

Section One

ECONOMIC AND POLITICAL RELATIONS BETWEEN BANGLADESH AND NEIGHBOURING COUNTRIES

Introduction

An important aspect of the ongoing globalisation process has been the increasing integration of national economies. Such a trend stems from the consensus that economies of proximate countries can generate strong development synergies through effective cooperation in the area of trade, transport, investment and finance and that such cooperation reinforce the effort of the regional countries towards strengthened global integration of their respective economics. This consensus of harvesting mutual gains by fostering and promoting economic interdependence has also gained grounds in recent years in South Asia – a region with a rich tradition of business and commerce.

In view of the fact that South Asia has been largely by-passed by the recent rapid growth of world trade, there is a growing concern that South Asia may be further marginalized in the process of globalization unless conscious efforts are undertaken to deepen and broaden the existing intraregional economic relations.

Within South Asia, the vision towards a meaningful economic cooperation is being pursued mainly within the ambit and under the stewardship of the South Asian Association for Regional Cooperation (SAARC). Despite, three rounds of negotiations under the South Asian Preferential Trading Arrangement (SAPTA) growth of intra-regional trade has been negligible. To stimulate intraregional investment some initiatives have also been taken which include establishment of a SAARC Development Fund, as well as setting up of a SAARC Chamber of Commerce and Industries (SCCI).

Nonetheless, as of now, Intra-SAARC investment is negligible, except Indian investment in some of the LDCs, particularly in Nepal. Till now the South Asian countries have concentrated their efforts in attracting FDI to their respective countries and a comprehensive strategy to enhance and stimulate intra-region investment has been absent. To a large measure, low intraregional trade is also a reflection of the insignificant flow of intraregional investment. On average, only about 4 per cent of total global trade of SAARC countries is accounted for by intraregional trade, which is well below the level attained by regional blocs such as NAFTA, EU or ASEAN where such trade ranges from 30 percent to 60 percent (Bhattacharya and Rahman, 2003). This has been the trend despite the fact that the Eastern South Asian sub-region consisting of Bangladesh, Bhutan, Nepal, the states of West Bengal as well as the seven states of North-Eastern India including Myanmar has the potential to generate large scale trade and investment for their mutual benefit. However this aggregate figure is heavily influenced by the low share of India in intra-regional trade. However, Bangladesh, Bhutan, Nepal and Sri Lanka have a high volume of trade within the region,

particularly with India. Exports from India within South Asia have also grown sharply in the last decade.

In view of the above potential, efforts are being made, under an initiative taken by the Asian Development Bank, to search for ways and means to stimulate economic cooperation within the ambit of the South Asian Sub-regional Economic Cooperation (SASEC) countries. The SASEC countries include Bangladesh, Bhutan, India and Nepal. Such sub-regional cooperation, popularly known as “Growth Quadrangles” or simply “Growth Zones” has worked very effectively in various regions (SIJORI, Mekong Basin Initiative, etc.). It is hoped that sub-regional cooperation within SASEC could in effect play a catalytic role for promoting more effective cooperation under the SAARC.

The SASEC countries have identified five sectors, viz. tourism, transport, energy, environment, and trade and investment as potential areas of cooperation and collaboration. Whilst not excluding the scope for involvement of the government, it is envisaged that the private sector will be the driving force in these efforts. However, putting in place appropriate institutions and incentives will be central to the success of any such effort and much of it will depend on the efficacy of government policies.

The present paper seeks to explore the scope of trade and transport cooperation at a sub-regional level comprising the six countries, Bangladesh, Bhutan, India, Nepal, Myanmar and Yunnan Province of China, by examining the pattern of trade and potential for transport connectivity amongst these countries.

The paper is organized as follows. After the introduction, Chapter 1 discusses the existing trend of cooperation in trade, investment and transport between Bangladesh and each of the neighbouring countries covered by the study. This chapter also identifies problems which are obstructing the growth of intraregional trade and investment. Chapter 2 highlights the present state of transport connectivity between Bangladesh and the neighbouring countries and also indicates the types of facilitation measures which are required to be in place to improve border crossing. Chapter 3, on the other hand, indicates the various initiatives, both public and private, which have been taken so far to promote sub-regional cooperation. Chapter 4 highlights the prospects of enhanced regional cooperation and presents some recommendations from the perspective of Bangladesh, which could further strengthen regional cooperation. The conclusion highlights the importance of political commitment to enhance regional cooperation.

Chapter 1

Exiting Economic and Political Relationships Patterns between Bangladesh and the Neighbouring Countries

Trade in goods and commodities continue to remain the predominant form of economic cooperation between Bangladesh and its neighbouring countries. With a population of about 1101.35 million comprising Bangladesh, Bhutan, India, Myanmar, Nepal and Yunnan province of China, this part of Eastern South Asia constitutes a huge potential market that will increase substantially in the coming years, partly because of the economic liberalization, which is taking place in these countries.

Prior to 1947, South Asian nations constituted, by and large a single economic unit. After the partition of India, pursuit of import substitution strategies by these countries caused complementarities to decline and competition to emerge. This autarkic policy contributed to the relatively insignificant role of external trade in these economies. Also, political imperatives often prevailed over economic expediency resulting in limited economic interactions amongst these nations.

Given the unsatisfactory and under the policy influence of the World Bank and IMF, outcome of the import substitution strategy, the South Asian nations began to tilt towards a more open economy policy. At the same time, there was an increased appreciation of the scope and urgency of regional economic cooperation in the face of the emerging trend in the global trade and economic environment. The establishment of SAARC and the initiation of negotiations for encouraging preferential trade under SAPTA were an outcome of this changed outlook.

Although the degree of export orientation has increased over the nineties (see Table 1), the South Asian economies are still by and large characterized by their persistent inward-orientation (Bakht and Sen, 2002).

Table 1 Exports and Imports of the Sub-region Countries 1990~1999 (%)

	Export Growth (1990~1999)	Import Growth (1990~1999)	Export as % of Import	
			1990	1999
Bangladesh	11.7	9.6	45.7	54.1
Bhutan	7.0	10.5	86.2	63.8
India	9.2	7.2	74.3	87.4
Nepal	11.4	14.2	47.8	38.0

Source: Bakht and Sen, May 2002

In 1990, the share of intra-SAARC export in total SAARC export stood at 3.2 percent and by 1999 it rose marginally to 4.6 percent. In terms of destination of exports, the share of the South Asia region in total exports has actually declined for Bangladesh and Nepal, and registered a modest increase in case of India (see Table 2).

In this light of the background stated above, indicated below are the trade patterns of Bangladesh with the neighbouring countries.

Table 2 Percentage Distribution of Export by Destination, 1981-1999

Country	Year	Exports by Destination			
		Industrial Countries	ASEAN	South asia	Others
Bangladesh	1981	34	12	4	54
	1999	85	5	2	8
India	1981	51	6	3	40
	1999	57	13	5	25
Nepal	1981	53	5	43	19
	1999	60	1	30	9

Source: Bakht and Sen, May 2002

1 Bangladesh's Trade Relation with India

Trends in Bilateral Trade and Deficit

India has emerged as the largest bilateral trading partner of Bangladesh during the nineties (Sobhan, 1999). In recent years, India's importance as a source of imports has gone up significantly, whereas Bangladesh's role as an exporter to the Indian market has undergone further marginalisation leading to an increasing balance of trade deficit with India. The widening trade gap has become a cause of major concern for Bangladesh and it has become essential to determine whether Bangladesh's continuing inability to penetrate the huge market of its neighbour is underpinned by policy and institutional barriers or is it a structural problem.

Bangladesh's export to India stood at about US\$ 43.58 million in FY2002, on the other hand, over the corresponding period her imports from India stood at US\$ 1018.55 million. This meant that import payments were 24 times higher than the export accruals leading to a deficit of US\$ 974.97 million in FY 2002. In this context, a major issue of concern for the bilateral trading arrangement is the assessment of commodities/services on which India and Bangladesh can form a virtuous interdependence. The trend of the bilateral trade between India and Bangladesh is shown in Table 3.

Table 3 Trends in Bangladesh-India Bilateral Trade (in million US\$)

	FY1985	FY1990	FY1995	FY2001	FY2002
Bangladesh Global Exports	998.8	1524	3473	6,467.00	5,986.09
Bangladesh Global Imports	2,526.2	3759	5834	9,335.00	8,540.00
Global Trade Deficit of Bangladesh	-1,527.4	-2,235.0	-2,361.0	-2,867.70	-2,553.91
Bangladesh Exports to India	29.6	19.5	45	63.40	43.58
Bangladesh Imports from India	64.9	145.3	688.5	1,183.77	1,018.55
Trade Deficit with India (TD)	-35.3	-125.8	-643.5	-1,120.38	-974.97
Memo Items:					
Imports from India as per cent of Bangladesh's global imports	2.6	3.9	11.8	12.68	11.93
Exports to India as per cent of Bangladesh's global exports	3.0	1.3	1.3	0.98	0.73
Trade with India as per cent of Bangladesh's global trade	2.7	3.1	7.9	7.89	7.31
Trade deficit with India as per cent of global trade deficit of Bangladesh	2.3	5.6	27.3	39.07	38.18
Export to India as per cent of Imports from India	45.6	13.4	6.5	5.36	4.28

Source: Bhattacharya and Rahman, 2003.

Table 4 Structure of Bangladesh's Imports from India (%)

Commodity Group	FY1996	FY1999	FY2001
Cereals	33.2	49.5	15.8
Textile and Textile articles	27.4	19.1	25.5
<i>of which Cotton</i>	21.4	15.8	19.7
Boilers, Machinery and Mechanical Appliances, Parts thereof	3.4	4.5	7.6
Mineral Fuels, Oils and Products thereof	2.6	2.6	5.4
Plastering Materials, Lime and Cement	4.0	2.5	3.8
Vehicles except railway or tramway and parts, accessories thereof	6.3	2.4	4.7
Organic Chemicals	1.4	1.9	2.8
Iron and Steel	1.9	1.7	3.2
Others	19.8	15.8	31.2
Total Imports (percent)	100.0	100.0	100.0
Total Imports (million US\$)	1,100.1	1,228.2	1,163.5

Source: Bhattacharya and Rahman, 2003.

Bangladesh is India's eighth important export destinations. As Table 4 indicates India is currently the major source of imports of cereals, textiles, machineries and equipment, chemical and allied industries, and base metals.

On the contrary, the export base of Bangladesh has continued to remain extremely narrow. As Table 5 shows, only six items including *Jamdane saree*, chemical fertiliser, raw jute and frozen fish accounted for about 95 percent of Bangladesh's total exports to India over the 1990s in FY2000. In this period India was able to diversify its exports to Bangladesh in a

significant manner. The commodities imported from India covered about 46 percent of all types of commodities imported by Bangladesh in late-1990s.

Table 5 Structure of Bangladesh's Exports to India (%)

Commodities	FY 1996	FY1999	FY2000
Chemical Fertilizer	60.7	11.8	21.6
<i>Jamdani Saree</i>	0.2	7.5	0.03
Raw Jute	16.1	47.6	32.4
Frozen Fish	11.8	22.3	9.3
Other Mfg. Goods	5.9	2.8	9.1
Leather	3.3	2.7	2.1
Tea	0.9	1.0	1.1
Others	1.1	4.4	24.4
Total (percent)	100.0	100.0	100.0
(million US\$)	(72.5)	(59.7)	(64.9)

Source: Bhattacharya and Rahman, 2003.

As is evidenced by Table 3 mentioned earlier, the bilateral trade deficit with India has registered a significant increase in recent years. As can be seen from the table, the trade deficit with India has increased 9.5 times over the last decade. The Indo-Bangladesh bilateral trade deficit accounted for 5.6 percent of Bangladesh's global trade deficit in FY1990; in FY2002 the share had risen to 38.2 percent.

It needs, however, to be kept in mind here that the actual level of dependence in the bilateral trade relationship will be further accentuated if we factor in the unofficial (illegal cross border) trade with India into the equation.¹ Estimates of the level of unofficial trade vary significantly.² If we look at the structure of illegal imports (Bakht, Z. 1996 and Chaudhuri, S. 1995) we would find that most of the commodities smuggled into Bangladesh constitute consumption-oriented goods.³ If we include both official and unofficial trade with India, in recent years imports from India constituted roughly 28.3 percent of total imports of Bangladesh, whilst imports by India from Bangladesh constituted on average 1.3 percent of

1 Another study (Chaudhuri, S., 1995) estimates cross border trade with India to be about \$ 0.36 billion in FY 1994 which is roughly equivalent to official imports to Bangladesh in the corresponding period, but somewhat less than estimates arrived at by Bakht, Z. (1996). Unofficial exports from Bangladesh was found to be confined to a small band of commodities, particularly synthetic fabrics and spices. Most of the payments against imports to Bangladesh was in the form of gold and Bangladeshi taka.

2 For example, Bakht (1996) has estimated that in FY 1994 the illegal imports to Bangladesh was 1.5 times higher than the legal imports (about Tk. 25,300 crore or \$ 622 million as against official imports of Tk. 1657 crore or \$ 392 million).

3Bakht, Z. (1994) estimates that 70 per cent of illegal imports are on account of livestock, fish and poultry related products, agro-products and processed food and tobacco.

her global imports. The bilateral deficit on current accounts will register a further rise if imports of services by Bangladeshis from India are taken into account. A recent study finds that such imports exceed \$100.0 million annually.

Tariff Barriers

In Bangladesh, the tariff rates are currently sequenced as follows: low rates on import of capital goods and primary raw materials, moderate rates on intermediate products and high rates on consumer goods. As a part of the ongoing tariff reforms, custom duty rates above 100 percent have been reduced to 75 percent or below in most cases. Only a few products have a duty rate of 100 percent or more. The introduction of VAT, replacing sales and excise duties, has gone a long way in rationalising the import tariff and domestic tax structure. Excise duties have been abolished on all items except on manually prepared cigarettes, bank accounts and textiles.

India's tariff rates are also reported to have been substantially reduced, although rates on many of the exportables from Bangladesh tend to remain at high levels. For example, tariff rates on items related to apparels (articles of approach, gloves, clothing accessories, cartons and boxes of jute yarn etc.), items of high interest to Bangladesh, face an average tariff of 30 percent. Tariffs on woven fabrics is 25 percent. On some items such as tea the tariff rate is as high as 100 percent. On some other items such as carpets, men's and boys' shirts etc. the tariff rates (usually 25~30 percent) are accompanied by fixed specific rates (whichever is higher). Table 6 drawn from the list of items on Bangladesh's *request list* to India bears this out. Bangladesh has requested tariff concessions in the fourth SAPTA round. On many of the items of interest to Bangladesh, there are surcharges equivalent to 10 percent of customs duties and also special additional duty.

Thus, it is found that the existing tariff and para-tariff duties on many items of interest to Bangladesh in the Indian market continue to pose formidable market access barriers. If the special additional duties and the specific duties are taken into account, then the barriers do act as constraining factors in accessing Indian markets. Since many of these items are not covered under the existing preferential regime, the case for zero-tariff access or in their absence deeper cuts under a newly introduced preferential regime is deemed to be a strong one from Bangladesh's perspectives (Bhattacharya and Rahman, 2003).

Table 6 Tariff and Para-tariffs in India on Items of Interest to Bangladesh

Item	Existing Tariff	Para-tariff and Special Additional Duty (SPA)
Articles of Apparels	30 percent	10 per cent surcharge + SPA
Woven Fabrics	25 percent or 115/kg*	10 per cent surcharge + SPA
Carpets	30 percent or Rs 35/ML*	10 per cent surcharge + SPA
Men's or boys' shirts	30 percent or Rs 135 per piece*	10 per cent surcharge + SPA
Jackets/Blazers	30 percent or Rs 755 per piece*	10 per cent surcharge + SPA
Ceramic products	30 percent	10 per cent surcharge + SPA
Cut flowers	30 percent	10 per cent surcharge + SPA

Note: *Whichever is higher.

Source: Bhattacharya and Rahman, 2003.

Trade under Preferential Arrangement

A large number of commodities were offered preferential treatment during the most recent (third) phase of trade liberalisation negotiations under the SAPTA. Under the three SAPTA rounds, Bangladesh has so far received concessional treatment on 2,896 commodities from India with tariff preferences ranging from 10 percent to 20 percent. Bangladesh has provided concessional treatment to India on 558 commodities.

In recent years Bangladesh, has prepared a list of 25 commodities (192 items at 6-digit level) for which it would like to have zero-tariff access to the Indian market. These items which include fertiliser, jute goods, textiles, ceramics, dry cells, and leather products are considered to have current and potential export prospects in the Indian market. Many of these items, whilst currently not being exported by Bangladesh, are deemed as export competitive in the context of a zero-tariff regime.⁴ However, Bangladesh continues to point out that India (for that matter Pakistan and Sri Lanka as well) may grant zero-tariff market access to all LDCs in the region in line with their agreed position in the WTO. For India, for all practical purpose, it will mean addressing the need of only one country i.e. Bangladesh as other regional LDCs (such as Nepal and Bhutan) already enjoy zero-tariff market access in India.

Thus, we find that although under the three rounds both India and Bangladesh have offered concessional treatment to each other's exports, both the range and the depth of the cuts, particularly from Bangladesh's perspective, have been a cause for dissatisfaction. In the context of the growing deficit in bilateral trade with India, the feeling in Bangladesh, both at

⁴ During trade talks in Dhaka in May, 2002 India offered to grant zero-tariff access to 40 items, which was significantly lower than what Bangladesh was hoping for. (Source: official records of the deliberations at the Trade talks between India and Bangladesh, Ministry of Commerce, GOB, 2002)

the level of policy makers and at the level of popular sentiment, is that India should offer zero-tariff facility to Bangladesh on a non-reciprocal basis.

The value addition requirement under the SAPTA Rules of Origin (RoO) in the single country context has been subsequently revised downward for the developing countries to 40 percent, whilst regional content requirement was brought down to 50 percent. In case of the LDCs, the rates were further reduced to 30 percent (single country context) and 40 percent (regional context requirement). This is expected to be helpful to Bangladesh in accessing concessional treatment for products for which local value addition is relatively low. This new initiative is expected to enable Bangladesh to enhance market access for such products as readymade garments, dry-cell batteries and fruit-juice.⁵ In view of the above, the new initiative is indeed a welcome development.⁶

It is a generally accepted principle that it is the country of origin which provides the Rules of Origin certificate. However, in case of exports to India the Assistant Collectorate of Customs has to be satisfied as to whether a particular export item complies with the RoO criteria. The delay in assessment sometimes takes more than 10 to 12 days. Both Bangladeshi exporters and the Indian importers suffer from lack of transparency in the rules. For example, export consignment of battery from Bangladesh was refused preferential entry to India when the rules were interpreted as having restrictions on imports of non-rechargeable batteries.

Non-tariff Barriers (NTB) in Bilateral Trade

It is often argued, both at the level of trade experts and business leaders, that NTBs constitute one of the major reasons responsible for the “unbalanced” state of bilateral cooperation between Bangladesh and India in the area of trade and, for that matter, investment. Bangladesh's business community perceives the NTBs in India to be a real cause for concern. Although it has been agreed that India will withdraw non-tariff barriers from commodities which have been offered concessional treatment during the three rounds of the SAPTA negotiations, but from an operational point of view many such NTBs continue to remain in practice. Table 7 identifies six types of non-tariff barriers which are applicable in the case of imports to India. These NTBs cover

5 As a matter of fact, it was expected that the issue of granting duty-free access to the four LDCs by the three developing countries of the SAARC would be discussed during the fourth round of SAPTA negotiations. With the postponement of the negotiations, this proposal was put in the cold storage.

6 Although a number of commodities in this list has high prospect for exports to India, energetic steps will need to be undertaken to translate such export potential into real exports to India. It is here that the issue of investment comes as a means of realising Bangladesh's dormant comparative advantages into revealed competitive advantage from a dynamic perspective.

a substantial number of export items from Bangladesh. Bangladeshi exporters often complain that there is a lack of transparency as to the applicability of these NTBs. Under existing Indian regulations, the decision making is left to the discretion of the customs authorities of the various customs check points. Since most of Bangladesh's trade with India is done through land ports, and as they are ill-equipped to handle such issues, the problem in this regard continues to persist.

Table 7 Nature of Non-tariff Barriers in India

Types of NTB	Sectors Involved
Imports of commodities which are permitted only under license or in accordance with a public notice.	Almost all consumer goods.
Canalised imports permitted only thru' state trading corporations.	Some categories of agro-commodities.
Imports permitted only against a license on the recommendation of various concerned departments.	For example, frozen semen allowed only under permission of Dept. of Agriculture.
Imports which are not allowed except in accordance with a public notice notifying permission.	Applicable in case of some non-consumer commodities e.g. fish meal.
Imports of inputs to export oriented units against a license or in accordance with a public notice which is issued favouring such imports.	For example, crude granite which is only applicable for export purposes.
Prohibited	Some particular commodities/drugs.

Source: Bhattacharya and Rahman, 2003.

Though various types of NTBs may be identified in the policies and practices of both countries, trade policies pursued by India are generally perceived to be relatively more complex and restrictive. For example, India continues to retain state monopoly in import of such item as fertilizer which is of high export interest to Bangladesh.

Thus the still existing high tariffs (and para-tariffs) on many items of interest to Bangladesh in the Indian market and the nagging NTBs have tended to discourage Bangladesh's exports to India. However, the fact remains that Bangladesh's export-base is narrow and shallow and this also has severely constrained greater penetration in the Indian market. Accordingly, the discourse on modalities to foster greater economic cooperation must not only go beyond simply the trade issues, but also bring into the forefront closer cooperation in the area of investment and the finance of trade and investment (Bhattacharya and Rahman, 2003).

Trade with the North-East India

In recent years issues related to economic cooperation between Bangladesh and the north-eastern states of India have received prominence in the discourse on Indo-Bangladesh economic cooperation. The North-East India has a 1880 km. border with Bangladesh and its

geographic situation and economic potential make the region a natural economic partner of Bangladesh. Immediately following Independence, the Bangladesh Planning Commission envisaged that bilateral relationship could evolve covering a number of areas, such as (a) setting up joint-venture projects including cement, fertilizer, etc. (b) joint development of infrastructure, (c) cooperation in transport development and operations, etc.. But unfortunately, this vision was subsequently faded when *realpolitik* began to hand. Only now, after about three decades and a lot of lost opportunities, some of the original ideas are getting to the surface for consideration. At least at private sector level, there is a growing recognition that both the countries would benefit enormously from such cooperation.

But it is also becoming evident that private sector initiative will have limited success in the absence of adequate government support. One of the major problems to be addressed will be the intermediation of financial transactions for which correspondent Bank in North-East India will need to be established to settle L/Cs.

Infrastructural bottlenecks impose severe constraints on promotion of bilateral trade with India. Excepting Benapol there is huge dearth of infrastructural facilities at all other land-routes. There are no storage facilities at Petrapole so the exporters need to pay extra *detention charges* till the time they can handover the consignment to the importer. The exporter also has to pay additional amount as interest charged by banks because receipt of foreign remittance against the bills takes more than 21 days.

In order for trade to thrive between Bangladesh and the North-East states major investments will be required to build-up the necessary transport infrastructures in the region. Within the ambit of SAGQ, joint initiatives will need to be designed to construct and maintain the infrastructure from which Nepal, Bhutan and even the Southern region of China could benefit. Both bilateral and multilateral cooperation will be required in mobilising the resources and for coordinating the software aspects of the transport network such as simplification of procedures and options of other facilitation measures. The bilateral transit agreements that the countries are currently using are, however, not particularly conducive to the expansion of sub-regional trade because of the restrictions usually imposed by the transit country (Rahmatullah, 2003).

It is estimated that about 24-25 million tonnes of freight move to and from North-Eastern States and the rest of India. This is expected to rise to 52 million tonnes by the year 2007. A recent study shows that about 25 percent of this in-transit traffic could be diverted through Bangladesh Railway (BR) with minimum investment.

About 70 to 80 percent of India's total export to Bangladesh is made via three land border routes: Petrapole, Hilli and Changrabanda. Mukherjee (1998) estimates that Benapole / Petrapole alone accounted for about Tk. 14 billion of business in the mid-1990s which is about

80 percent of land based trade. There is at present no bilateral motor vehicle agreement between the two countries. There is an Inland Water Transit Protocol but this provides transit between Calcutta and two points in Assam without touching Meghalaya and Tripura. Rail transit through Bangladesh, which was earlier in place, also remains suspended.

Currently, there is a demand to introduce container services for easier handling of the rail cargo at the border. Multi-modal arrangements with road-rail routes would substantially reduce the cost of transportation for traders in both the countries. Benefits from the transit facility provided to Nepal by India could also be maximised through improvement of transit facilities through Bangladesh. It has been estimated that Bangladesh could, at the present rate, earn about 8 billion taka by way of freight and other charges leviable on Indian goods if transit facilities are provided. Funds diverted from maintenance of roads through the *chicken neck* requiring huge amount of investment could be used to improve infrastructures in Bangladesh which has the potential of carrying the transit traffic.

Trend in Investment between India and Bangladesh

FDI inflow to the SAARC region has gradually increased from US\$ 3.6 billion in 1996 to US\$ 4.1 billion in 2001. FDI inflow to India increased from US\$ 2.53 billion in 1996 to US\$ 3.40 billion in 2001. Bangladesh also experienced gradual increase in FDI flow which increased from US\$ 14 million in 1996 to US\$ 280 million in 2000 but has since decreased to US\$ 78 million in 2001.

During 1996-2001, share of India in the total SA FDI inflow gradually increased from 69.8 percent in 1996 to 83.6 percent in 2001 except in 1999 which was 70.1 percent. Bangladesh's share in total FDI inflow to South Asia gradually increased from 0.4 percent in 1996 to 9.1 percent in 2001, but declined to 1.9 percent in 2001.

Among the top investors in India the United Kingdom has the highest individual share in total FDI as of 2000-01 (23.85 percent with FDI figure of US\$ 1109.8 millions), followed by the USA (23.50 percent with FDI figure of US\$ 1093.7 millions). Among the foreign investors of Bangladesh, USA had the highest share of aggregate FDI during 1999 (20.6 percent), followed by West-European countries with a share of 18.45 percent and Japan's share of 8.83 percent.

Telecommunication happens to be the sector that has attracted most FDI in India over the years with an aggregate FDI inflow in this sector amounting to US\$ 2059 million as of 2000/01. This is followed by investment in power and oil refinery sector where FDI amounted to US\$1685.3 millions as of 2000/01. Metallurgical industries also are an emerging sector attracting FDI inflows in India, with aggregate FDI inflow amounting to US\$214 millions as of 2000/01 (CPD-SASEC Working Paper, 2002). The major sectors that are

attracting FDI in Bangladesh as of 2000/01 are gas, power generation, telecom and export oriented industries in the EPZ.

Table 8 Investment in Bangladesh by India (as of December 1999)

Categories	by India ^a (in million)			
	No.	Local	Foreign	Total ^b
Food, beverages, and tobacco	8	28.68	37.36	141.82
Textile, wearing apparel and leather products	8	166.91	122.71	289.62
Wood and wood products	2	9.00	4.40	33.30
Paper and paper products	7	127.84	123.59	255.43
Chemical, petroleum, rubber and plastic products	16	575.54	302.16	1995.53
Non-metallic mineral products	6	196.33	80.05	305.87
Fabricated metal products, machinery and transport equipment	2	60.00	1005.00	3830.00
Manufactured product ness	12	162.28	185.29	607.21
Services	13	848.74	1172.01	3706.36
Other	2	87.48	84.52	238.00
Total	76	2262.79	3117.09	11403.13

Note: ^a Includes projects in operation, production, implemented, under implementation, not yet implemented; ^b Total investment includes loans

Source: Bhattacharya and Rahman, 2003.

The major outward FDI flows were from Indian firms, which have started to expand FDI both within the SAARC region (Bangladesh, Maldives, Nepal and Sri Lanka) and outside, particularly after the Government of India liberalized its policy governing Indian overseas investments in the early 1990s. The two neighbouring countries, India and Bangladesh, differ significantly in degrees of openness, geographical size, level of macroeconomic instability and maturity of institutional framework. However, in recent years industrial and investment linkages between the two countries have shown some growing trends. Table 8 indicates the details of Indian investment in Bangladesh as of December, 1999.

Indian FDI flows to Bangladesh as percentage of total approved FDI outflows of India had registered a sharp increase from 3.9 per cent in 1990 to 8.1 per cent in 1999. It is generally recognised that the experience, till now, of bilateral cooperation in investment between Bangladesh and India leaves much to be desired.

Reasons for why some countries attract more investment than others vary widely. In some instances incentives did indeed played an important role in attracting FDI whilst in others apparently 'other factors' were decisive. These 'other factors' are becoming more crucial as countries compete with each other in providing incentives to foreign investors.

Weak capacity to implement the incentives, unwieldy bureaucracy in host countries, law and order situation, infrastructural bottlenecks, procedural delays, practices and capital market regulations are important factors that inhibit investment in both India and Bangladesh.

Table 9 Commonly Perceived Obstacles to Investment in India and Bangladesh

	India	Bangladesh
Investment Obstacles	Power shortage in certain pockets, Law and order problem of the region as a whole, Bureaucratic harassment, Limited market size within some regions, Lack of access in some regions due to intra-communal disputes, Complex land tenure system, Conservative sentiment and anti-open attitude of people of some particular regions	Image as an impoverished and underdeveloped country subject to frequent and devastating natural disasters, Poor implementation of the new liberal investment policies, Slow government decision-making, Corruption, Labour militancy, Inadequate commercial laws and courts, Political instability and risk, Shortage of power, Poor infrastructure

Source: Bhattacharya and Rahman, 2003.

Table 9 presents a list of commonly perceived obstacles to foreign investment in India and Bangladesh.

Even after a decade of administrative streamlining, foreign investors in India have reportedly complained about bureaucratic hassle. Investors in Bangladesh also suffer from slow government decision-making process, delayed implementation and malpractices. Both countries are plagued with power shortages, with the situation being relatively worse in Bangladesh. Capital market in India is perceived to be restricted, as compared to a more liberal capital market in Bangladesh. Foreign investment in Bangladesh suffers from lack of well designed legal framework. Public sentiment is conservative in some regions of India which acts as an hindrance to entry, though some states have been more successful in attracting FDI than others. Prospect of political instability and social/religious harmony also tend to constrain bilateral investment flow.

Issues Related to Bangladesh Gas Export to India

Expert opinion is divided regarding the availability of gas reserves in Bangladesh. While some university academics have put the recoverable gas reserves at 6-7 TCF, the Reserves Committee estimates are 11 to 12 TCF and the Gas Utilization Committee has pegged it at 16 TCF. Assuming a 7 percent growth rate for the economy, the cumulative gas demand would be 6 TCF by 2010 and 9 TCF by 2010~2020. According to the Reserves

Committee, the gas requirement in 2050 would range from 39 to 151 TCF. Petrobangla has divided the country into 23 gas blocks with 17 onshore and 6 offshore. Out of them, 16 have already been awarded to the international oil companies (IOCs) and Petrobangla has kept the rest. The blocks that are not awarded to the IOCs are: 1.2.3.4.6.21 and 23.

The IOCs started drilling in the late 1990s and as a result of their investment, the international oil companies now have 13 percent of the total national supply. However, adding this simple transition has reduced Petrobangla from a surplus organization to a losing concern. On the pricing system, the government fixed the rate after studying a similar contract of Singapore. Now it costs the government 2.5 dollars to buy one mbtu gas from the IOC. Besides, 92 percent of the payment is made in dollar terms. Within a couple of years, the 13 percent share of IOC would be 30 percent as the government has no other choice but to buy gas from IOCs since Petrobangla does not have any well ready for drilling.

Only 20 percent of Bangladesh's total population has access to electricity and 5 percent have access to gas. Per capita energy consumption in India is 500 units compared to 112 units of Bangladesh. The Bangladesh manufacturing sector is still underdeveloped. Owing to globalisation, Bangladesh wants to modernize its industry and make its products internationally competitive. It requires setting up gas-based industries, which will be globally competitive. Owing to lack of adequate investment available for exploration, in exploring gas, exploitation of gas resources is sub-optimal. Bangladesh's industry can be competitive if they can get cheaper flow of gas resources for their own production purpose, which will make their products internationally competitive. On the one hand, for domestic consumption, Bangladesh has to provide huge subsidies while on the other, precious foreign exchange earnings through exports are foregone. Bangladesh has a comparative advantage in the gas-based fertilizer industry. Bangladesh was one of the principal suppliers of fertilizer to India during the mid-nineties. This was because of cheap availability of raw materials (gas). But it was lost to the Central Asian countries namely Kazakhstan and Kyrgyzstan because they charge very competitive prices in the Indian market. If gas prices in Bangladesh increase by 1 dollar per unit, fertilizer price will be increased by 3.3 percent.

Bangladesh does not have adequate resources to invest in gas exploration. External funds are required for this purpose. It cannot be met without getting higher FDI in this sector and one has to allow foreign contractors to work in gas exploration. Moreover, Bangladesh has foreign exchange constraints because of its adverse BOP situation. Bangladesh is the net importer of oil to the tune of 3.5 million tonnes per year.

In conclusion, it may be said that both the neighbours (Bangladesh and India) need close energy cooperation, with India needing more energy to meet its growing demand while Bangladesh needs an immediate market to sell its gas. But to work this out, government-

government cooperation is not enough, both the countries also need people-to-people contact and confidence building measures. Sizeable investment is also needed for further exploration and to establish that Bangladesh has adequate reserve for its own use before exporting gas to India.

Security Issues between Bangladesh and India

Security is an issue which impinges on the very physical existence of a state. This warranted that each state should show extreme sensitivity to the security concerns of the other state and deal with any complaint from the other side with due respect and utmost speed. If that does not happen, it will increase mistrust and misunderstanding and vitiate the entire relationship between the two countries.

The security issues affecting Indo-Bangladesh relations can be characterized as of lower intensity. There could be several doables which could address these issues. One was completing the demarcation of the land boundary which was now pending only for 6 km. Both the countries (India and Bangladesh) share a 4095 km. long border with very few natural markers to delineate the boundaries.

Secondly, the problem of chars thrown up in large rivers and the enclaves are also continuing to impact the security issues. Even today there are 111 Indian enclaves, comprising 10,000 acres, which still remain in Bangladesh, while 51 Bangladesh enclaves, comprising 7,000 acres, are embedded in India. Moreover, Bangladesh has no agreed sea boundary with her neighbours. This has contributed to conflicts with neighbours on several occasions. The conflicting claims over the ownership of a newly created island (New Moore Island/ South Talpatty) in the Bay of Bengal are also continuing to be serious problems. These problems should be sorted out in a phased manner at the earliest since conflicts and incidences regarding the use of land in these areas were rising.

Thirdly, conflicts about camps of insurgence from North-Eastern India, Tripura and Chittagong Hill Tracts (CHT) areas appear to be exaggerated beyond proportion. It is important to stress here that Bangladesh has nothing to gain by supporting camps. Complaints of this nature are required to be properly verified and if found true, these should be dealt with firmly by the Bangladesh authorities. These lower intensity issues need not all be clubbed together but could be taken up one by one and dealt with seriously.

Legal agreements do exist with regard to the enclaves. If these agreements had been implemented soon after they were entered into, we would not have come to the present impasse. Unfortunately extraneous political factors, like ascertaining the wishes of the people inhabiting the enclaves, have now entered into the picture, making the problem extremely difficult. Hard data were necessary regarding complaints about the existence of camps and

shelter to insurgents. Some initiative at Track II level could be helpful in collecting or verifying such data.

According to certain analyst, transit issues are also being linked to security matters. It is generally agreed that transit facilities to the Indian North-East through Bangladesh would benefit economically both the countries. But this issue has become heavily politicized in Bangladesh. In Bangladesh some people are arguing that transit may be used by India for troop movements to the North-East, thereby creating problems for Bangladesh's security. Most people, however, feel that these fears are misplaced. In this context, one needs to visualize that Bangladesh is surrounded by India on almost three sides. It needs to get transit facility from India to have overland transport links with neighbouring countries of Nepal, Bhutan as well as Northern part of Myanmar. If India's access to North-East becomes a political issue in Bangladesh, its access to Nepal, Bhutan and Myanmar could also be treated the same way by India.

There are wide range of experiences available within and outside the regional with regard to the resolution of security problems. It would be worthwhile to share some of those experiences and take lessons from these in resolving specific problems. Governments should consult their own people, in a transparent manner, with full facts and figures surrounding the issues under discussion, and take into account their views in resolving the inter-country problems.

2 Bangladesh's Trade Relation with Nepal

Bangladesh's trade with Nepal is negligible. Exports in 2002 were valued at US\$ 0.65 million, or 0.01 percent of Bangladesh's total exports. Exports to Nepal are dominated by a single commodity, chemical fertilizer, which accounted for 68 percent of the total. Bangladesh could have exported a much larger volume of fertilizer to Nepal had it not been for supply-side constraints. Pharmaceuticals contributed another 22 percent of exports to Nepal; these too could be expanded. As far as imports from Nepal are concerned the country accounted for only 0.039 percent (US\$ 3.34 million) of Bangladesh's total imports in 2002. A single commodity dominated: edible vegetables accounted for 91 percent of Bangladesh's imports from Nepal. This was equivalent to 5.2 percent of total imports of edible vegetables by Bangladesh. Cereals, oil seeds, rubber and articles thereof, and animal fodder constitute the other types of imports of Bangladesh, but both in terms of volume and share in Bangladesh's imports, these constitute an insignificant share of Bangladesh's total imports. Table 10 shows the trends of bilateral trade between Bangladesh and Nepal.

In September, 1997, India granted a transit routes for both Nepal and Bangladesh, through its territory-Kakorvitta/Nepal-Phulbari/India. This 30-35 km. long “transit route”: Kakorvitta-Phulbari-Banglabandh links Kakorvitta with Banglabandh (located at the extreme north-western border post of the district of Panchagar, Bangladesh). But this route is not being used extensively for the purpose of trade and commerce between the two countries Bangladesh and Nepal, although over the years, the route has been improved considerably. It is mostly due to lack of traffic (export and import) passing through Banglabandh that facilities for customs and immigration have not properly developed at the border point. In brief, one can say that the Phulbari corridor which is the shortest available route between Bangladesh and Nepal is not being optimally used mainly because of two reasons:

- (a) Nepal’s third country trade is not allowed on that corridor as a result Bangladesh ports cannot be used by Nepal. For this to happen, a transit treaty between Nepal and India would be needed.
- (b) No agreement between India and Bangladesh exists which would have allowed Bangladeshi trucks in that corridor for transporting goods between Bangladesh and Nepal.

Table 10 Trends in Bangladesh–Nepal Bilateral Trade (in millions US\$)

	FY1991	FY1996	FY2001	FY2002
Bangladesh Global Exports	1717.55	3882.42	6467.30	5986.09
Bangladesh Global Imports	3510.00	6931.00	9335.00	8540.00
Global Trade Deficit of Bangladesh	-1792.45	-3048.58	-2867.70	-2553.91
Bangladesh Exports to Nepal	9.00	8.34	0.97	0.65
Bangladesh Imports from Nepal	0.13	7.75	6.03	3.34
Trade Deficit with Nepal (TD)	8.87	0.60	-5.06	-0.41
(I / W)M	0.0038	0.1118	0.0645	0.0391
(I / W)X	0.5241	0.2149	0.0150	0.0489
(I / W)T	0.1748	0.1488	0.0443	0.0431
(I / W)TD	-0.4947	-0.0196	0.1764	0.0162
(I / W)N	6691.49	107.72	16.05	87.62

Source: Import Payments and Export Receipts (Bangladesh Bank)

Note: (I / W)M = Imports from Nepal as % of Bangladesh's global imports.

(I / W)X = Exports from Nepal as % of Bangladesh's global exports.

(I / W)T = Trade with Nepal as % of Bangladesh's global trade.

(I / W)TD = Trade deficit with Nepal as % of global trade deficit of Bangladesh.

(I / W)N = Export to Nepal as % of Imports from Nepal.

Once a sufficient volume of traffic starts moving on a regular basis, the facilities which are now lacking at Banglabandh will undoubtedly get upgraded. In fact, the Government of Bangladesh has already decided to involve the private sector to invest in the development and operation of all the major land ports including Banglabandh, on a BOT basis. Tenders have already been floated and responses have been favourable. In case private sector does not come forward quickly, Government of Bangladesh shall have to invest to improve the border crossing facilities at Banglabandh for which ADB's assistance could be sought.

Since, Nepal's third country traffic (whether export or import) is not allowed by India to move through Mongla Port of Bangladesh, as such the facilities at this port are not being utilized by the Nepali traders. The Mongla Port of Bangladesh handles on average about 360-380 ocean-going-ships a year i.e. on average only 1 ship per day. Thus there is no congestion at all. In fact, Mongla Port could have provided a direct broad gauge rail link, without any trans-shipment, between Rauxal in Nepal/India Border to Khulna/Mongla through Kathihar (India) and Rohanpur in Bangladesh. This rail link could provide a very competitive facility to Nepalese export / import traffic viz-a-viz Calcutta Port. But so far India has not agreed to this, although both Nepal and Bangladesh are keen to promote this route.

In the absence of "Road Transport Agreement" between Nepal, India and Bangladesh, Nepalese trucks cannot enter Bangladesh and ply within Bangladesh. Goods are, therefore, required to be loaded and unloaded at the border. However, the Islamabad declaration adopted by the 12th SAARC Summit on January 6, 2004 called for strengthening transportation, transit and communication links across the region for accelerated and balanced economic growth. Once the Islamabad declaration is implemented all kinds of public and private vehicles, including bus/coaches and trucks could be travelling between Bangladesh and Nepal, without interruption.

3 Bangladesh's Trade Relation with Bhutan

Bangladesh's trade with Bhutan is also negligible. Exports in 2002 were worth US\$ 1.67 million (0.027 percent of total exports from Bangladesh) whilst imports from Bhutan amounted to US\$ 3.92 million (which was 0.0459 percent of Bangladesh's total imports in 2002). Bangladesh exports some manufactured goods to Bhutan and imports edible fruits, prepared foodstuffs and beverages from that country which are given unhindered access to the Bangladesh market with the offer of concessional duties to Bhutan under SAPTA. Thus Bhutanese fruits such as apples and canned fruit products bearing the *Druk* brand name tend to be quite widely available in Bangladesh. Table 11 shows the trends in bilateral trade between Bangladesh and Bhutan.

Table 11 Trends in Bangladesh – Bhutan Bilateral Trade (in million US\$)

	FY1991	FY1996	FY2001	FY2002
Bangladesh Global Exports	1717.55	3882.42	6467.30	5986.09
Bangladesh Global Imports	3510.00	6931.00	9335.00	8540.00
Global Trade Deficit of Bangladesh	-1792.45	-3048.58	-2867.70	-2553.91
Bangladesh Exports to Bhutan	0.00	0.00	1.18	1.67
Bangladesh Imports from Bhutan	4.69	5.18	5.65	3.92
Trade Deficit with Bhutan (TD)	-4.69	-5.18	-4.47	-2.33
(I / W)M	0.1337	0.0748	0.0606	0.0459
(I / W)X	0	0.00008	0.01826	0.02657
(I / W)T	0.0898	0.0480	0.0432	0.0379
(I / W)TD	0.2619	0.1699	0.1560	0.0913
(I / W)B	0	0.058	20.891	40.553

Source: Import Payments and Export Receipts (Bangladesh Bank)

Note: (I / W)M = Imports from Bhutan as % of Bangladesh's global imports.

(I / W)X = Exports from Bhutan as % of Bangladesh's global exports.

(I / W)T = Trade with Bhutan as % of Bangladesh's global trade.

(I / W)TD = Trade deficit with Bhutan as % of global trade deficit of Bangladesh.

(I / W)B = Export to Bhutan as % of Imports from Bhutan.

4 Bangladesh's Trade Relation with Myanmar

The geographical proximity between Bangladesh and Myanmar has made the two countries logical and ideal partners for harnessing natural resources to their mutual advantage. A general trade agreement between Bangladesh and Myanmar was signed on August 3, 1973 which is renewable every year. On June 1, 1989 three MOUs were signed on border trade and economic cooperation providing for joint ventures (government to government, government-private and private- private) and cooperation between private sector (FBCCI and UMCCI). Building on these, the border trade protocol was signed on May 18, 1994.

However, border trade formally began only on September 5, 1995. Although the potential for cooperation between the two neighbouring countries are significant, for the moment the focus is on border trade. But the important elements of infrastructure and administrative machinery which are being put in place will greatly encourage enhanced trade across Teknaf and Maungdaw. Bangladesh Trade fair/exhibitions in Yangon in 1995 and 1996 helped a great deal in creating demand for Bangladeshi products. Based on the feedback from the Yangon exhibitions, it was clear that getting to know each other, including each

others products, remained the key factor, which could lead to the idea of setting up permanent display cum sales centres of the two countries' products in Maungdaw and Teknaf.

Bangladesh exports pharmaceuticals and chemical fertilizer, textile fabrics, leather bags and purses, etc. Imports from Myanmar include rice, pulses, maize, betel nuts, pulp, logs, minerals, etc. Bangladesh's current trade with Myanmar is insignificant. Bangladesh exported US\$2.37 million worth of goods in 2002 (0.04 percent of global exports of Bangladesh). Earlier, jute manufactures, jute yarn and twine used to dominate Bangladesh's exports to Myanmar. But in recent years, Bangladesh has started exporting different items as indicated earlier. Even then, the absolute volume and value is still insignificant. Table 12 shows the trends of bilateral trade between Bangladesh and Myanmar.

Table 12 Trends in Bangladesh – Myanmar Bilateral Trade (in million US\$)

	FY1991	FY1996	FY2001	FY2002
Bangladesh Global Exports	1717.55	3882.42	6467.30	5986.09
Bangladesh Global Imports	3510.00	6931.00	9335.00	8540.00
Global Trade Deficit of Bangladesh	-1792.45	-3048.58	-2867.70	-2553.91
Bangladesh Exports to Myanmar	0.14	1.97	1.07	2.37
Bangladesh Imports from Myanmar	0.29	1.85	24.69	16.93
Trade Deficit with Myanmar (TD)	-0.16	0.11	-23.62	-14.56
(I / W)M	0.0084	0.0267	0.2645	0.1983
(I / W)X	0.0080	0.0506	0.0165	0.0396
(I / W)T	0.0083	0.0353	0.1630	0.1329
(I / W)TD	0.0088	-0.0037	0.8238	0.5703
(I / W)m	0.0047	0.0106	0.0004	0.0014

Source: Import Payments and Export Receipts (Bangladesh Bank)

Note: (I / W)M = Imports from Myanmar as % of Bangladesh's global imports.

(I / W)X = Exports from Myanmar as % of Bangladesh's global exports.

(I / W)T = Trade with Myanmar as % of Bangladesh's global trade.

(I / W)TD = Trade deficit with Myanmar as % of global trade deficit of Bangladesh.

(I / W)N = Export to Myanmar as % of Imports from Myanmar.

There is however, some indication that there is a thriving cross border trade between southern Bangladesh and northern Myanmar across the Naf river which runs along the border of the two countries. Since northern Myanmar is somewhat physically isolated from the rest of the country, this cross border trade with Bangladesh has contributed to the emergence of a flourishing local cross-border market to meet the needs of the inhabitants on both sides of the border. In addition, there are reports of unofficial exports of fertilizer to Myanmar across Bangladesh's southern land border. Meanwhile based on a joint decision of the Bangladesh

and Myanmar governments, construction of a 91 km. cross border Bangladesh-Myanmar friendship road is going to start in early 2004. The proposed road will be built from Ramu of Chittagong to Buthidaung in Myanmar at an estimated cost of 400 crores (US\$ 670 million). In this context, work will start immediately on development of the 34 km. Ramu-Balukhali road on Bangladesh side and 25 km. Taungbro-Balibazar road on the Myanmar side. In this connection, a survey team will be visiting the sites within February, 2004. In addition, work on the construction of two bridges and two km. of new road will also be taken in hand soon. A report on the construction of a bridge near Taungbro is already with the Ministry of Communications, Government of Bangladesh. In order to optimise the benefits of bilateral trade, a special economic zone at Teknaf, could be considered as a possible option. Such a zone could offer unique opportunities for joint ventures in manufacturing based on raw materials from Myanmar for export to third country destinations. BIMSTEC, could also open up new opportunities for enhanced cooperation and investment between Bangladesh and Myanmar.

For processing industries, the proposed special zone offers the right environment. The cement industry of Bangladesh depends on imported clinker. The vast lime stone deposit in the Rakhine state of Myanmar could provide the raw material for joint venture clinker factories in Myanmar with a ready market in Bangladesh where several existing factories could grind it into cement.

To boost economic cooperation, telecommunication links between Maungdaw and Teknaf, the two key points should be given top priority. A joint business promotion council with private sector representatives should be set up to monitor and help bilateral trade and investment. There are also immense opportunities for expansion of tourism between the two countries. This is another area where joint ventures are quite feasible.

Myanmar's liberal policy on leasing out lands on a mutually beneficial basis for agro-based industries, is really attractive for investors. On a commercial basis, cultivable, fallow or waste land is available up to 5,000 acres for plantation crops, 3,000 acres for orchard and 1,000 acres for seasonal crops. For aquaculture, the limit is 2,000 acres. For livestock, there are three categories: 5,000 acres for buffalo, cattle and horse, 1,000 acres for sheep and goats, 500 acres for poultry and pigs. Depending on the type of ventures, exemption from land tax is also offered for a period from two to eight years. There are also provisions for income tax waiver for a minimum period of three years from the date of commercial operation. Myanmar's liberal policy being quite attractive, many Bangladeshi investors may take advantage of this offer, which may in turn lead to increased trade with Bangladesh because many of the products of these agro-based industries may find a good market in Bangladesh.

Rohingya Refugees in Bangladesh

The ethnic Rohingyas of the Arakan state of Burma have been subject to a long and well-documented history of abuse including torture, rape, abduction, murder, forced labour, forced relocation and religious persecution. This has prompted massive internal displacements and large scale exoduses into Bangladesh at least five times since 1942. The government of Myanmar has launched no less than twelve major “operations” against minorities, especially the Rohingyas, ostensibly for reasons of national security (Siddique, 1999).

In 1978 the government sponsored operation Nagamin (King Dragon Offensive). This resulted in a mass exodus to Bangladesh with over 200,000 having crossed over by May 1978. Later based on an agreement between Myanmar and Bangladesh, repatriation commenced in August, 1978 which ended in Dhaka, 1979. a total of 187,250 refugees were repatriated without any involvement of the UNHCR or other international body. By that time at least 10,000 refugees had died, most of whom were children. In 1991 followed a dramatic political shift in Myanmar, Bangladesh experienced another mass influx of Rohingya refugees. SLORC (State Law & Order Restoration Council) refused to accept the results of May 1990 election, provoking a nation-wide protest and demonstration against the military regime. A scapegoat was required, and the Rohingyas, a common enemy of the ruler and majority Buddhists, fitted the bill, resulting in a mass exodus into Bangladesh for the second time in 13 years.

In 1991~92 more than 250,000 Rohingya Muslims sought refuge in Bangladesh to flee army persecution in the Arakan state of Burma. Over the last ten years while bulk of the refugees was repatriated, about 21,000 are still living in camps under difficult conditions (Abrar, 2002). The repatriation process has virtually come to a standstill; with the number of children being born in the camps exceeds the number of refugees repatriated.

The government of Bangladesh from the very beginning insisted that asylum for refugee was temporary and encouraged their immediate return. However, several factors have prompted the UNHCR to suggest temporary settlement of the Rohingya refugees in Bangladesh. These include, (a) the unwillingness of Burmese authorities to accept the total residual caseload, (b) the reluctance of a large section of the refugees to return to a situation where incidence of forced labour and violation of rights of the people is still rampant, and (c) the lack of enthusiasm of the donor agencies to continue to fund the Rohingya operation, what they see for an indefinite period, without any durable solution in sight. The UNHCR proposed policy of temporary integration would entail dismantling of the camps and allowing refugees engage in income generating activities. The Bangladesh government has so far refused to consider any proposal that calls for allowing refugees move out of camps on the ground that as

one of the most densely populated countries of the world with major resource constraint Bangladesh can ill afford any such scheme. It further argues that such a measure may trigger fresh influx of Rohingya from across the border.

With little prospects for repatriation to the country of origin in dignity in the foreseeable future, unwillingness of the Bangladesh government to consider temporary integration, and reluctance of the donors to continue with funding the operation, the Rohingya refugees indeed face a bleak future on this tenth year of their stay in Bangladesh.

5 Bangladesh's Trade Relation with China

The People's Republic of China and the People's Republic of Bangladesh officially established diplomatic relations on October 4, 1975. Since then the friendly relations and cooperation between the two countries have been growing steadily and smoothly. Fruitful cooperation has been achieved in the fields of politics, economy, military, culture, etc. Both the countries share basically identical opinions on most international and regional issues and maintain close coordination with each other in the international arena. There have been frequent exchanges of high-level visits, since 1975 leading to expanding cooperation in various fields.

In 1991, the Chinese leadership stressed that it would be a consistent policy of China to develop friendly relations with Bangladesh, which would by no means be affected by the changes either in the international or domestic situation in Bangladesh. In 1996, the two countries signed the Agreement on Encouraging and Protecting Investment, the Agreement for the Avoidance of Double Taxation and the Agreement on the Prevention of Tax Evasion.

In January 2002, the two countries signed an Agreement on Economic and Technical Cooperation, Certificate of handover of the Bangladesh-China Friendship Conference Centre, Executive program of the Cultural Agreement for 2001-2003 and four other agreements. In December 2002, the two countries signed an Exchange of Letters regarding the loan used for the project of Bangladesh-China Friendship International Conference Centre to be converted into a grant an Agreement on Economic and Technical Cooperation and two other agreements.

In November 1983, a joint committee on economy, trade and science and technology between China and Bangladesh was set up. The joint committee held its meeting in the capitals of the two countries in turn. Up to now the joint committee has had 10 meetings. China's major imports from Bangladesh are raw materials like leather, raw jute, chemical fertilizer, etc. China's major exports to Bangladesh are: textiles, machinery and electronic products, cement, fertilizer, tyres, raw silk, maize, etc.

In recent years the economic and trade ties between China and Bangladesh have developed considerably with gradual expansion in the areas of cooperation fields. According to the Export Promotion Bureau (EPB) and Bangladesh Bank, the bilateral trade in 2002 amounted to US\$ 897.15 million with an increase of 24.4 percent opposed to the previous year. This trade involved an export to China of US \$18.97 million and an import from China of US\$ 878.18 million. Thus there was a huge trade deficit between Bangladesh and China. Table 13 shows the trends of bilateral trade between Bangladesh and China.

Table 13 Trends in Bangladesh - China Bilateral Trade (in million US\$)

	FY1991	FY1996	FY2001	FY2002
Bangladesh Global Exports	1717.55	3882.42	6467.30	5986.09
Bangladesh Global Imports	3510.00	6931.00	9335.00	8540.00
Global Trade Deficit of Bangladesh	-1792.45	-3048.58	-2867.70	-2553.91
Bangladesh Exports to China	33.28	26.38	12.32	18.97
Bangladesh Imports from China	132.49	706.77	708.83	878.18
Trade Deficit with China (TD)	-99.21	-680.39	-696.50	-859.21
(I / W)M	3.77	10.20	7.59	10.28
(I / W)X	1.94	0.68	0.19	0.32
(I / W)T	3.17	6.78	4.56	6.18
(I / W)TD	5.53	22.32	24.29	33.64
(I / W)C	25.12	3.73	1.74	2.16

Source: Import Payments and Export Receipts (Bangladesh Bank)

(I / W)X = Exports from China as % of Bangladesh's global exports.

(I / W)T = Trade with China as % of Bangladesh's global trade.

(I / W)TD = Trade deficit with China as % of global trade deficit of Bangladesh.

(I / W)C = Export to China as % of Imports from China.

Trends in Investment between China and Bangladesh

China has been a very attractive source of foreign assistance for Bangladesh. Chinese investment in the development of Bangladesh has been mostly through long-term soft loan, project and commodity aid. There has been a number of suppliers credit available from China for several projects in Bangladesh. But in the recent years government has been discouraging supplier's credit as these sources were ultimately found to be expensive.

FDI from China to Bangladesh so far has been very limited. Some private sector investments have started coming in the recent years, but the amount is still very limited. Reliable estimates of these investments are not readily available.

Chapter 2

Transport Connectivity between Bangladesh and the Neighbouring Countries

1 State of Transport Connectivity

In a highly competitive world economy, transport cost is a significant determinant of competitiveness, which makes an integrated and efficient surface transport network an essential element of the enabling environment for economic integration at any level. The provision of an integrated transport network is however, a necessary, but not a sufficient condition for efficient international movement (Rahmatullah, 2003). It would be essential to have adequate facilitation measures to ensure that goods and vehicles can move freely across international borders and through countries. An integrated transport system can unleash the potentials of land-locked countries and areas; bring less developed areas into the mainstream of economic development and thereby facilitate more equitable spatial distribution of benefits of liberalized trade; provide more efficient transport linkages between certain pairs of origins and destinations; and introduce cost effective logistic chains between production, distribution and consumption centres.

Locational Advantage of Bangladesh

The transport network centring around Bangladesh was once part of an integrated system radiating outwards from the international sea ports of Kolkata and Chittagong (Fig-1). The inland water transport system also served parts of undivided India, particularly the northern and eastern part, with connections to the ports of Kolkata and Chittagong. The waterways and the rail network of Bangladesh were, prior to the partition of the Indian sub-continent in 1947, integrated with the greater Indian Railway and Indian waterway system. The railway and waterway links between India and Bangladesh survived the partition of India, but these communication links were disrupted following the Indo-Pak war of 1965. However, river transit traffic between Kolkata and North-East India resumed after a protocol was signed between Bangladesh and India in 1972. This protocol has been revised and renewed every two years and is still in force. Similarly, agreement for rail transportation between India and Bangladesh was renewed after 1972 providing for both inter-country and transit traffic. While

inter-country operation by railway has been going on, transit movement by railway has not commenced. There is no agreement for inter-country and transit facilities by road.

The first trade agreement between Bangladesh and India signed in 1972, provided for transit of goods from one point to another of the same country through the territory of the other. The trade agreement of 1980 also provides for such a facility. Finally, in 1993, the SAPTA (South Asian Preferential Trading Arrangement) provided for transit facilities among the member countries of the SAARC (South Asian Association for Regional Cooperation). Mostly due to political reasons, this transit facility has never been allowed by Bangladesh.

With regard to Nepal and Bhutan, both being landlocked countries, depend on transport routes through India for movement of their export and import traffic. Both the countries have traditionally been using the port at Calcutta and Haldia for their exports and imports but recently Mongla Port has also been used for some traffic. Because of its unique geographical location Bangladesh could play a significant role in the sub-regional transport system by offering attractive alternatives in terms of more direct, shorter route choices involving different modes of transport (road, rail and IWT). Besides, with the completion of Bangabandhu bridge (Jamuna bridge), in June 1998, Bangladesh could now provide shorter transport routes to Chittagong and Mongla ports, for traffic to and from Nepal, Bhutan and North-Eastern states of India (Fig-2 and Fig-3). In fact, Bangladesh could also offer facilities for multi-modal transport operation of container traffic.

Existing Condition of the Transport Network in the Countries under Study

Bangladesh and other countries in the sub-region which are covered by the study including Yunnan Province in the South West of China are directly connected with each other through the Asian Highway (AH) and the Trans Asian Railway (TAR) (Fig-4). Besides shipping, which currently provides the transport connectivity among the countries under study, there are four other modes of transport which have the potential to provide direct linkages between these countries. These modes are: (a) Road Transport, (b) Rail Transport, (c) Water Transport, and (d) Air transport. Indicated below is the present state of these transport modes with specific suggestions for their improvement.

Road transport

In the South Asia sub-region, road transport is the dominant mode and its importance is growing in all countries. The dominance of road transport is evident when one compares the modal shares (excluding air transport and coastal shipping which are negligible), as shown below.

Table 1 Modal Shares for Different Routes (%)

	Bangladesh		Bhutan		India		Nepal	
	F	P	F	P	F	P	F	P
Road	72	70	100	100	60	80	100	100
Rail	8	12	-	-	40	20	Neg.	-
IWT	20	18	-	-	Neg.	Neg.	-	Neg.

Notes: F freight transport; P passenger transport; Neg. negotiable.

Source: Hayat, 2000

[Bangladesh - India road link]

Most of the trading between Bangladesh and India takes place along the land routes. The border between India and Bangladesh has *ten road based* and *four rail based* land border check posts. The road based posts are: Banglabandh, Bhurimari, Hili, Sonamasjid, Benapole, Bhomra, Tamabil, Haluaghat, Akhaura, Bibir Bazaar and the rail based ports are Biral, Rohanpur, Darshana, and Shebazzpur. The Benapole (Bangladesh) - Petropole (India) route by road including ferry crossing to greater Dhaka has the heaviest movement in terms of value, accounting for about 80 percent of India's export to Bangladesh. Currently, there are 200 to 300 trucks moving daily via Benapole - Petropole border stations.

The North-Eastern sector of India obtains access to Bangladesh through the Tamabil (Bangladesh) - Dawki (India) route. The Asian Highway route within Bangladesh from Dawki (India) / Tamabil (Bangladesh), to Sylhet and onwards are well developed with 2 lane bituminous roads of AH standard II and III. The Asian Highway route from Imphal to Dawki / Tamabil (border point with Bangladesh) passes through Dinapur – Nowgong – Guwahati and Shillong in Meghalaya (Fig-5). The road passes through hilly terrain and therefore, there could be difficulties for movement of heavy trucks with container loads. While the Tamabil - Dawki border station is open for all traffic, it is mainly used for coal. Dawki is the oldest and largest land custom station in the entire northeast region. The Banglabandh, Hilli and Bhurimari border crossings in the northwest part of Bangladesh are the least utilized crossing points but could increasingly play an important role for sub-regional transport between Bangladesh and Bhutan as well as between Bangladesh and Nepal.

For India, communication between Calcutta and the North eastern Indian states of Assam, Meghalaya, and Arunachal Pradesh could be significantly facilitated if the road and rail connection through Bangladesh could be opened up. The shortest route would be Kolkata – Benapole – Darsana – Jessore - Jamuna Bridge - Dhaka – Sylhet - Tamabil - Guwahati (Fig-6) or Kolkata - Darsana - Jamuna Bridge – Tongi – Sylhet – Shebazzpur – Mahisasan – Shilchar - Luming as against the route through the chicken neck between Nepal and Bangladesh (Fig-7). It is also of interest to India to have access to Chittagong port for export/import of goods from North-East India and Agartala by road through Tamabil and/or

by rail through Shabajpur/Mohishasan, and by road and rail through Akhaura. The transit issue has not received the necessary political support in Bangladesh as yet, although the economic advantages have been recognized by experts and in discussions within civil society. But situation may change quickly if the Islamabad declaration adopted by the SAARC Summit in Islamabad on January 6, 2004 is implemented with regard to opening up the transit routes within the region to facilitate trade.

[Bangladesh - Bhutan road links]

Under an agreement with India, Bhutan was permitted to use the Phuntsholing (Bhutan) - Changrabandha (India) – Burimari (Bangladesh) route for her trade with Bangladesh as of January 1998. Under this agreement Bhutan is using this particular route for its trade with Bangladesh through Indian territory. Information gathered indicates that a more convenient route from Bhutan's point of view is Central Bhutan to Dalu (India) to Nakuganj (Bangladesh). Since, the validity of the 20 year trade agreement expired on September 8, 2000, it is recommended that during negotiations between Bangladesh and Bhutan on renewal of this agreement, this requirement be taken into account for specifying the transit route.

[Bangladesh - Nepal road links]

The preferable road connection to Nepal from Bangladesh is through Kakorvitta and Phulbari to Banglabandh in Panchagarh District of Bangladesh. The width of the Indian territory separating Bangladesh and Nepal is only 26 km. It may be mentioned that the East-West Highways in Nepal and the connection via Phulbari and Banglabandh to Dhaka is part of the Asian Highway No. 2. As an outcome of the talks between the Prime Ministers of India, Bangladesh and Nepal, in June 7, 1997, India offered to Nepal, the 56 km. route for trade/transit between Nepal and Bangladesh via Kakorvitta on the Indo-Nepal border and Phulbari on Indo- Bangladesh border. This will give Nepal easier access to Chittagong and Mongla ports in Bangladesh as an alternative route to the Kolkata port, which is often congested. But this would need India's transit agreement for Nepal to use this corridor for third country trade.

[Bangladesh –Myanmar road links]

Earlier a shorter route from Imphal to Sylhet (Bangladesh) passing through Karimgonj (India) and Austragram (Bangladesh) was identified both by India and UN-ESCAP as a route for the Asian Highway. This route could have provided about 400 km shorter link between Tamu in Myanmar to Sylhet in Bangladesh. Since India did not agree to this shorter link between Bangladesh and the Northern part of Myanmar, the only link available now is through Guwahati/Shillong - Nowgong- Tamu, which would not be very attractive as it passes through hilly terrain.

Bangladesh, however, has always been interested to have a direct road link southwards from Chittagong to Yangon across the Naaf river and through Rakhine state of Myanmar. Myanmar, based on its domestic resources, has been building a road between Yangon and Sittwe, the capital of Rakhine state. This road goes through a very difficult terrain and certain parts of the road, in fact used the alignment that was built for military purposes during the Second World War. The entire road has recently been upgraded into an all weather one lane paved road. The road from Kyauktaw to the Myanmar border town of Maungdaw opposite Teknaf in Bangladesh was also under construction, and was completed last year (Fig-8). Meanwhile, the Governments of Bangladesh and Myanmar have agreed to establish a road link from Chittagong to Yangon. To this end, a 91 km. cross-border road is going to be built from Ramu in Chittagong district to Buthidaung in Rakhine state of Myanmar at an estimated cost of Tk. 4000 million (US\$ 670million). In this connection, programmes have been finalized for development of the 34 km Ramu-Balukhali road in Bangladesh and 25 km. Taungbro- Balibazar road in Myanmar. To this end, a survey team is scheduled to visit Myanmar in February, 2004. The programme also includes construction of two bridges and 2 km of new road. A report on the site selection of the Taungbro bridge is already under review. This southern direct road link between Bangladesh and Myanmar should be very useful in promoting trade links between these two neighbouring countries.

Bangladesh has also recently established a river port at Teknaf, to provide the shortest link with the border town of Maungdaw across the Naaf river. Initially, the traditional water vessels are being used to ferry the cargo between the new port and the other side of the Naaf river in Myanmar. The new port may in due course act as a gateway for bulk export and import of commodities between the two countries. Bangladesh is also in the process of establishing a costal shipping line with Myanmar. In due course, this could also cover Thailand.

[Bangladesh-China road links]

Once the new road link between Bangladesh and Myanmar in the South is established, in the long run, this route may provide a link to the Mandalay – Yangon AH route. In fact when the Sittwe (Myanmar) - Kunming (China) road link is established, that will provide a suitable connection for Bangladesh to China, since the Maungdaw – Kyauktaw (105 km) link has already been improved and a 91 km. road link between Ramu in Chittagong to Buthidaung on Maungdaw – Kyauktaw road will also be completed soon. It may be noted that Buthidaung is only 75 km from Kyauktaw. In order to establish a direct road link between Yunnan and Sittwe, consultation with the Myanmar authority revealed that the linkage could be established using the existing road sections, parts of which are already identified as the Asian Highway

links. Kunming is already linked with Mandalay and Yangon by AH route #3 and AH route # 1, which passes through following places:

Yangon - Pegu – Payogyi – Pyinmana –Meiktila – Mandalay – Lashio – Ruili/
Mu-se – Baushan – Dali – Chuxiong – Kunming

The proposed Sittwe – Kunming road link could be established by developing the link from Pyinmana, a town in Mandalay Division of Myanmar. The link could follow the route Pyinmana – Taungdwingyi – Magwe – Minbu – Ann. (340 Km). Beyond Ann upto Sittwe, the road was already under improvement and it passes through Ann – Mrauk – Kyauktaw – Sittwe (325 km). In order to give a proper shape to this link i.e. to build a road of an appropriate standard from Pyinmana through Ann to Sittwe, Government of Myanmar and Yunnan Province of China shall have to set up a “Task Force” to look into the technical and financial implications.

[Kunming (China) – Ledo (India) road links]

Besides the Asian Highway route which has been highlighted above, it is important to mention that there used to be a road known as the “China – India road” or the “Ledo Road” which was built during the Second World War. The alignment was Kunming – Baoshan – Tengchong – Houqiao (China – Myanmar border) – Myitkyina (Myanmar) – Ledo (India) (Fig-9). The total length between Kunming and Ledo is about 1700 km of which 800 km is in Yunnan’s territory. At present, apart from some portions between Myanmar and India which is in a very poor state, the other road sections between China and Myanmar, and the section within India are good enough for use by road transport. This route, if developed could have been the shortest possible connection between China and India, but Myanmar has some difficulties with the alignment, as it passes through a security prone area.

Rail transport

While there is no railway network in Bhutan and Nepal, the railway networks in each of the other four countries (Bangladesh, India, Myanmar, and China) are well developed within their national boundaries. But their networks are not yet connected with each other. India and Bangladesh do have historical rail links which are currently in a state of under-usage. Myanmar does not have any rail connection as yet with Yunnan (China), India, Bangladesh, or even Thailand. A number of projects within the framework of the Trans-Asian Railway (TAR) programme are under implementation in these countries. The state of these railways are indicated below:

[Bangladesh]

TAR Meter gauge rail links between North-East India and Bangladesh are already in place at Shahbajpur opposite Mahisason from where the line goes to Kulaura and then to Akhaura, which is the border point opposite Agartala. But this line through Mahisason has for

many years been defunct because of lack of traffic as well as facilitation measures to move traffic across the border.

There is no plan as yet to make this section (Shahbajpur – Akhaura - Dhaka) a dual gauge. Rail traffic does regularly move across Bangladesh's western border with India through a broad gauge line which connects both rail systems, through Darsan / Gede and Rohanpur / Singhabad, and along the metre gauge line between Biral / Radikapur.

Bangladesh Railway recently (August, 2003) opened the dual gauge railway line, from Parbatipur to Jamtoil (245 KM), a point to the west of the Bangabandhu bridge, and another link on the eastern side, from Bangabandhu bridge to Joydepur (99 KM). Further dualization from Joydepur to Dhaka (35 km) is expected to be completed sometime in 2005-6. Some preliminary discussions are underway to extend the dualization of the track up to Chittagong in the near future. At that time, Bangladesh Railway would be able to handle Nepalese traffic from Rauxal by BG through Chittagong Port without any transshipment.

[India]

The only missing link in the railway network in North East India is the portion Tamu - Jiribum (180 km). From Jiribum onwards upto Mahisasan (160 km), near the Bangladesh border, a metre gauge railway serves that part of the region. Conversion work is in progress in the Lumding - Silchar (198 KM) section and also in Silchar - Jiribum section. Another new line from Kumarghat - Agartala (119 KM) in Tripura State near the eastern side of Bangladesh is under construction, initially of a MG standard but on a BG formation. This section when completed will connect Agartala with the rest of India by rail, through Assam.

[Bangladesh – India rail links]

Presently three rail corridors (two broad gauge and one meter gauge corridor) are active for export and import traffic between India and Bangladesh. In addition, the Benapole - Jessore rail corridor in Bangladesh has also been rehabilitated. The broad gauge connections are Gede (India) - Darsana (Bangladesh) and Singhabad (India) - Rohanpur (Bangladesh), while the meter gauge connections are Radhikapur (India) - Birol (Bangladesh). The other meter gauge connection Mahishashan (India) - Shahbazpur (Bangladesh), has not been used in recent years.

[Bangladesh – Nepal rail links]

At present there is no agreement between Nepal, India and Bangladesh to allow Nepalese third country trade (both export and import) to go through Bangladesh sea ports using the Bangladesh and Indian Rail System. But excellent facilities do exist for this purpose. Nepalese traffic from Rauxal (Nepal-India border point) could come to Khulna / Mongla port through a broad gauge line without any trans-shipment. The route goes through Kathihar in India and Rohanpur in Bangladesh. When dualization of rail track from Joydepur to

Chittagong is completed, Nepalese traffic could also use Chittagong port instead of Kolkata which often remains congested.

[Bangladesh –Bhutan]

In January 1984 a Memorandum of Understanding (MOU) was signed between Bangladesh and India which provided for transit facilities through India on Gitaldha / Mongalhat rail route as the entry/exit points of Bangladesh-Bhutan trade. A similar agreement between India and Bhutan designated the above points for Bhutan's trade with third countries.

[China]

The proposed TAR link between Kunming (Yunnan) and Mandalay (Myanmar) passes through Dali - Baoshan - Ruili/Mu-se – Lashio. The Kunming – Dali link of 380 km has been completed in standard gauge. The feasibility for the construction of the Dali-Ruili link of about 630 km is on-going and the land survey for the portion, Dali - Baoshan (166 km), has been completed. Since the development of the railway at the provincial level is coordinated by the Central Government, the Government of Yunnan is waiting for funding support from the centre for this railway link.

[Myanmar]

From Mu-se, the proposed TAR railway alignment runs south approximately 230 km to the existing northeastern railhead in Myanmar at Lashio. The TAR network in Myanmar provides a reasonably good quality meter gauge rail link from Lashio in the East, to Kalay in the West, near Indian border. This rail route passes through Mandalay – Chaung U – Pakokku and Gangaw. The only missing link in Myanmar on the western side bordering India is the portion Kalay – Tamu (135 km).

Water transport links

An analysis of the potential of developing land-cum-water transport connections between the countries under study, revealed that it is possible to develop and operate water transport only between 2 pairs of countries, namely, Yunnan (China) – Myanmar, and Bangladesh – India.

[Bangladesh – India]

Under a protocol signed between Bangladesh and India in 1972, both inter-country and transit traffic are allowed to move by Inland Water Transport (IWT) (Fig-10). This protocol is being renewed every two years, and some improved provisions are being made every time to facilitate smooth movement of goods by IWT.

However, river transport now carries only a fraction of the cargo that used to move prior to 1965. As a result, these routes which were Class I, and which were once operable throughout the year with a minimum draft of 12 feet have deteriorated in quality due to lack of

maintenance. This has led to shifting rivers due to high siltation, which need regular dredging. This also makes it difficult to maintain stable depths on the secondary routes.

India and Bangladesh have well-developed private and public sector barge operations. The barge fleets include both self-propelled and dumb barges which are almost 15 to 16 years old. The capacity ranges from 150 tons for self-propelled and up to 1,200 tons for dumb barges. There is a significant overcapacity due to diversion of traffic away from the rivers to the roads. This has led to severe competition and low freight rates on river routes.

Although under the current protocol, the IWT route is the only link along which transit traffic through Bangladesh between North-East India and the rest of India is allowed, India, apparently is not making full use of this opportunity. Transit traffic has been falling over the years and now stands at around 2000 M/Tons per year. The inter-country traffic has also gone down and fluctuates greatly from one year to the other.

[Bangladesh – Bhutan]

In January 1984 a Memorandum of Understanding (MOU) was signed between Bangladesh and India which provided for transit facilities through India on the Dhubri/Noonkhawa river route as the entry/exit points for Bangladesh-Bhutan trade.

[Yunnan – Myanmar]

The connection by land-cum-water transport between Yunnan and Yangon, the deep water port in Myanmar leading to the Indian Ocean, is possible through the river port of Bhamo on the Irawaddy river in Myanmar (Fig-9). The road link between Ruili (Yunnan) to Bhamo (160 km) would need upgrading from the current class IV status (6.5 metre wide pavement) to class III, then to class II in the 2nd stage. The Irawaddy river will provide the main water transport connection, where the river is of class IV standard, capable of accommodating 500 ton vessels between Bhamo to Mandalay (about 410 km). The river is capable of accommodating 800 ton vessels between Mandalay and Yangon. The Irawaddy river is quite deep, for 80% of the length, the waterway is 5 meter deep. A water transport terminal shall have to be built at Bhamo through some form of cooperation between Yunnan and Myanmar. The river bed at Bhamo is stable, and sufficient depth of water (upto 10 metre) is available throughout the year. The land nearby is flat and a 2 km long terminal can be built. About 3 sq. km. of land is also available to build a port for inland water transport. Vessels of suitable design shall have to be built for carrying cargo along Irawaddy river. A factory for vessel building shall have to be established as a joint venture between Yunnan and Myanmar. Government of Myanmar has expressed interest in this project. If a road-cum-water transport link can be established between Kunming and Yangon, it will provide a very economical transport link.

Air transport connection

For promotion of trade and tourism among the countries under study, there is a need to have direct air transport links between important places within these countries and territories. Air-links have already been established between Kunming – Yangon, Kunming-Mandalay, and Kunming is a transit station between Shanghai and New Delhi. With regard to Dhaka – Yangon, there is only a weekly flight. There are direct flights between Dhaka – New Delhi, Dhaka – Kolkata, Dhaka – Kathmandu and Dhaka – Thimphu. Besides air-links between the respective capitals of the six countries, it would be useful to consider having air transport links, say between Kunming – Dhaka, Kunming – Calcutta and Kunming - Guwahati, etc. Similarly air-links between Sylhet – Guwahati, Chittagong – Yangon, etc. could also be considered.

[Bangladesh-India transit /trans-shipment issues]

It is a recognized fact that the present system of trans-shipment of goods traded between India and Bangladesh at a border was time-consuming, contributing to corruption and that such delays should be minimized, if not abolished, by allowing vehicle transit, under prevailing international norms, to facilitate flows of traffic originating in India, Nepal and Bhutan for goods entering or crossing Bangladesh. Bangladesh could earn considerable foreign exchange from both north-south and east-west transport links with India, Nepal and Bhutan at various points. Bangladesh should therefore, improve her roads, railways and waterways in order to offer improved and competitive services to her regional neighbours.

India and Bangladesh could jointly develop infrastructure capabilities in order to improve transit facilities and services. India, should also offer to invest in the upgrading of the railway system as well as in the expansion of Chittagong port facilities. The Indian railhead at present is 135 km from Agartala (Tripura State). But Agartala is only around 7 km from Akhaura and could easily be accessed from Bangladesh by road and rail and an outlet through Chittagong port could be provided without difficulty.

Such internal transport systems could aim towards building a common system to feed into the bigger regional transport grid. The costs of developing this system could also be shared as the benefits would be mutual. The economic and political gains from improved transport and transit to both India and Bangladesh, would be very high. Once such infrastructural and linked industrial developments have taken place, the sub-region would be more attractive for national, regional and international investments. Transit facilities would further promote people to people interaction as well.

In late 1990s, an initiative was taken by the then government of Bangladesh to resolve the transit issue of Indian traffic across Bangladesh. Since railway link through Jamuna Bridge was not in place at that time, Bangladesh was looking into the possibility of allowing transit by road. But realizing that Bangladesh roads are designed for an axle load

limit of 8.2 tons, viz-a viz Indian roads which are designed for an axle load limit of 10.2 tons, Bangladesh ruled out the possibility of allowing Indian loaded trucks to ply on its roads, as these were likely to cause large scale damage to its infrastructure, particularly because since most of the Indian trucks are highly overloaded, which often exceeds the limit of overloading of Bangladeshi trucks.

The option which was being discussed was to allow trans-shipment of Indian goods into Bangladeshi trucks at the western border, which were to be delivered at the eastern border, and trans-shipped into Indian trucks, and vice-versa. Somehow the initiative did not materialize finally due to political opposition. The transit issue, however, needs to be resolved soon. The road damage issue could be easily resolved and trans-shipment of goods at the border could be avoided if Bangladeshi trucks could be allowed to pick up Indian goods from inside India and deliver these on the other side of India across Bangladesh. Alternately, multi-axle vehicle could be used to carry containers across Bangladesh, so that the roads are not damaged. But for a long term sustainable solution, transit should be provided through railway and inland water transport where adequate spare capacities are also available.

Using the Jamuna Bridge for transit facilities by rail and also by road if feasible, looks to be an attractive proposition for India, and also for Bangladesh, to facilitate movement of Indian traffic across Bangladesh to North-East India. Such a mutuality of interests could serve to improve the rate of economic amortization of the JMB investments.

The development of Mongla port plus its hinterland, to offer transit to Nepal and Bhutan, was also seen as an important opportunity for Bangladesh and its northern neighbours. This would help these countries to diversify their trading outlets through Mongla port. For this prospect to be realised, India must agree to allow movements of Nepal and Bhutan's transit traffic across its Territory.

A JICA report has stressed that Bangladesh has tremendous potential for becoming more competitive in many economic areas. With adequate foreign investment, Bangladesh can emerge as the epicenter of a Bay of Bengal industrial triangle, embracing North-East India, Nepal, Bhutan, Northern Myanmar, and South-West China. The development of the Eastern South – Asia sub-region centering around Bangladesh must be increasingly viewed within a regional context.

In order to avail of such opportunities originating from developments in the above mentioned sub-region, Bangladesh should improve its infrastructure facilities to support trade. If port facilities are improved and related services and management made more efficient, then Chittagong port could become an attractive choice for servicing not just the North-East India, but could, via the Jamuna Bridge service Nepal and Bhutan, and could even be a cost-effective outlet port for the external trade of South West China.

If Bangladesh fails to integrate into the rapidly changing and expanding transport system of Eastern South Asia, the system will develop without Bangladesh. Under these circumstances, Bangladesh will have to pay heavily for exclusion in lost economic opportunities and later, added costs, for integrating, out of necessity, into the fast developing transport systems around it.

Bangladesh has had political reservations in respect of transit facilities to be provided to India for movement across its territory. This has gradually become highly sensitive political issue in the country. Such political constraints would obviously need to be taken into account by the respective governments in addressing this transit/trans-shipment issue. This research paper has tried to highlight the economic costs and loss of benefit to both Bangladesh and India for the slow progress in resolving the transit issues and the benefits to be gained by both sides in terms of employment, investment and income generation if the issue could be resolved. It is both possible, and also feasible, to substantially improve the transport links to each other's mutual economic benefit. This must be kept in mind by both governments in making what will always be politically driven decisions on this subject.

2 Facilitation Measures Needed at the Border Crossing

To facilitate movement of international traffic, countries need to accede to international conventions which are already well developed. Taking lessons from European experience, UN-ESCAP resolution 48/11, adopted in April 1992, urged member governments to accede to seven international land transport facilitation conventions. Please see *Annex I* for further details of these conventions.

But the actual response to accession has been extremely poor. As of 2002, China and India are a party to only one convention each, whereas Bangladesh and Myanmar are party to none at all. One reason for the poor response, in terms of accession, to these conventions appears to be a perception that some of these conventions, which are of European origin, are too complex for adoption by the developing Asian countries at the current state of their economic and institutional development⁷. There may also be a perception that the national interest could be better served through bilateral agreements negotiated on the basis of reciprocity. These perceptions have persisted largely because of a lack of awareness about the

⁷ This is particularly felt in the case of provisions like the one in the TIR convention which requires international guarantee, supported by private insurance industry, to ensure that duties are paid on goods in transit in the event contractual requirements are not met.

importance of and the benefits that could be derived from an accession to the international conventions.

The bilateral transit agreements that the countries are currently using are, however, not particularly conducive to the expansion of sub-regional trade because of the restrictions usually imposed by the transit country. The transit country specifies the port and the highway routes to be used, railway system to be adopted, frontier crossings to be made available, warehousing infrastructure to be made available in ports, break bulk and trans-shipment points, as well as the documentation procedures for transit trade. This makes transportation across national borders both inconvenient and costly.

A quick overview of the existing situation with regard to movement of goods and people between countries under study revealed that barriers to movement are substantial. Indicated below are some of the major types of constraints in respect of movement:

Constraints related to vehicles

The constraints which could be related to vehicles may include, among others, the following: commercial operating rights; mutual recognition of vehicle registration and roadworthiness certificates; technical standards and specifications of vehicles; traffic rules, regulations and signals; mutual recognition of driving licenses; mutual recognition of third-party liability insurance; and temporary importation of vehicles.

Constraints related to goods

The constraints related to goods may include, among others the following: customs facilitation measures; cumbersome transit regimes, multi-stop processing of documents and goods, medico-sanitary and veterinary inspection; compulsory quality control checks, and special regimes for certain categories of goods; and currency controls.

Constraints related to persons

The problems that the people face in crossing the borders between the countries under study may include, among others the following: passports, visas, and border permits; health controls; and regulations concerning personal effects and currency.

Constraints related to infrastructure

Infrastructure related problems can cause great inconvenience to the people and vehicles crossing the border. The problems may include, among others, the following: inconsistent road and bridge design standards; absence of formal standardization of road signs and traffic signals; absence of a consistent road users charge regime; and inadequate physical facilities at border crossing.

Other constraints

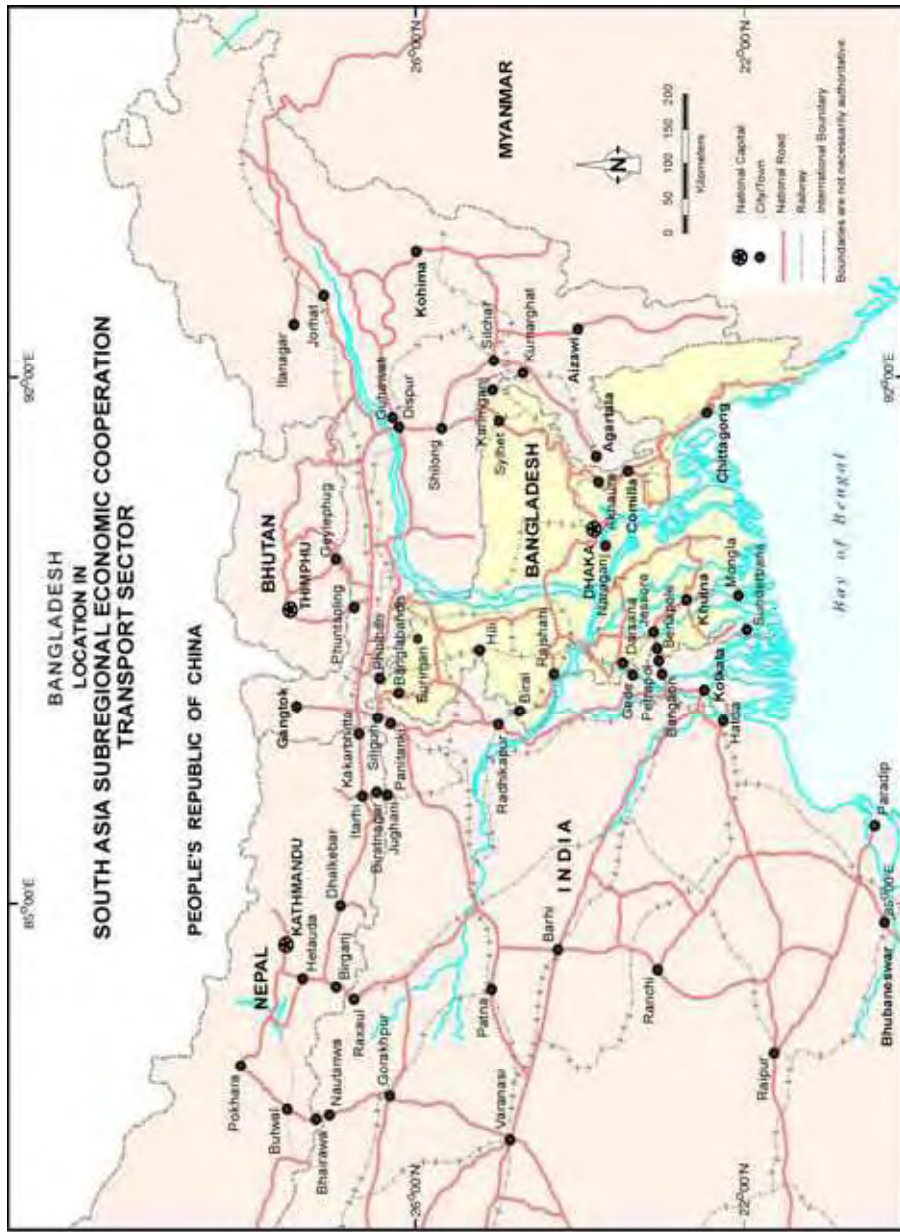
There are two other constraints which could not be grouped under above categories. These are: lack of harmonization of documents and formats; and discriminatory national laws and regulations.

Recognizing that countries may take sometime not only to accede to the international conventions but to implement them in practice, a number of sub-regional countries have started adopting, as an interim measure, *Transit Transport Framework Agreements (TTFAs)*. Important provisions from the international conventions are being included in the protocols of these TTFAs. These are expected to facilitate movement of goods and people among the countries in the sub-region who are signing such agreements. TTFAs could contribute to harmonization, simplification and standardization of policies and legal instruments which best lend themselves to action at the sub-regional level. Measures envisaged in TTFAs, such as the mutual recognition of driving permits, the issuance of multiple entry visas to transport operations and harmonized customs documents and procedures, would minimize delay at border crossings to the benefit of transporters and traders.

A number of regional multilateral instruments which have already been adopted, and where at least one of the countries is involved, could be quite relevant to issues pertaining to the facilitation of the cross-border movement of goods and/or people among the countries being studied. These instruments where Myanmar is involved, include among others: (a) Agreement on the Recognition of Domestic Driving Licenses by ASEAN countries (1985); (b) the ASEAN Framework Agreement on Facilitation of Goods in Transit (1998); (c) the ASEAN Agreement on the Recognition of Commercial Vehicle Inspection Certificates for Goods and Public Services Vehicles; and (d) the ASEAN Framework Agreement on Multimodal Transport.

Following the ASEAN trend, the GMS countries also adopted a Framework to Facilitate the Cross-Border Movement of Goods and People within the sub region where both China and Myanmar are involved. In line with the above trend of ASEAN and GMS, countries under study may also like to consider adopting a framework, which need to be developed based on in-depth studies and consultation with member countries, may be within the framework of SAARC. Meanwhile, with the financial and technical support of ADB, SAGQ countries (Bangladesh, Bhutan, India and Nepal), under the South Asian sub-regional Economic Cooperation (SASEC) programme, are trying to bring in improvement in border crossing through both hardware and software improvements. The experience gained in this respect could be useful for replication elsewhere.

Figure 1



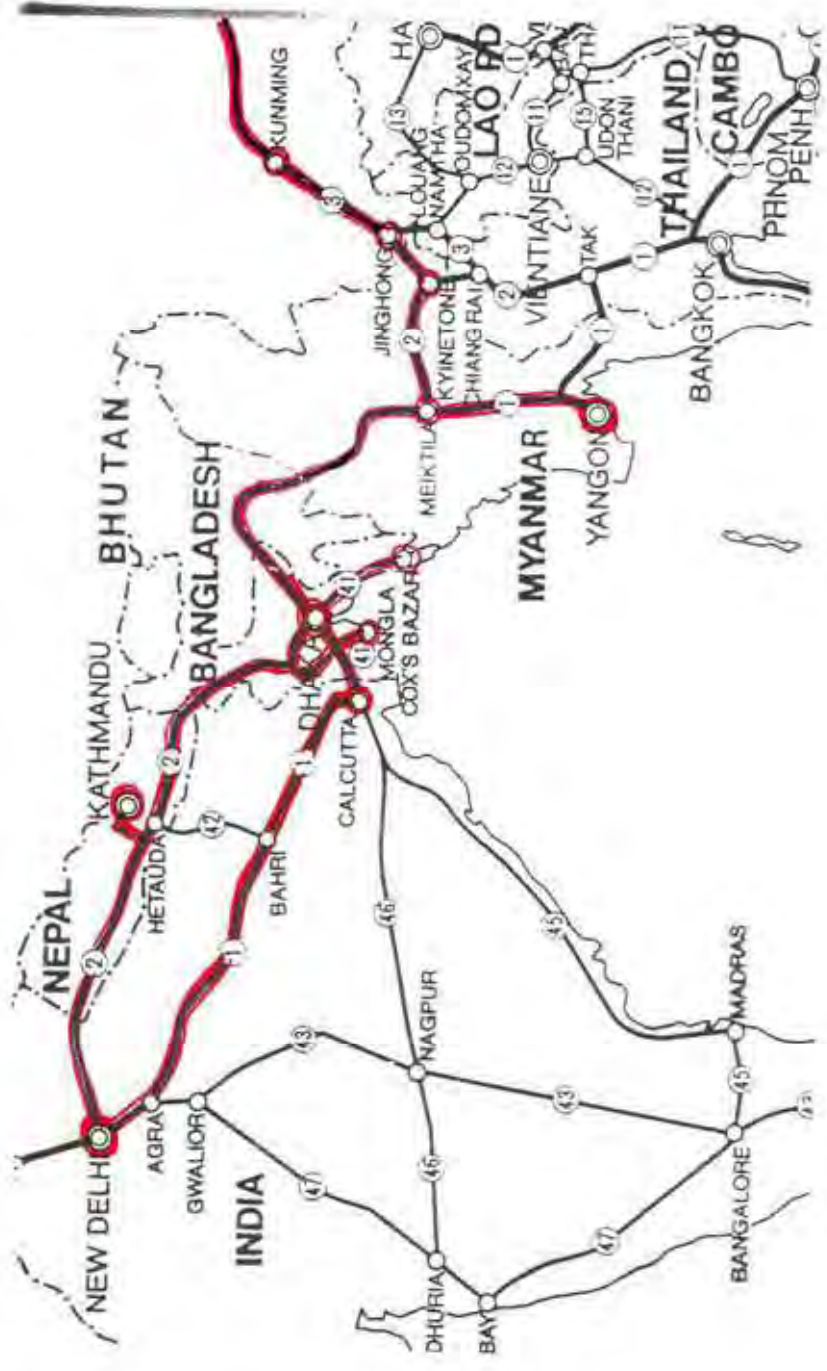


Figure 2

Figure 3

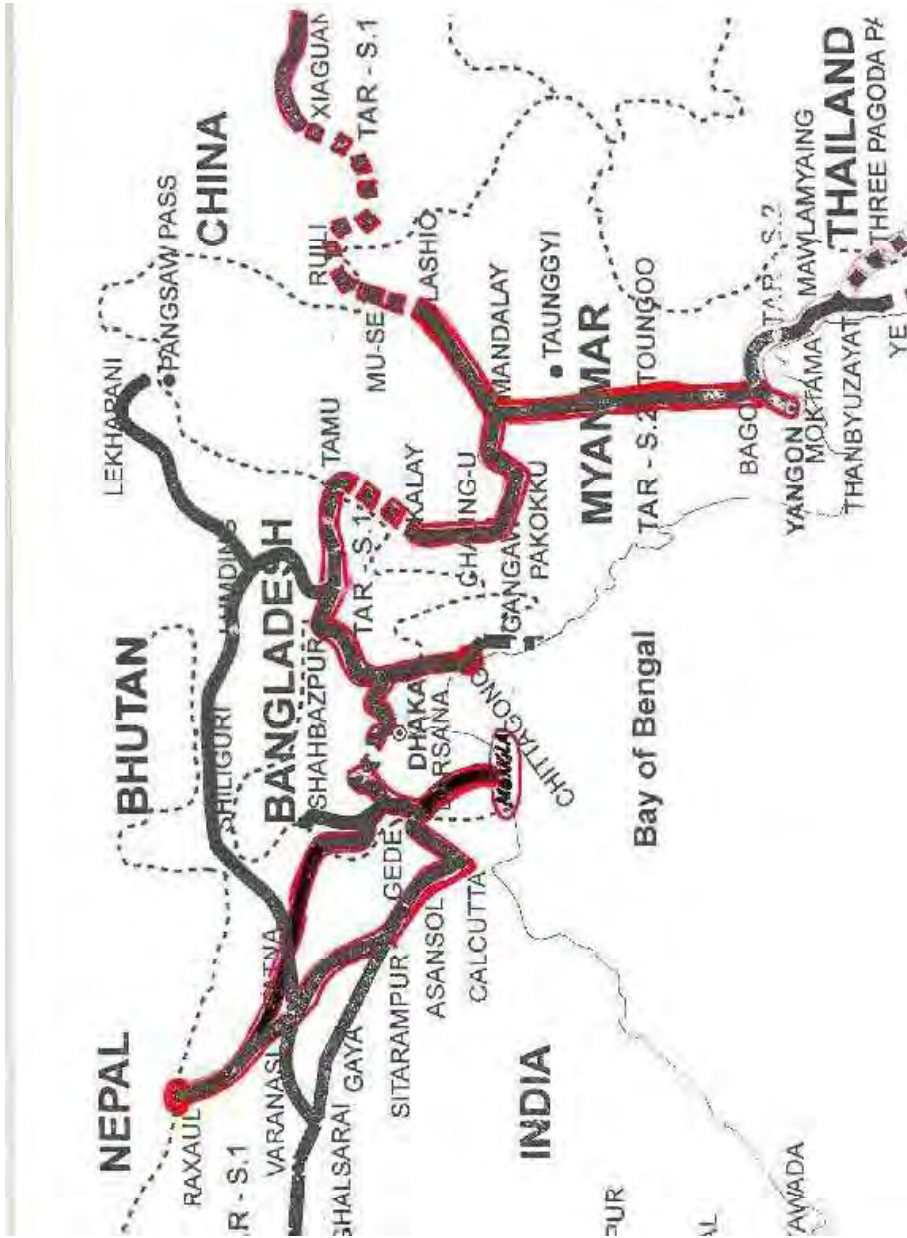


Figure 4



Figure 5

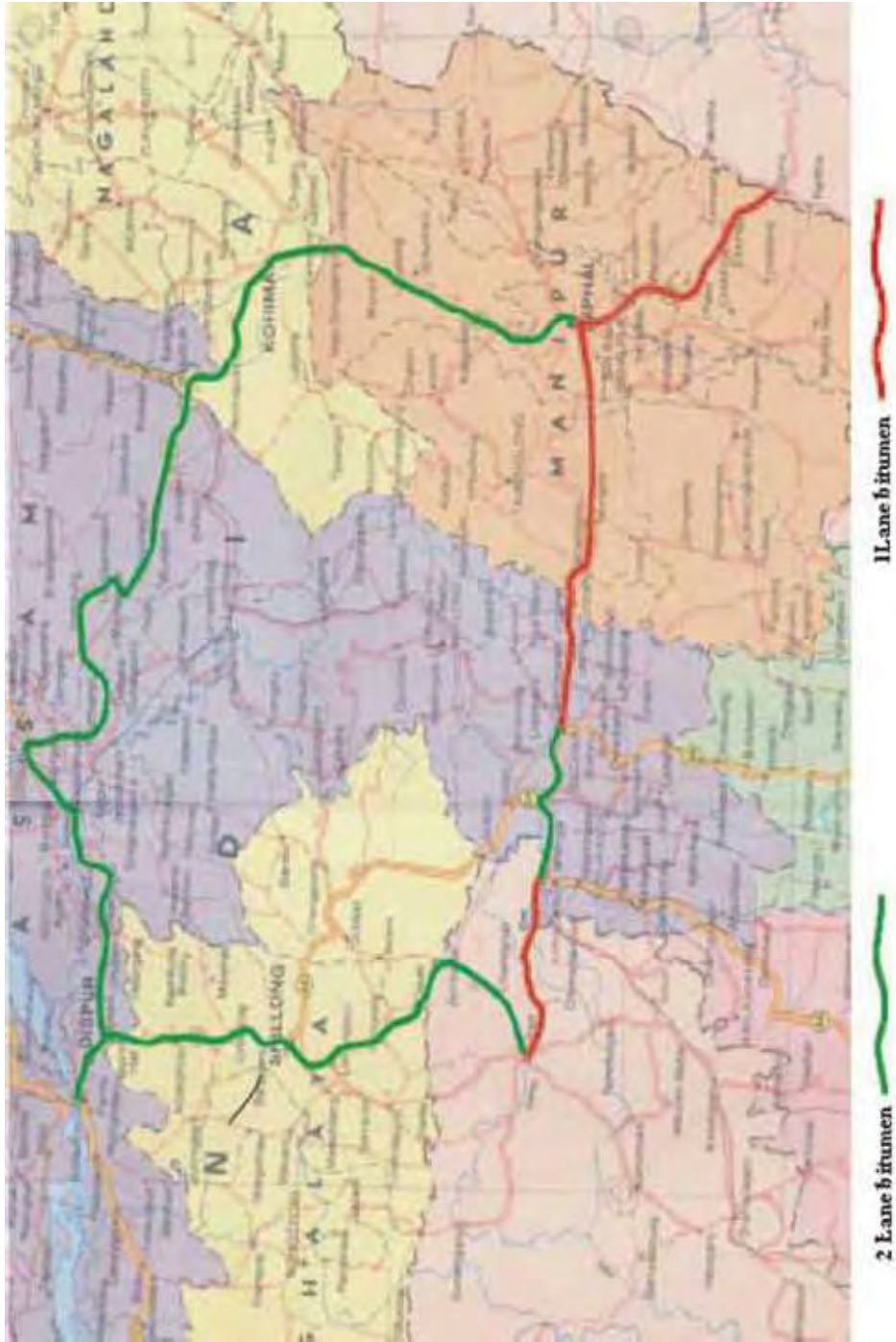


Figure 6

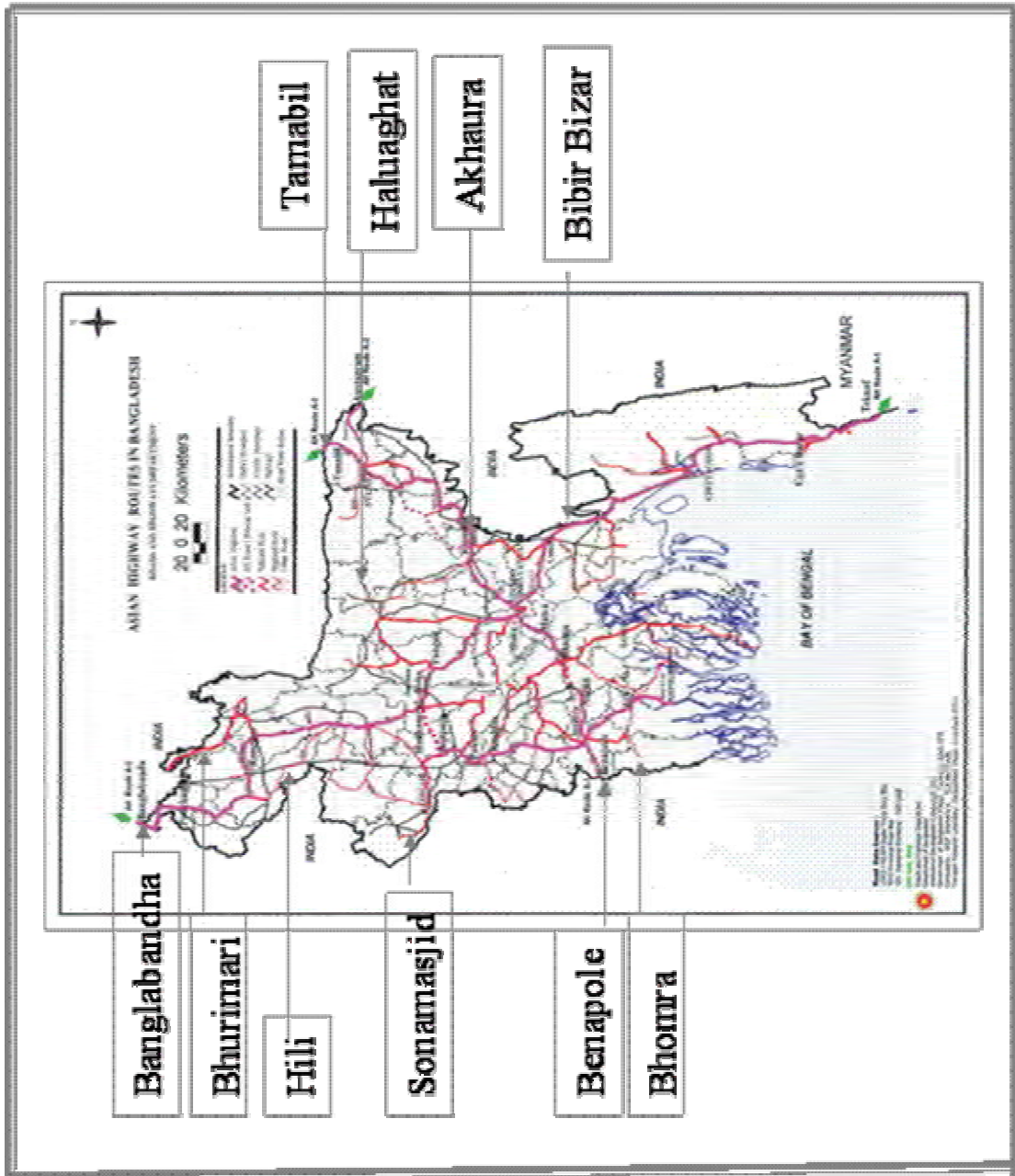


Figure 7

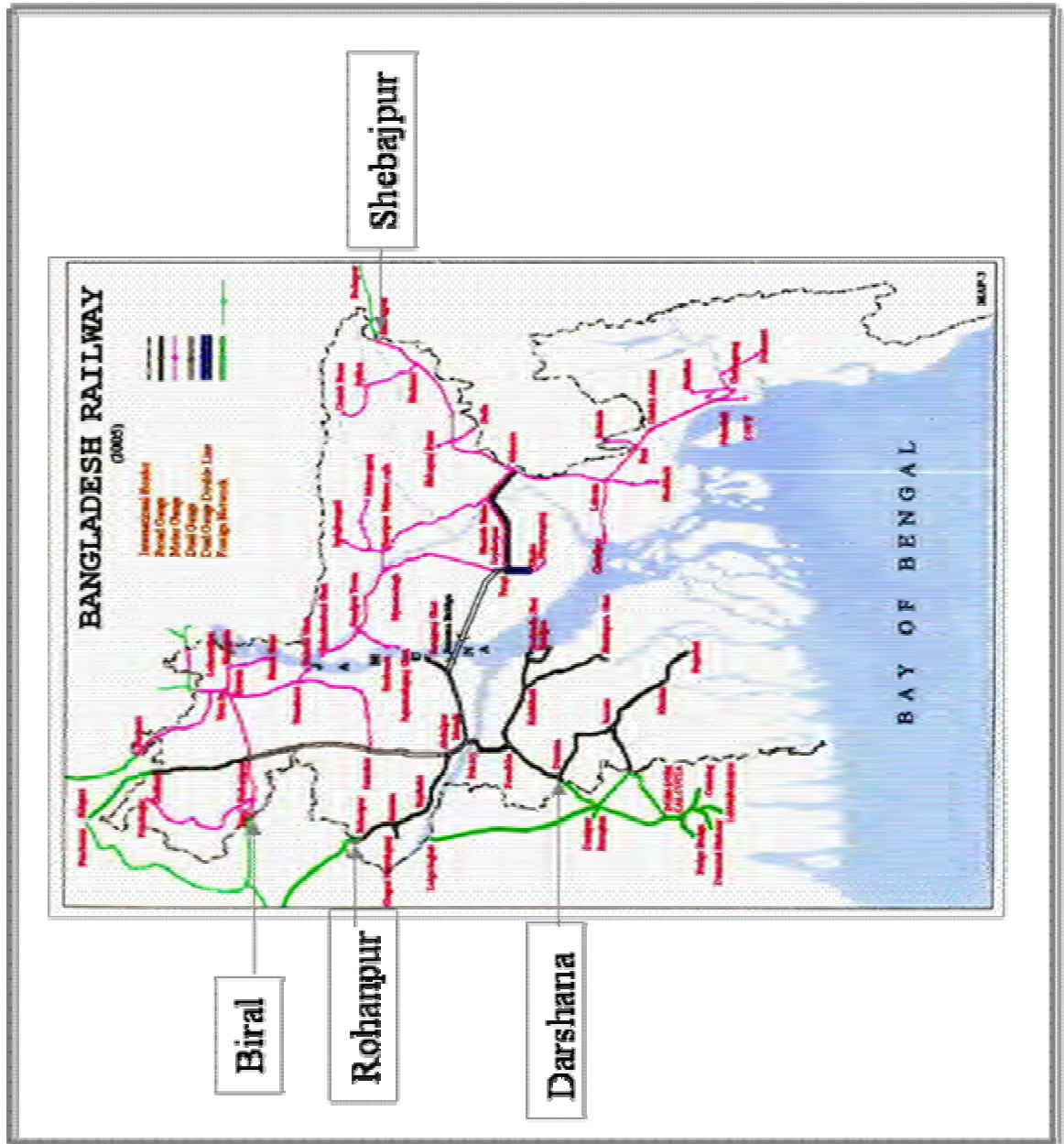


Figure 8



Figure 9

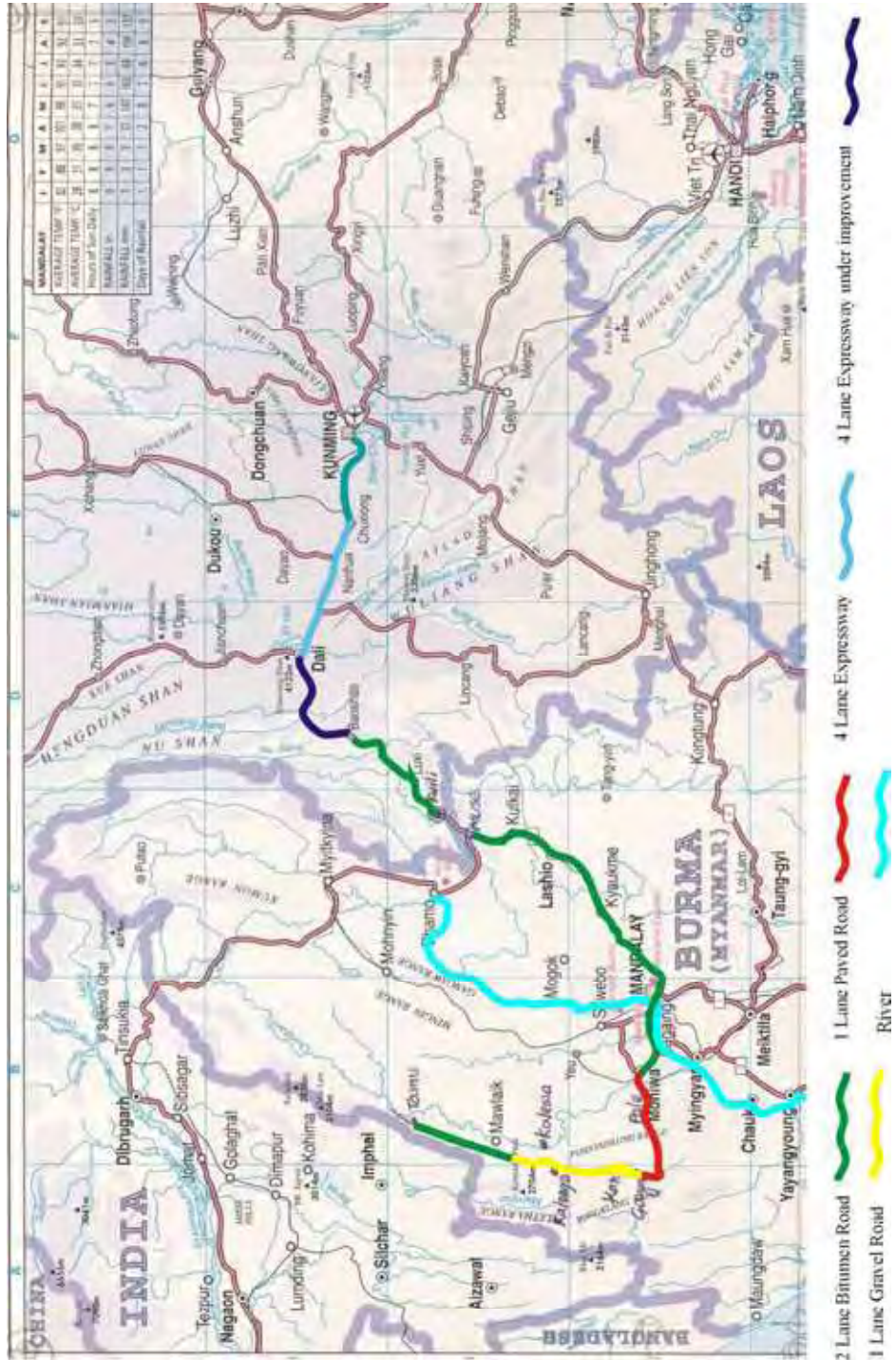
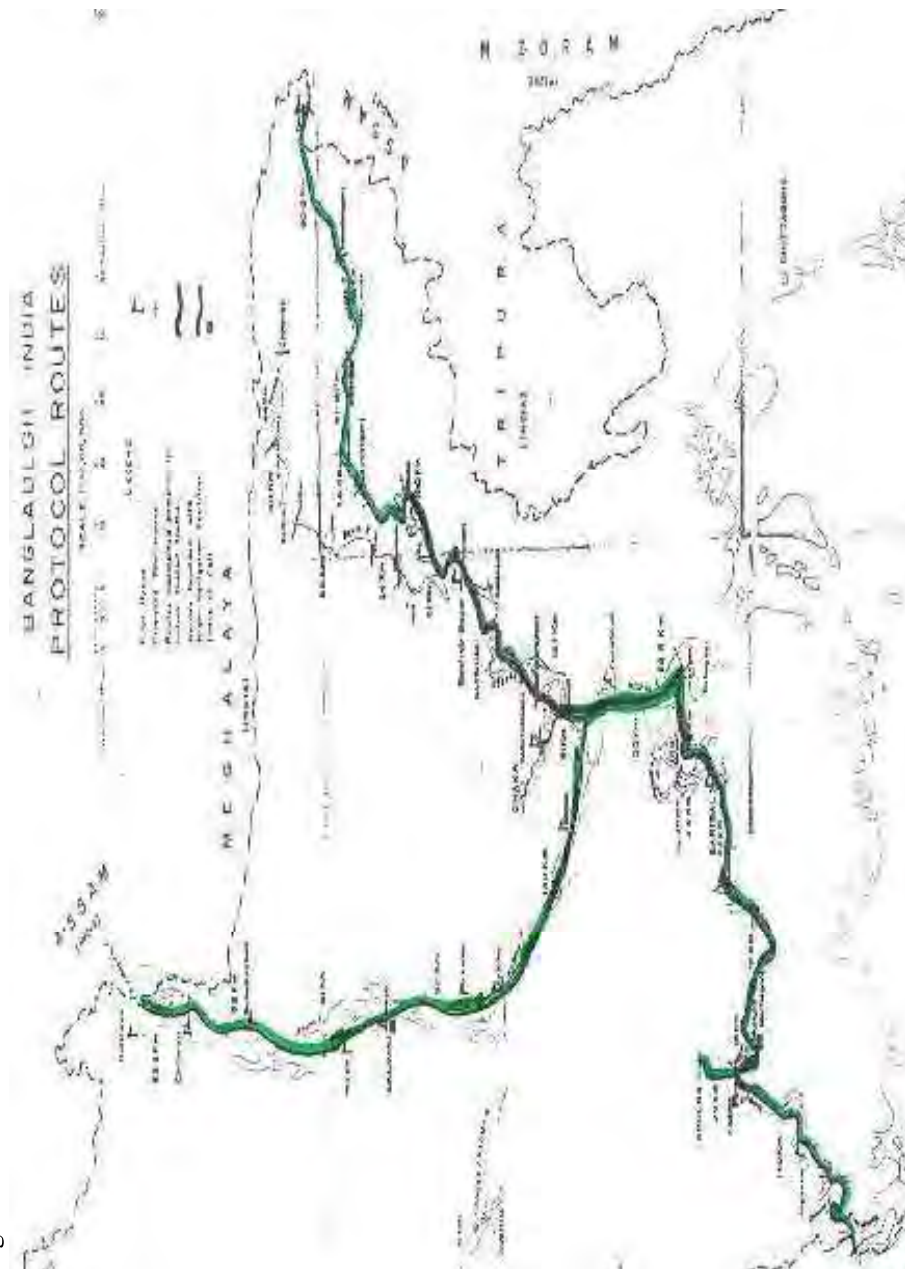


Figure 10



Chapter 3

Public and Private Initiatives for Sub-regional Economic Cooperation

In this chapter, an overview is presented of the initiatives in process, which have been promoted between Bangladesh and the neighbouring areas in the sub-region. Since the bilateral relationships between Bangladesh and other countries were discussed in the previous chapter, those under the multilateral framework are only presented here.

1 Bangkok Agreement

Bangkok Agreement signed in July 1975 with the initiative of the Economic and Social Commission for Asia and Pacific (ESCAP) was the first regional trading arrangement in Asia. Although seven countries including Bangladesh met in Bangkok and agreed to a list of product for mutual tariff reduction, Thailand and the Philippines did not ratify the Agreement because of their commitment to ASEAN. Thus, the membership was limited to five countries, namely, South Korea, Laos, India, Bangladesh and Sri Lanka. It is essentially a preferential trading arrangement designed to liberalise and expand trade progressively in the region. With China's accession in 2000 to the Agreement, it has become the largest regional trading agreement in the world in terms of market potential with a combined population of more than US\$ 2.5 billion⁸.

Despite its wide geographical coverage, which extends from East Asia to South Asia, the effect of the agreement has not been very remarkable. Although the accession of China has triggered some fresh look at one of the oldest trading agreements, Bangkok Agreement leaves lots of problems unsolved for the sake of increasing trade among member countries and it is unlikely to break the ice in the immediate future after more than a quarter century experiences of stagnancy.

Under the Agreement, Bangladesh being one of the two least developed countries alongside Laos enjoys the special concessions for 112 items in addition to 1558 items for general concession. Especially China responded positively, granting Bangladesh duty- and quota-free access of 59 items to China in addition to duty concessions ranging from 10 to 85 percent on 150 times from Bangladesh.

⁸ http://www.unescap.org/tid/mtg/China_accession_to_BA.asp

2 BIMSTEC

BIMSTEC (Bangladesh – India – Myanmar - Sri Lanka - Thailand Economic cooperation) started as BISTEC in June 1997 at a meeting of the trade ministers of four member countries. In December 1997, it expanded to include Myanmar. It was Thailand that was the driving force to bring BISTEC into existence. The interest of Thailand was to establish a foothold on the South Asian market in the face of increased competition from other ASEAN countries (Kalegama 2001, p.113). As for the three South Asian countries, the formation of the new economic forum was in tune with the liberalisation of respective economies as well as “Look East” policies, which were gaining grounds in each South Asian countries. It was ESCAP that provided an institutional support to this new forum. Like ASEAN, each member country has been assigned a lead role in various sectoral projects, extending trade and investment, technology, transportation and communication, energy, tourism and fisheries. So far six ministerial meetings were held. Bangladesh is an active member of BIMSTEC chairing trade and investment sector and hosted the second ministerial meeting in December 1998. In November 2003, an expert meeting was organised in Dhaka. They have identified some sub-sectors for cooperation including textile and clothing, drugs and pharmaceuticals, gems and jewellery, horticulture and floriculture, processed food, automotive industry and parts, coconut and spices, and rubber, tea and coffee. Bangladesh has taken the lead on textile and clothing sector and the sub-sectoral meeting was held simultaneously.

In the meeting of commerce ministers held in New Delhi in April 2000, it was agreed to make efforts to formulate a Free Trade Agreement, starting with a Preferential Trading Agreement first. The activities of BIMSTEC, however, were confined to the above-mentioned sectoral programmes. The observers of the economic forum are generally sceptical about its success at least in the short run. Kalegama (2001) delineates three major constraints: (a) under the existing commitments of member states for Preferential Trading Agreements and the WTO; (b) without a proper institutional framework in place to govern the free flow of trade in the region; and (c) lack of progress in attempting to harmonize standards. He also points out the redundancy of similar framework since there is Bangkok Agreement already in place. Therefore, Bangkok Agreement can become a workable solution only if Thailand and Myanmar join the forum. Besides, there has been more momentum on the bilateral track especially between India and Thailand, than along the BIMSTEC⁹.

In stark contrast to the slow progress during the first six years, BIMSTEC has made a positive turn since the beginning of 2004. First, Nepal and Bhutan were formally accepted to

⁹ ‘Looking East’, The Hindu Oct.7 2003

the grouping in January 2004. Second, a framework agreement on FTA was signed in the sixth ministerial meeting held in Thailand in February 2004 although Bangladesh pulled out of the talk. The position of Bangladesh is reported that it demanded compensation for revenue loss resulting from tariff reduction and that non attendance of Commerce Minister because of illness precluded the signing of the document. It is expected that Bangladesh will join the new FTA deal soon. The framework agreement stipulates preferential treatment including suitable timeframes for tariff reduction for the LDCs. The accord also elaborates that India, Sri Lanka and Thailand would get five years while Nepal, Bhutan and Myanmar would get 10 years for tariff reduction. Tariffs reduction would begin in mid-2006, with products designated for 'fast-track' treatment to be traded on a zero-tariff basis by mid-2009 for the three developed members (India, Sri Lanka and Thailand) and by mid-2011 for the poorer members (Nepal, Bhutan and Myanmar).

3 South Asian Growth Quadrangle (SAGQ)

Since the latter half of the 1990s, an attention has been given on the prospect of sub-regional cooperation in the eastern end of the sub-continent. It has been primarily an attempt to avert the long-standing conflict between India and Pakistan, which has resulted in the stalemate of regional cooperation covering the entire South Asia. The common rationale to promote the new sub-regional cooperation initiatives are geographical contiguity and proximity, similarity of cultural traditions, lifestyles and attitude (Dubey et al. 1999; Sobhan 1999, 2000). The complementarity of resource endowments are emphasized also by the Kunming Initiatives (Economic and Technological Research Centre 1999, p.35).

An idea for sub-regional cooperation, called the South Asian Growth Quadrangle (hereafter SAGQ) was mooted in 1996. SAGQ consists of Bangladesh, Bhutan, Nepal and India's north-eastern states (Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Tripura and Sikkim) and West Bengal. It has a total area of 688.6 thousand sq. km with a population of over 247 million (Debey et al 1999, p.9).

The idea of a new sub-regional cooperation came up as a response to the slowness of SAARC in implementing regional projects. Added to this, there was a development of bilateral relationship among the countries. It included the signing of the Mahakali Treaty between India and Nepal in 1996¹⁰ and of the Ganges Water Sharing Agreement between

¹⁰ Mahakali Treaty has endorsed the development of Mahakali River (Sarda River known in India), which is a boundary river on the major stretches between the two countries.

Bangladesh and India in 1996, and strengthening the cooperation between Bhutan and India after the implementation of the Chukha hydroelectric power project¹¹ (Dubey et al., p.7). Several examples of success in the formation of growth triangles in South East and East Asia have underscored the search for an alternative framework other than SAARC (Sobhan 1999).

It was in the meeting of SAARC Council of Ministers held in New Delhi in May 1996 when they, for the first time, endorsed the idea of forming a new sub-regional framework consisting of the north-eastern part of India, Bangladesh, Bhutan and Nepal. The idea was originally floated by Nepal. The sub-regional economic cooperation initiative was officially launched in the meeting of the foreign ministers in Delhi in April 1997. Initially it was decided that the entire initiative would be outside the framework of SAARC and six sectors were identified to promote development projects. The ninth SAARC Summit held in Male in May 1997, however, decided that specific projects relevant to the special individual needs of three or more member states would be encouraged within the framework of SAARC¹². This change temporarily congealed the entire initiative of SAGQ. Nevertheless, enthusiasm was revived to a certain degree after the meeting of the foreign secretaries in Kathmandu in July 1998 (Dubey et al., pp.7-8).

The SAGQ does not aim at market integration per se but puts an emphasis on project-based cooperation. Moreover it is seen as a practical solution to the socio-economic development of the sub-region without forcing a major policy shift to the member states (Dubey et al., p.11). Sobhan states that the way sub-regional cooperation was incorporated into SAARC framework shifted the focus from a more holistic agenda of cooperation within the SAGQ to collaboration for setting up specific projects or programmes which are more appropriately addressed amongst geographically contiguous states (Sobhan 1999, p.146).

4 South Asia Sub-regional Economic Cooperation (SASEC)

SASEC is a programme sponsored by Asian Development Bank (ADB). It was formulated as a response towards SAGQ initiative. ADB has been promoting sub-regional cooperation as one of the core components of poverty reduction. The policy approved in 1994, formalised ADB's role as a catalyst for regional cooperation¹³. ADB launched the SASEC programme at the request of the governments of SAGQ. Among the four countries, India was initially less

11 Chukha project was developed as a joint venture between the governments of Bhutan and India with India providing the funds of the project. The surplus power generated from the project is supplied to the eastern region of India.

12 Male Declaration issued on 14th May, 1997.

13 <http://www.adb.org/Documents/Manuals/Operations/om28.asp?p=aadb>

enthusiastic about SASEC and ADB decided to proceed without India's participation. However, India changed its stance subsequently. ADB welcomed the change as a sign that India began to understand that the initiative would create win-win situation for all the members rather than zero-sum game. According to an official of ADB, SAGQ has ceased its existence and its substance has been taken over by SASEC¹⁴. In SASEC programme, ADB is determined to play three functions: (i) as a provider of information; (ii) as an "honest broker" among the member countries, facilitating dialogue and participation; and (iii) assisting in the mobilization of public and private sector resources to finance regional cooperation activities. The second role of being an "honest broker" has been emphasised by the officials, stating that it would not force the member states to do more than their own demands.

At present, working groups have been constituted in the six sectors, which are trade and investment, tourism, energy, environment, transportation, and ICT. Each working group is chaired by one member country, i.e., trade and investment, and ICT by India, tourism and transportation by Nepal, environment by Bhutan and energy sector by Bangladesh. So far, each working group held two or three meetings. In trade and investment working group, ADB has conducted several studies such as trade facilitation study with a special focus on non-tariff barriers of trade, ICT, human resource development, agro and processed food, tourism and entertainment. In September 2003, ADB has also granted US\$ 2.5 lakh to study ways of modernising transit and transport systems of SASEC countries. ADB states that one of the objectives of working group meetings is to solve mutual misunderstanding, which cloud over the cordial economic relationship. Besides the multilateral approach through the working groups, ADB also provides financial assistance from Sub-regional Fund earmarked in 2000 for the country-specific projects, which have sub-regional implications.

SASEC programme postulates an equal participation of public and private sectors. South Asia Business Forum (SABF) was created by the apex chambers of Bangladesh, Bhutan, India and Nepal in association with ADB in order to enhance business cooperation¹⁵. SABF is expected to facilitate trade and investment as well as to act as a focal point in the negotiations with respective governments.

In 1997, ADB approved a loan of US\$ 40 million and an equity investment of US\$ 10 million for Lafarge Surma Cement Limited, a new cement plant in Bangladesh with an annual production capacity of 1.2 million tons. It is a cross-border project having its own quarry in Meghalaya, India. Limestone is to be transported through a 17 km long belt conveyor to the plant at Chattak in Sunamganj district, Bangladesh. Lafarge of France and

¹⁴ An interview with Mr. Purnima Rajapakse, Head of Economic Unit in Bangladesh Resident Mission of ADB.

¹⁵ FICCI of India, FBCCI of Bangladesh, FNCCI of Nepal and BCCI of Bhutan represents each member country.

Cementos Molins of Spain have jointly invested as majority shareholders. ADB and IFC have participated each as 10 percent shareholders. At Bangladesh side, Islam Group and Sinha Group, the leading business groups are the local sponsors. The plant was initially scheduled to begin commercial production in 2001. But it took six years to complete the cross-border formalities, from registration to owning a mine in India¹⁶. The plant construction finally started in July 2003 and commercial production is expected to begin in 2005.

5 Kunming Initiative

With a call by Yunnan Academy of Social Sciences, a non-governmental international conference on regional economic cooperation and development among China, India, Bangladesh and Myanmar was organised in Kunming, China in August 1999. It was initially called Kunming Initiative and subsequently became known as BCIM (Bangladesh, China, India and Myanmar) conference. The second, third and fourth conferences were held in India (2000), Bangladesh (2002) and Myanmar (2003) respectively.

An idea of economic cooperation in this particular region was advanced by the Economic and technological Research Centre under the Yunnan provincial government several years before the first conference in 1999. The academic research on Yunnan's potentiality to become a trading post with South and South-east Asia began as early as the late eighties¹⁷. At the Symposium on Regional Development of China-India-Myanmar-Bangladesh held in 1998 in New Delhi, Yunnan delegation formally proposed the idea, which led to the conference in August 1999 (Economic and Technological Research Centre 1999, p.33). The proposed cooperation covers the whole of Yunnan Province, Bihar, West Bengal and North-eastern States of India, the whole of Myanmar and Bangladesh.

The statement adopted at the end of the Conference upheld the Five Principles of Peaceful Coexistence, i.e., (1) emphasising equality and mutual benefit, (2) sustainable development, (3) comparative advantages, (4) adoption of international standards, and (5) infrastructure development in order to enhance connectivity and facilitate the widest possible economic cooperation.

The Initiative started as Track-II initiative. The respective counterparts of Yunnan Academy of Social Sciences are Centre for Policy Studies of India, Centre for Policy Dialogue of Bangladesh, and Department of Border Trade of Myanmar. In case of China and Myanmar,

¹⁶ 'Lafarge Surma Cement starts to build its plant', Dhaka Courier, Aug. 8, 2003.

¹⁷ An article titled 'Sino-Indian ties have reached "criticality"', www.rediff.com/news/2000/jun/02china.htm

the representative organisations can be considered as a part of the governments while Indian as well as Bangladesh counterparts are private think-tanks. The keynote paper by Yunnan Academy stated;

“Developing Multi-channel Cooperation pushed forward by people, promoted by government, and implemented by enterprises. The economic collaboration of our four states could be started by the research made by non-governmental institutes. Through various forms of exchange and discussion, we may reach an agreement and submit our plan to supplement government policies. Based on the research of institutes, Governments formulated policies and seize cooperative opportunities, thus creating an environment and condition needed by sub-regional cooperation. By signing contracts and agreements with governments, enterprises can participate in the cooperation. Enterprises should be the entity of economic cooperation. Only by creating multi-channels operation can the economic cooperation of the sub-region put into effect (Economic and Technological Research Centre 1999, p.41).”

Along with the move in Track-II, Yunnan has been trying to upgrade the framework to the official level cooperation. The Yunnan visit by Prime Minister Khaleda Zia in December, 2002 was materialised at the strong request of Yunnan province. Former Indian President K.R.Narayanan also visited Yunnan in June 2000. The initiative is to be upgraded to Track-I on the occasion of first ministerial meeting scheduled to be held in October 2004.

Yunnan’s Motive

The motive behind the active initiatives taken by Yunnan province is considered primarily an economic one. Yunnan, a land-locked province wanted access to the Bay of Bengal. In the first conference, they have proposed the revival of Stilwell Road. The road, which was built by the US army led by Joe Stilwell in 1942-43 stretched from Ledo in Assam to Myanmar and then extended to Yunnan province. The road still exists but in a state of extreme dilapidation. According to the delegation of the Yunnan Development Research Centre (YDRC), which visited Kolkata in November, 2003, China has already embarked on the reconstruction of the road between Kunming and Myanmar border under the French and ADB funded programme. It is likely to be completed by 2007¹⁸.

Another objective of importance is to strengthen economic relationship with South Asian states, mainly India. By way of establishing direct links with India, Bangladesh and Myanmar, Yunnan will have cost-effective access to the vast market, which otherwise would involve a 7000 km detour via Hong Kong and Singapore. Speaking at an interactive session

¹⁸ ‘Chinese team seeks relaunch of air link to boost tourism’, Business Line, Nov.29, 2003.

organised by Confederation of Indian Industries (Eastern Region), Director of YDRC also sought Indian expertise in the field of IT to help modernise Yunnan's traditional industries¹⁹.

Yunnan province is not only a leading player in the sub-regional cooperation with its neighbours in the west and the south but also the main torchbearer on behalf of China in Greater Mekong Subregional Economic Cooperation involving China, Thailand, Vietnam, Laos, Cambodia and Myanmar. At the time of the visit by Bangladesh Prime Minister, Khaleda Zia to Yunnan in December, 2002, Yunnan Governor referred to also Vietnam and Laos under the framework of the Kunming Initiative. Although Yunnan's stand is not substantiated with respect to the coverage of the Kunming Initiative, ADB, which supports both Greater Mekong Subregion programme and SASEC, has an idea to integrate both programmes in the future²⁰.

India's Attitude

In contrast to the proactive stance held by China, India's reaction towards the initiative was initially far from being enthusiastic. According to the Bangladesh delegation who attended the second conference held in New Delhi in 2000, the involvement of Indian central government was very low compared with the conferences held in the other three countries²¹. It is understood that the attendance of Assam state minister at the conference was not welcomed by the officials of the central government, either. India's wariness has been grounded in both economic and political concerns including anti-Delhi movement in the north-eastern states and fear of Chinese economic intrusion into Indian market. Nevertheless, we can observe a change in India's attitude subsequently. In June 2000, former President K.R. Narayanan visited Kunming towards the end of his official visit to China. As in the case of visit by Bangladesh prime minister in 2002, Kunming visit by the head of the state of India might have been realised at the strong request from Yunnan Provincial government. However, the President's visit did mark the larger involvement of Indian government in the Kunming Initiative.

There are supposedly several factors behind the softening attitude of India towards China. One was the India's interest in the stunning performance of Chinese economy. The issue of cooperation between the two countries was given a concrete shape when the then Chinese Prime Minister Zhu Ronji visited India in 2002. Prime Minister Zhu stimulated the imagination of the Indian people when he mentioned about the possibilities of combining the

¹⁹ Ibid.

²⁰ An interview with Mr. Purnima Rajapakse, Head of Economic Unit in Bangladesh Resident Mission of ADB.

²¹ An interview with Dr. Rahmatullah, Programme Director, Centre for Policy Dialogue.

Indian software and Chinese hardware. From the political perspective, too, India has begun to see China not as a threat but as a prospective partner who shares common concerns with respect to national as well as international issues. The official visit by Prime Minister Vajpayee to China in June 2003 has underscored the indication that both India and China consider the bilateral relations from a pragmatic viewpoint by way of recognising realities with respect to sovereignty over Tibet and Sikkim. Also as one of the outcomes of the visit, India and China agreed to reopen the historic trade route connecting Nathu La in Sikkim and Lhasa in Tibet, which bears significant implications on the future course of sub-regional relations.

6 Transport Sector Initiatives Promoted by UN-ESCAP

Bangladesh was one of 15 original members, which joined the Asian Highway (AH) development project initiated by ESCAP in 1959. Along with road network, Trans-Asian Railway (TAR) was launched in the 1960s. Bangladesh was also included as part of a continuous rail link between Singapore and Turkey. Both projects lost initial vigour between 1960s and early 1980s due to various political and economic hindrances. However, since the end of 1980s, a new impetus has been created mainly due to a drastic change in international as well as regional politico-economic settings. In 1992, the two projects along with issues related to facilitation of land transport projects were incorporated into an umbrella project named Asian Land Transport Infrastructure Development (ALTID) project.

As for Bangladesh, a public interest was aroused in May 1999 when the policy level expert group meeting of TAR Southern Corridor was held in Dhaka. The formation of BIMSTEC has boosted the move to operationalise Southern Corridor, which connects Bangladesh, China, India, Iran, Malaysia, Myanmar, Nepal, Pakistan, Singapore, Sri Lanka, Thailand and Turkey. The Dhaka meeting agreed on the establishment of working groups to study the gradual operationalisation of the corridors.

7 South Asia Regional Initiative for Energy Cooperation and Development (SARI/Energy)

It is a USAID sponsored regional cooperation efforts launched in Kathmandu in December 1999. SAARC countries except Pakistan are the members of SARI/Energy. The mission states to promote mutually beneficial energy linkages among the nations of South Asia²².

8 Chamber Initiatives

The move at the level of the private sector is also picking up in recent years.

In April, 2002, the representatives of Sylhet Chamber of Commerce and Industries (SCCI) visited Mizoram and signed a memorandum of understanding (MOU) with the Mizoram Chamber of Industries and Commerce. They decided to hold a fair of Bangladesh products in Mizoram in October the same year²³. Sylhet Chamber also organised a joint seminar with the Indian High Commission in Dhaka in October 2004. The seminar was titled as 'Trade and investment between Bangladesh and north-eastern states of India'. There were participants from North Eastern Federation of International Trade and Tripura Chamber of Commerce and Industry in addition to chief secretaries of Meghalaya and Tripura²⁴.

In June, 2002, Tripura government and Tripura Chamber of Commerce and Industry jointly organised a seminar titled 'Promotion of Trade and Investment between Tripura and Bangladesh' in Agartala, inviting business delegation from Bangladesh. At the seminar, Manik Sarkar, Chief Minister of Tripura State stated that Tripura, being surrounded by Bangladesh, feels an urgent need to strengthen trade ties with Bangladesh and get transit facilities, especially allowing the use of Chittagong port. As an outcome of the seminar, political and business leaders of Tripura and entrepreneurs of Bangladesh have agreed to put pressure on their respective governments to initiate measures to increase trade between the two neighbours by improving transport networks and developing tourism. As a follow-up of the decision, in order to identify problems and discuss solutions, they have also decided to hold dialogues between business leaders of Tripura and regional chambers of commerce and industries in Bangladesh, including Moulvibazar, Feni, Comilla, Brahmanbaria and Dhaka Chamber of Commerce and Industry respectively²⁵.

In July, 2002, at a meeting with Moulvibazar Chamber leaders, Tripura Chamber leaders proposed to use Sylhet airport for exporting some perishable items such as fruits and

²² See the official website for details. <http://www.sari-energy.org/>

²³ The Daily Star, April 7, 2002.

²⁴ The Daily Star, October 15, 2003.

²⁵ The Daily Star, June 1, and 3, 2002.

vegetables to European countries. The two chambers signed a 12-point memorandum of agreement to extend cooperation²⁶.

Manik Sarkar, Chief Minister of Tripura, who visited Dhaka on the occasion of inauguration of the Dhaka – Agartala bus service in September 2003, has assured the representatives of FBCCI to extend all-out supports to build up Bangladesh's trade relations with the north-eastern region of India. Sarkar also conveyed his interest in the use of the Chittagong Port and the Ashuganj River Port during his meeting with Prime Minister Khaleda Zia²⁷.

9 Bangladesh Myanmar Business Promotion Council

Bangladesh Myanmar Business Promotion Council is a private initiative set up in 1998. The central figure of the organisation, Engr. R. Maksud Khan, Chairman of Fine Group of Companies, visited Myanmar in 1995 as a member of business delegation. Myanmar counterpart is Myanmar International Business Council chaired by a governor of a private bank. For the purpose of deepening mutual understanding, they have been despatching business delegations to each other's country. In 2002 and 2003, a trade fair of Bangladesh products were held in Yangon. In the second trade fair held in 2003, more than 100 Bangladesh companies participated with the positive support by the Myanmar government.

Prime Minister Khaleda Zia visited Yangon in March 2003. As a consequence of the official talk with Myanmar Prime Minister and State Peace and Development Council Chairman Than Shwe, several important decisions were reached. The two sides approved the signing of the two Memorandum of Understandings (MOUs); one on Account Trading and the other was on the establishment of Joint Trade Commission. Both MOUs are aimed at bolstering bilateral economic cooperation. Account Trade is a kind of barter trade. The record keeping of trade is made in US dollar terms but the actual transaction is made in local currency. During the visit, the two governments agreed to establish road-link between Dhaka and Yangon. Possibility of establishing a coastal shipping links between Myanmar and Bangladesh is also being looked into.

²⁶ The Daily Star, July 17, 2002.

²⁷ The daily Star, September 19 and 27, 2003.

Chapter 4

Prospect for Closer Regional Economic Cooperation from the Perspective of Bangladesh

South Asia has continued to remain one of the “least cooperating” regions of the world. Till now bilateral economic cooperation between Bangladesh and its neighbouring countries has tended to remain at a low level. Though in recent years, specially, in the 1990s, overall trade has increased substantially, there has not been any remarkable change in reciprocal flows, neither has there been any major improvement in transport connectivity and the level of intra-regional investment.

Geographically, Bangladesh is well situated in its sub-regional context. Nepal, Bhutan, North-East India and the northern part of Myanmar could be considered as its natural hinterland. Because of this unique geographical location, Bangladesh could play a pivotal role in providing road and rail linkage to Nepal, Bhutan, North-East India as well as to the rest of India. Ports of Chittagong and Mongla, as well as the IWT, with improved management and expansion of facilities could provide the much needed maritime exit of these countries to the outside world. This is particularly significant since a major part of the above mentioned sub-region is land locked. For further development in the above sub-region it would require efficient access to the sea, in order to become and remain competitive in the global market. In this context, Bangladesh should encourage private sector investment in the development, operation and management of port facilities in both the sea ports.

Given the limited resource potential of the country, Bangladesh should try to provide transport services to the sub-region as a “trade in services”. This could be a potentially important source of foreign exchange earning (Rahmatullah, 2001).

In order to enhance the regional role of the Bangladesh transport system, a special effort would be required to convince the people of Bangladesh and its political leadership to agree to sub-regional cooperation. Due to the highly unbalanced trade flows between India and Bangladesh, the people of Bangladesh have the impression that opening up its transport system would mean facilitation of Indian trade only, whilst imposing an additional burden on the transport infrastructure of Bangladesh.

It is essential, therefore, to come up with realistic facts and figures as to what benefit (in quantified terms) Bangladesh could obtain from the potential traffic generated by new investment based on the untapped mineral resources of say North-East India. Similarly other

countries of the sub-region (Bhutan, China, Myanmar, Nepal and North East India) need to understand clearly as to how they are going to be benefited by this initiative of regional cooperation, and at what cost? It is necessary to come up with facts and figures and supporting analysis which provide a clear picture of a win-win situation for all countries covered by the study.

The potential that Bangladesh could become the "transport hub" to serve the entire hinterland as defined earlier, a role similar to that of Rotterdam (the Netherlands) in Europe, should be widely publicized for creation of public support within the country towards establishment of transport linkages with the neighbouring countries (Rahmatullah, 2000). To reap the potential benefit envisaged above, it would be necessary for Bangladesh to prepare itself to assume this new role. To this end, a study should be commissioned to estimate the potential traffic to be handled so that actions could be taken to improve transport facilities along certain corridors. Based on the outcome of the study, an extensive programme of awareness creation should be organized through seminars, workshops and multi-media publicity. The awareness creation of the civil society for increased sub-regional cooperation could, in turn, persuade the political leadership to come forward with their blessing for allowing uninterrupted movement across Bangladesh.

The earlier analyses of the trade regimes of Bangladesh with the neighbouring countries revealed that the reforms of the 1990s have gone a long way in bringing about a large extent of similarity between the policies, incentives and procedures of the six countries covered by study, in the area of trade, investment and finance. Whilst these reforms set out the *necessary* preconditions for a closer economic relationship, obviously much remains to be done in terms of creating *sufficient* conditions and from the perspective of translating the *potential opportunities into demonstrable realities*.

While designing a framework for meaningful bilateral economic relations between Bangladesh and the neighbouring countries, a number of identified strategic approaches may be kept in perspective. Economic cooperation between Bangladesh and its neighbouring countries may evolve in the future though a combination of these approaches.

1 Taking a Comprehensive View

So far, bilateral relations between Bangladesh and the neighbouring countries have been dominated by trade issues. The limitations of this approach are becoming increasingly clear. A more comprehensive approach encompassing cooperation in the area of trade, investment and finance, transport and infrastructure are required to be taken together in order to realise the

potential opportunities of economic cooperation. In fact, without addressing these non-trade areas, it is difficult to anticipate any significant improvement in trade relations.

2 Bilateral Economic Cooperation Agreement

Such an Economic cooperation agreement should comprehensively cover issues related to trade, investment and finance, as well as have various built-in safeguard measures (e.g. non-reciprocal market access) in favour of Bangladesh. Whilst a bilateral free trade agreement could be a starter, in order to get the full benefit of such a move, the agreement has to cover investment and finance as well. Of course, infrastructural facilities (e.g. transit-trans-shipment provisions) will also be a prime issue for inclusion.

3 Addressing the Problem Areas to Enhance further Cooperation between Bangladesh and Neighbouring Countries

For optimal utilization of the potential that exist for enhanced economic cooperation between Bangladesh and the neighbouring countries a number of problems need to be addressed which vary from country to country, as indicated below.

Bangladesh and India

Addressing Trade barriers

Among the trade barriers, two most important issues that need to be addressed relate to “*Market Access*” and “*Rules of Origin*”. Possible approaches that could be taken are indicated below:

Market Access (at zero-tariff)

In recent years, the LDCs belonging to SAARC system have proposed a *two track* approach to put in place a regional free trade area: the *fast track* for LDCs (immediate zero-tariff access for LDCs); *normal track* for developing countries (gradual move to zero-tariff for DCs). Since India has bilateral free trade arrangement with Nepal and Bhutan, Bangladesh in fact is the only other remaining important trading partner of India in this LDC group. The issue of across the board zero-tariff access to Indian markets by Bangladeshi products needs to be put high on the agenda of bilateral economic cooperation. It is reckoned that such a gesture of non reciprocal market access on the part of India to Bangladesh may create enough political goodwill to break the ice in bilateral economic relation. A similar approach could be taken to enhance bilateral trade with other countries.

Rules of Origin (RoO)

Even a 30 percent RoO requirement will continue to constrain exports from some of the potential sectors of Bangladesh. In most of the effective regional blocs, RoO requirements have been met only through stimulating intra-regional investments. Although investment regimes in both Bangladesh and its neighbouring countries are now much more liberal than they were five years back, joint-ventures and FDI targeted to Indian markets have tended to remain insignificant. India is not enthusiastic to further relax RoO requirements as she apprehends that this would encourage re-export of commodities from China, Myanmar, Thailand and other East Asian countries to India through Bangladesh. In this connection, scope for investment targeted to the Indian market will need to be given special attention if RoO requirements in the Indian market under preferential regime are to be met. Thus, from the perspective of meeting the RoO requirement in the Indian market, investment in activities having potential for export to India may be considered.

Removal of Non-tariff Barriers (NTBs)

Bangladesh's export opportunities to India and other countries are being constrained by various NTBs. These come in the form of quantitative restrictions (QRs), canalisation, surcharges, local tax, anti dumping duty (ADDs), counter veiling duty (CVDs) etc. There is a need to identify these and highlight their impact on bilateral trade and investment. Concrete steps need to be taken for their earliest removal. If corrective steps are required to be taken to address the concerns of potential losers, this will also need to be undertaken. Bilateral committees with participation from both sides should be set up for each pair of countries to address this issue.

Stimulating Extra-regional Foreign Direct Investment (FDI)

In case of cooperating economies lacking significant complementarity, practical reciprocal complementarity manifested through intra-industry trade becomes the major integrating force. It seems that FDI, attracted through a collaborative investment strategy developed by Bangladesh and other countries in the sub-region can be the most potent efficiency enhancing integrating force. In the present context, the challenge is that, by and large, this will need to be promoted through collaboration between the private sectors of the two countries. Appropriate incentives will need to be designed to stimulate and encourage private sector's initiatives in this particular direction. Some of the possible examples may include the following (Bhattacharya and Rahman 2003):

- (i) India setting up petrochemicals industry in Bangladesh purchasing the locally available inorganic chemicals as raw materials (instead of importing them directly), with the provision of a "guaranteed buyback" scheme. This is specially promising in view of the excess demand of Petrochemicals in India.

- (ii) Instead of just exporting stones and coal from North-East India for cement production in Bangladesh, investors of India can invest in joint-venture cement factories in Bangladesh under guaranteed buyback to satisfy local demands of the NE states. Most local production of cement in India are centred in principal industrial states, thus the north-eastern states of India will enjoy comparative advantage in buying cement from Bangladesh.
- (iii) There are growing and high demand of soft-ware development and information technology (IT) in Bangladesh. If a thriving IT industry exists in India, considerable scope for sub-contracting activities could be created in Bangladesh. Investment incentives should be put in place in both countries to encourage and entice investment flow to exploit such resources as gas. Guaranteed buy back of electricity produced by Indian ventures could be one example. Investment policies in both countries need to promote this type of activities.
- (iv) Promotion of intraregional trade and investment will require considerable investment in development of transport infrastructure. Rail and road linkage with India will need to be substantially strengthened in near future if trade and investment is to be promoted. Based on political support, India could come forward to invest in Transport and Infrastructure development in Bangladesh for facilitating movement of transit traffic and for access of North-East Indian States to the sea.

Adjusting the Exchange Rate

Both India and Bangladesh maintain a managed floating exchange rate regime with a trade-weighted real effective exchange rate. Since informal trade constitutes a major part of actual trade taking place between the two countries, and considering the role of real effective exchange rate (REER) in promoting bilateral trade based on real comparative advantage, both countries should accord appropriate weightage to *all* forms of bilateral trade in determining the REER of their respective currencies.

Bangladesh and Nepal

Operationalisation of the South Asian Preferential Trading Arrangement (SAPTA) and the South Asian Free Trade Area (SAFTA) by 2006, (as decided on January 6, 2004 by the 12th SAARC Summit held in Islamabad) will go a long way in enhancing regional cooperation. A potential catalyst for further promotion of trade between Bangladesh and Nepal would be the signing of a “Road Transport Agreement” which is laying in draft form with both the governments. In the absence of this agreement, Nepalese trucks cannot enter and ply within Bangladesh. Goods are, therefore, required to be loaded and unloaded at the border. In order to finalize this agreement, India must agree to allow Bangladeshi trucks on

Phulbari corridor, for which Bangladesh, India and Nepal need to enter into a trilateral agreement which could facilitate movement of all types of vehicles along this corridor.

Nepal's third country traffic (whether export or import) is not allowed by India to move through Mongla Port of Bangladesh which has no congestion. Mongla Port could have provided a direct broad gauge rail link, (without any trans-shipment), between Rauxal (Nepal/India border) to Khulna/Mongla through Kathihar (India) and Rohanpur in Bangladesh. This route could provide a competitive facility to Nepalese export/import traffic.

Nepalese agricultural products are unable to compete with Bhutanese products for export to Bangladesh, because of special tariff concessions given to Bhutan. Nepal is demanding similar tariff concession, which Bangladesh may like to consider.

At present no passengers are allowed to move through Banglabandh. Opening up this facility will encourage tourists between Bangladesh and Nepal. Bangladesh should look into this issue.

Bangladesh and Bhutan

Bhutan's third country trade currently moves through Kolkata Port which always remains congested. Bangladesh could have provided a relatively congestion free facilities through Mongla Port which is located at a shorter distance compared to Kolkata. For this to happen, a tripartite transit agreement between Bangladesh, Bhutan and India will be required for smooth movement of Bhutanese trucks to Bangladesh through India and vice-versa. This arrangement will greatly contribute to enhanced economic cooperation between Bangladesh and Bhutan.

Bangladesh and Myanmar

During the visit of Prime Minister of Bangladesh to Myanmar on March 19, 2003, two MOUs were signed to accelerate the expansion of trade between Myanmar and Bangladesh. One of the MOU was on Account Trading and the other was on the Establishment of the Joint Trade Commission between Myanmar and Bangladesh.

The Account Trading agreement was valid initially for one year, with a provision for review after nine months. For this purpose, an indicative list of export products was to be determined by both sides. Only those products in the manufacture of which at least 30 percent value is added in either country will be eligible for trading under the Account Trading arrangement.

Regarding the Joint Trading Commission, it was decided that the delegation shall be led by the Ministers of Commerce of the respective countries. The Joint Trade Commission shall be responsible for

- (i) Hold consultations and exchange information
- (ii) Review the development trend in trade and identify areas for further cooperation

(iii) Recommend to the respective Governments measures aimed at further expansion and diversification of trade

(iv) Set up working groups, if necessary, to carry out further activities.

The trade commission shall hold its session alternately in Myanmar and in Bangladesh on date to be mutually agreed.

To optimize benefits from bilateral trade, a special economic zone at Teknaf could also be considered. Joint ventures in manufacturing based on raw materials from Myanmar, for exports to a third country, could be located there. Another possibility could be development of clinker factories in Rakhine state based on lime stone deposit, for export to Bangladesh for use in their current factories.

In addition, an agreement has already been reached on the alignment of a road link between Bangladesh and Myanmar through Chittagong. Implementation of two MOUs and the completion of this road link will open up avenues for further economic cooperation between the two countries.

Initiatives are also underway to establish a coastal shipping links between Bangladesh and Myanmar. Myanmar side suggested a tripartite agreement involving Thailand. But Bangladesh requested to make it bipartite for quick fostering of economic relations, keeping option for including Thailand in the future. When this agreement materializes it will be open up further opportunities for enhanced trade.

Myanmar's liberal policy on leasing out land for agro-based industries could attract Bangladeshi investors which may in turn lead to increased trade with Bangladesh, because the output may find good market there.

Bangladesh - China

This study covers the Yunnan Province of China which is a land locked area in South-Western part. The current trade between Bangladesh and China moves by sea route which involves a long route. Being a next door neighbour, the Yunnan Province is, however, well connected by land route to Myanmar and most of their trade moves along land route or land-cum-inland water route. There is great potential to open up a land route from Bangladesh to Kunming (Yunnan Province) through Myanmar. Provincial government of Yunnan has already expressed interest to such a land route connection through Myanmar.

Bangladesh and Myanmar has already agreed to the alignment of a new 91 km road connection from Ramu in Chittagong district to Buthidaung on Maungdaw Kyauktaw in Rakhine state of Myanmar. Construction work is going to start soon on this road. Once this road link is completed, Yunnan could be linked through Myanmar using the existing road sections, parts of which are already identified as the Asian Highway links in Myanmar. The link could be established from Kyauktaw through Mrauk - Ann - Minbu - Magwe -

Taungdwingyi – Pyinmana, a town in Mandalay Division which is located on the Asian Highway. For the development of this link between Bangladesh to Kunming through Myanmar, Governments of Yunnan Province, Myanmar and Bangladesh shall have to set up a “Task Force” to look into the technical and financial implications.

Once the above road link is established between Kunming and Bangladesh, the prospects of enhanced trade will be tremendous, as cost of transportation and time taken on transit will go down quite a bit.

Issues Related to Visas and Other Travel Requirements

Movement of people between the countries of the sub-region could be made simpler if visa restriction could be relaxed. The least option would be to abandon completely the visa requirement for the citizen’s of the member countries. But till such a time that option is adopted, visa issuance on arrival and multiple visa issuance could facilitate a great deal movement of people between countries of sub-region.

Conclusions

The countries covered by the study, given their physical and cultural proximity and shared history and heritage, form a natural area most suitable for enhanced economic cooperation. Most of these countries once formed part of an integrated economy, and yet they probably constitute one of the less “internally connected” sub-regions in the world today. The present state of interconnectedness through transport links among these countries is totally out of step with the global trend towards regionalization. The integration of the transport networks of these countries would largely involve, in most cases, a reintegration of existing infrastructures, requiring expansion in certain areas and management improvement for higher level of efficiency (Rahmatullah, 1999).

In order to ensure that all the countries involved benefit from closer cooperation, attention needs to be given to the question of more balanced trade flows among these countries based on the development of greater complementarity among their economies. Increasing joint ventures among the entrepreneurs of these countries can help achieve this objective. In this respect, there is an immediate need for private and public sector collaboration within a multilateral framework. An in-depth study on the prospect of cooperation and the potential benefit that each country could derive from such cooperation would be essential. Once we can establish, based on the analysis of first hand information and data, that closer regional economic cooperation could bring about a win-win situation for all the participating countries, a process of awareness creation through consultation, dialogues and media activities should be initiated. The awareness creation among the civil society for increased sub-regional cooperation could in turn, persuades the political leadership to extend their support to such an initiative.

While a number of identified tariff and non-tariff barriers need to be removed for enhanced regional cooperation in trade and investment, in the context of transport linkages, a number of corridors could be selected for implementing a focused strategy towards removing the physical and non-physical barriers to facilitate uninterrupted movement of goods and people in the sub-region.

The recently concluded SAARC Summit and the “Islamabad Declaration” adopted on January 6, 2004, when implemented will open up avenues for much greater cooperation among the SAARC countries in enhancing both intra-regional trade and investment flows as well as transport integration. Implementation of the “Islamabad Declaration” will, however, need strong political commitment of all the governments, in working out the detailed arrangements for enhanced regional cooperation.

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Annex I

International Conventions Recommended by UN-ESCAP under its Resolution 48/11 of April 1992

The seven core conventions for facilitation of international transport are:

- i. the Convention on Road Traffic (Vienna, 8 November 1998), which provides the foundation for international cooperation and harmonization in traffic;
- ii. the Convention on Road Signs and Signals (Vienna, 8 November 1998), which prescribes uniform road signs, light signals, installations, symbols, and road markings in order to facilitate international understanding and thus facilitate international road traffic and improve road safety;
- iii. the Customs Convention on the International Transport of Goods Under the Cover of TIR Carnets (Geneva, 14 November 1975), which permits the international carriage of goods from the custom office of arrival to the customs office of departure, through as many countries as required, without any intermediate border check of the goods carried;
- iv. the Customs Convention on the Temporary Import of Commercial Road Vehicles (Geneva, 18 May 1956), by which the parties grant temporary admission on their territory of vehicles used for carriage for reward or commercial carriage for own account registered in another contracting state;
- v. the Customs Convention on Containers (Geneva, 2 December 1972), which facilitates the temporary importation of loading units;
- vi. the International Convention on the Harmonization of Frontier Control of Goods (Geneva, 21 October 1982), which calls for the harmonization of frontier control of goods (Geneva, 21 October 1982), which calls for the harmonization of frontier controls to facilitate the passage of goods at borders;
- vii. the Convention on the Contract for the International Carriage of Goods by Road (CMR) Geneva, 19 May 1956) + Protocol to the Convention on the Contract for the International Carriage of Goods by Road (5 July 1978), which establish internationally acceptable regulations on the legal relationship between road car.