keeping the riverine routes navigable is also in India's interest if the water connectivity and coastal shipping Protocols are to be operationalised. Hence, the issue of cost sharing is not merely a theoretical concept but has practical significance. For example: to improve navigability along the Sirajganj–Daikhowa and Ashuganj–Zakiganj stretches of the Indo–Bangladesh route, India is investing nearly Rs 245 crore and Bangladesh 60 crores (out of Rs 305.84 crore) for improving navigability on a 80:20 cost sharing basis.³

On the other hand, the benefit sharing principle considers that the gains accrued should be shared by the two countries. The benefits through savings arising from the difference between the costs of using the traditional routes and the new opportunities of connectivity should be shared by both parties (this would arise from savings in the form of shorter distance, reduced fuel costs, lower time and other cost cutting elements arising from use of connectivity through Bangladesh by the Indian users). Bangladesh will need to be cognisant of the fact that the fees, charges, tolls, construction cost sharing, etc. to be borne by Indian operators should be fixed in a way that makes the new routes commercially attractive to the Indian users. Otherwise, there will be no incentive for the transport operators to use the new connectivity. Transit-related payments to be fixed by Bangladesh for each route and corridor ought to take these factors into consideration. Also, it may be noted that it will be Bangladeshi transporters, freight-forwarders and others who will benefit the most from the transshipment business within Bangladesh. Indo-Bangladesh joint venture companies may also be set up as business entities to handle cross-border trade.

On the other hand, Bangladesh will need to ensure that the facilities, support and infrastructure to service the transit, are put in place in a timely manner. The road rail, riverine connectivity and transport corridors will have to be fit for the purpose if Indian businessmen and transporters are to be encouraged and incentivised to use the connectivity. Both sides have an interest in establishing the facilities to operationalise the Agreements. There could also lead to business

opportunities in the form of joint venture with participation of transport operators from both the countries.

The above argument is not merely a theoretical conjecture but draws on experience and has practical significance. For example, it was envisaged by many at the beginning that connectivity between Kolkata-Ashuganj-Agartala would be a major transit route once the Transit-Connectivity Agreement is operational. The Ashuganj river port was planned to be elevated to an international river port, and the cargo, transported by the riverine route by ship from Kolkata, was to be transhipped on trucks for the onward journey to Agartala. The route, it was thought, would be a key link for transportation between eastern and western India, since it was expected to significantly bring down transport costs as distance and time would be reduced (compared to transporting through the tortuous 1200-1600 km *chicken neck* in the Himalayas). The route would also allow the Indian government to save on subsidies that were being given to transporters using the traditional route. However, while the Agreement was signed several years ago, the necessary infrastructure were not ready; transshipment services, logistics, customs clearance and other trade facilitation measures were not put in place on time. The road from Ashuganj and Agartala was also not developed. Consequently, the initial enthusiasm of Indian transport operators and businesses soon evaporated. In an investigative report, published in July 2020, it was stated that in five years since the first shipment was made in June 2016, only 17 Indian shipments passed through the port (till July 2022). A negligible US\$ 40 thousand (35 lakh taka) worth of fees and charges was collected by Bangladesh's concerned authorities. No cargo was transported from Agartala via Ashuganj to Kolkata. More frequent use of the multimodal connectivity and transshipment facilities would have created business opportunities for Bangladesh's truckers and transporters and through the various other transshipment activities, in addition to the government's income in the form of fees and charges. This was not to be because of lack of readiness.

This particular experience reveals that the two countries will need to make the needed investment in infrastructure, logistics, roads and trade facilitation measures with due urgency. If not, transport operators will not be able to take advantage of the connectivity. The same holds true of fixation of fees, charges and tolls. Transport operators will have to find it economically viable to use any particular route. One needs to keep in mind that governments sign Agreements and Protocols, but it is primarily the private sector and businesses, driven by the profit motive, who will choose to take (or not take) advantage of any specific connectivity option.

From the perspective of operationalising bilateral connectivity, as also the BBIN (BIN)-MVA, putting in place the required infrastructure at the borders on both sides, is also critically important. The borders should be crossing points, rather than control and choking points. For this to happen, integrated customs stations (ICS) with harmonisation and standardisation of procedures and protocols, paperless trade, interoperability of systems and closer customs cooperation will be required. Political will and a sense of urgency are needed to make the BBIN-MVA functional (the MVA covers cargo-carrying vehicular movement, bus service and private transport). To recall, the Agreement was signed in 2015 (the SOPs have also been negotiated); however, it could not be operationalised in seven years.

There needs to be single-window facility at the Integrated Customs Stations (as in the case of ASEAN) for border crossing and customs clearance. Mutual Recognition Agreements (MRAs) involving quality standards (e.g., in case of food items), certification, accreditation and lab testing, among others, would need to be negotiated to reduce hassle at customs points. Collaboration between the Bangladesh Standards and Testing Institution (BSTI) and the Indian Bureau of Indian Standards (BIS) is already put in place,⁴ and cooperation between Bangladesh Food Safety Authority and the Food Safety and Standards Authorities of India (FSSAI) will be required to enhance trade in perishable food items. BSTI's capacity will need to be significantly strengthened to service the needs of the MRAs. Through negotiations, non-tariff measures and barriers that impede Bangladesh's export to India will need to be addressed. For example, a moratorium on anti-dumping duties (ADDs) may be put in place by India vis-a-vis Bangladeshi exporters to the country (India, to recall, has imposed ADDs on a number of jute exporters from Bangladesh). A change in the visa regime (such as visa on arrival, as with Sri Lanka), would facilitate movement of people between the two countries, which would strengthen other connectivities.

As is known, India has been offered two dedicated Special Economic Zones (SEZs) by Bangladesh (in Mirsharai Bangabandhu Sheikh Mujib Economic Zone in Chattogram and in Bagerhat in Mongla). While the SEZs will provide the investors access to unencumbered land, it is important that investors from India (and other countries, as also Bangladeshi investors interested in investing in SEZs) are able to get the other necessary services (services that are to be provided as per Bangladesh's One Stop Service Act of 2018 may be recalled here). A few private SEZs have already started functioning. Their experience could provide important guidance and insights to encourage Indian investment in the SEZs.

Attracting Indian investment to Bangladesh, targeting the Indian market, taking advantage of duty-free, quota-free preferential market access (to India and other countries), could potentially be a game changer for Bangladesh's economic interests. In this backdrop, extending the DF-QF market access to Bangladesh, for a time-bound period beyond Bangladesh's LDC graduation in 2026, merits serious consideration on the part of Indian policymakers.

Conclusion

In recent times, a number of positive measures have been put in motion towards deeper Indo-Bangladesh bilateral multimodal connectivity. Work has been initiated to build a functional International River Port in Ashuganj; the four-lane Ashuganj-Agartala road is under construction. Some of this infrastructure is being put in place with support of the Indian LOCs. Some transport connectivity is being built with Bangladesh's own resources, some with borrowed money. While serving Bangladesh's domestic needs, these could also serve bilateral and sub-regional trade-investment needs.

As is known, Bangladesh is currently in the process of negotiating a Comprehensive Economic Partnership Agreement (CEPA) with India. Deepening transport, investment, logistics and people-to-people connectivity and efficient trade facilitation measures (at the border and behind the border) will play a crucial role if the CEPA is to be operationalised and be successful. Indian investment in SEZs and connectivity initiatives should be seen as complementary to transport, investment and trade, which will help realise the potential benefits of the proposed CEPA with India. An enlightened and strategic view will be required on the part of both countries in order to realise the potential of opportunities originating from deeper bilateral cooperation in a win-win manner.

Bangladesh is at present gearing up to face the challenges of LDC graduation and middle-income graduation. In this backdrop, taking advantage of economic partnership with India ought to be seen by Bangladesh as a key strategy to address the emergent challenges in view of the dual graduation.

NOTES

- 1 Aminur Rahman Rasel, "BD to start importing 100MW from Tripura", *Dhaka Tribune*, 22 March 2016, <https://www.dhakatribune.com/bangladesh/bangladesh-others/123793/bd-to-start-importing-100mw-from-tripura> (Accessed 04 October 2023).
- 2 Reazul H Lashkar, Bangladesh okays India's use of 2 ports to transport goods to the northeast",

The Hindustan Times, 26 April 2023, <https://www.hindustantimes.com/india-news/bangladesh-clears-use-of-chattogram-and-mongla-ports-by-india-for-transit-and-transshipment-of-cargo-cutting-time-and-cost-of-transport-to-northeastern-states-101682509293677.html> (Accessed 05 October 2023).

- 3 Abhishek Law, “Dredging contracts with Bangladesh underway, more waterways to be operational to reduce cargo movement time: Sonowal”, *Hindu Business line*, 16 October 2023, <https://www.thehindubusinessline.com/economy/logistics/dredging-contracts-with-bangladesh-underway-more-waterways-to-be-operational-to-reduce-cargo-movement-time-sonowal/article67426725.ece> (Accessed 10 November 2023).
- 4 MEA, “Agreement Between Bureau Of Indian Standards And Bangladesh Standards And Testing Institution on Cooperation in the Field of Standardization and Conformity Assessment”, <https://www.mea.gov.in/Portal/LegalTreatiesDoc/BG15B2967.pdf> (Accessed 07 October 2023).