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Transit-Corridor Controversy: Optimum Service charges, Gains, Risks and Alternative

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Abstract

Granting of corridor-services to India through Bangladesh (albeit, in the name of so-called transit) is being advocated on the ground that it will promote regional connectivity, economic cooperation and thereby regional economic development. But any formal agreement between Bangladesh and India allowing the latter a corridor through the former not only raises politically controversial issues like sovereignty and national security, it involves complex technical and economic matters of necessary investment, infrastructure development, determination of appropriate fees/service charges and so on. In addition, it has been shown that the result of connectivity/cooperation through such mode may turn out to be more isolation for Bangladesh from the seven-sisters states of northeastern India. In this paper, it has been argued that the best way to promote cooperation among the countries of the South-Asian region, particularly among Bangladesh, Bhutan, Nepal, India, is to promote trade among these countries. And such promotion of trade can be easily designed to take care of the Indian need to move her goods between the northeastern land-locked seven-sisters states and the western India through Bangladesh at cheaper costs and more quickly. Yes, Indian goods will move between northeastern seven sisters states of India and western India through Bangladesh. But this could be accomplished by profit-driven Bangladeshi businessmen by way of trade without creating so much fuss about transit, corridor, security, appropriate fees/service charges and so on.

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The 1946 British Cabinet Mission plan for self-rule of India envisaged three autonomous regions— A, B, C— of which the C-region was proposed to be comprised of the present day Bangladesh along with West Bengal of present day India and the so called "seven sisters" of northeastern India. The reason I am making reference to this long past historical fact is that such a plan was proposed considering the geographic contiguity and economic integration of these regions. So it is clear that the present day Bangladesh and the northeastern Indian states have been economically interlinked since long time back. The partition of British India in 1947 left these "seven-sister" states only marginally linked with the mainland India through the chicken neck on the northern border of Bangladesh. This link is not only long and arduous but also nearly impassable hilly land.

Since the partition of India, the rulers and policy-makers in Delhi pursed economic policies and political agenda (propaganda) to ensure artificial de-linking of the existing natural economic links between Bangladesh and the seven-sisters states of north India. Ironically, the policy-makers from this side of the border, under insistence of the then Pakistani rulers, were pursuing measures to complement and supplement the policies adopted by their counterparts in Delhi. So the de-linking of Bangladesh with the seven sisters of northeastern India was all but complete. Although the de-linking of seven-sister states from Bangladesh was successful, their links with the mainland India remained minimum as ever. To overcome this problem, India needed an easy passage to the seven sisters of northeast India through Bangladesh and this they have been demanding ever since from Bangladesh in the name of so-called transit.

Transit-Transshipment-Corridor

The word "transit", more appropriately, international transit means passage of goods/people from one country into another country through the territory of one or more other countries. This word is more common in the fields of international trade and international aviation. When the passage of goods/people takes place using transport of the concerned country which the goods/people pass through, it is known as transshipment .By contrast, India wants to move goods between mainland India and seven sisters states of northeast India through Bangladesh territory. This is not what is meant by the word transit in international trade and international aviation. This is not transit for the following reasons.

1. The goods will be moving from one location of India into another part of India (of course through Bangladesh) which is India's internal trade/commerce, not international trade. International transit is meant for facilitating international trade.

2. The routes through Bangladesh are not international routes in the sense that we do not allow any other country to use these routes.

3. More importantly, Bangladesh itself cannot use these routes to reach China on the eastern front and to Sri Lanka, Pakistan on the western front (which will definitely be a part of international trade/ transaction in the true sense of the term) through Indian territory for movement of merchandise.

So, what India wants from Bangladesh is not transit of goods through Bangladesh territory to a third country but a “corridor” to link up two of her all but disjointed parts. Through this “corridor”, India wants to move goods between the mainland India and the northeastern seven- sister states. If and when implemented, Bangladesh in effect will be providing ‘corridor’ service to India for moving goods between two of India’s almost disconnected parts. The immediate benefits to India from such ‘corridor service’ are easier, safer and quicker movement of goods between the western part of India and the seven sister states of northern India and consequent savings on transport costs and time. However allowing India ‘corridor’ service involves costs. So what is the optimum price that Bangladesh should charge India for this ‘corridor service’?

The Optimum price for Corridor service

The determination of price or service charge for corridor service to be provided by Bangladesh to India will be a classic example of price determination under bilateral monopoly. Bangladesh is or will be the sole supplier of this service and India will be the only buyer. Under such circumstances, we can determine minimum and maximum limits of the price to be charged for such service.

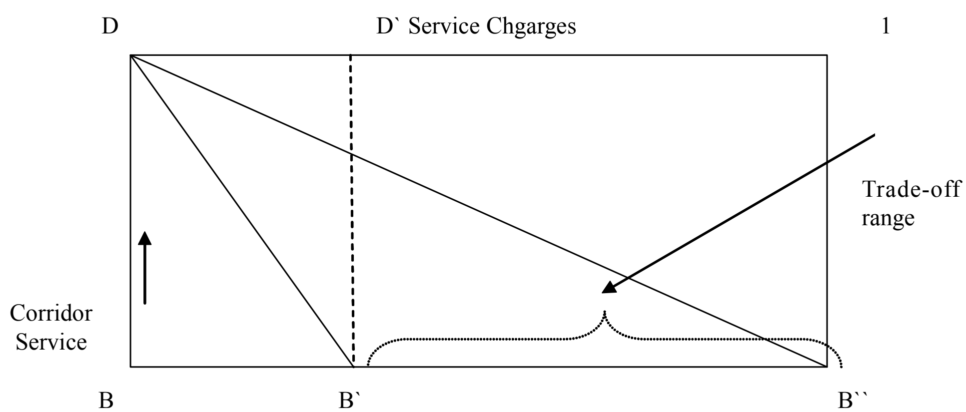
The Minimum price

Normally, when goods are imported in to a country, imposition of import duty is the normal practice but the Indian goods which will pass through Bangladesh will not be consumed/used in this country. So we cannot logically impose import duty on these goods. But it does not mean that the service charge/fee to be charged on Indian goods (passing through Bangladesh) will be just a nominal amount or should necessarily be less than our normal import duty on similar goods. For example, for facilitating industrialization, we may import machinery goods duty-free in this country, but we cannot allow such type of goods to pass through our territory without any charge/fee (because it involve costs). So, what should be the amount of this fee/charge? While the exact amount of such service charges will be determined by our policymakers/negotiators, after negotiation with their counterparts from Indian side, we will try to fix upper and lower limits of such service charges.

The principal determinant of the lower limit of the service charge for corridor services given to Indian cargo will be the actual cost of transportation of per ton cargo from the entry to exit points of such cargo in Bangladesh territory. With the transport cost, we should add the traffic congestion costs which may be fixed on the basis of vehicle movement carrying Indian cargo as percentage of total vehicle movement through the concerned route. With the actual transport costs and a surcharge for the congestion cost, we should add a premium to cover the fixed

Figure

The Trade-off Range for Bangladesh & India for Corridor service



costs. The calculation of fixed cost is complex and there are various ways to calculate such costs. Nevertheless, the service charge for corridor service to Indian cargo should include a component to cover the fixed cost of infrastructures in providing the corridor service. Additionally, the administration costs of the service too should be included in the service charges.

The Upper limit

Determination of the upper limit for corridor service is rather straightforward. This limit should be not more than the actual financial costs of moving per ton of cargo (should be at least four times the actual transport costs of the same amount of cargo through Bangladesh) between mainland India and the seven sister states through the chicken-neck mentioned above plus a premium for savings on time. Simple economic theory tells us that if the charge/fee for corridor service is more than this upper limit, Indian businessmen on both eastern and western borders of

Bangladesh will not be interested in availing this corridor service from Bangladesh.

Determination of Actual Service charge/fee for Corridor service

According to the theory of pricing, the charge/fee for corridor service will be determined between these upper and lower limits. We may demonstrate this by using the familiar Edgeworth box diagram frequently used for analyzing the optimum solution in classic bilateral monopoly market cases.

In the above figure initially Bangladesh is in position B possessing only (right to sell) corridor services and India is at point I with the service fee. ID is the maximum amount of fee which may be paid in various rates by India. By contrast, Bangladesh has got a unique commodity (more appropriately service) which may be offered either in whole or nothing. So once any deal is struck, that is, once the corridor service is offered, Bangladesh instantly moves to point D and if there is no reciprocal payment of service charge (zero service charge) Bangladesh's position will be represented by the line BD and India's position will be represented by B"D line implying that India receives the service without having to pay any service charge (keeping all the money to herself). But if India agrees to pay B'B amount of service charges/fees which cover the minimum cost of providing the corridor service, Bangladesh's position will be represented by the B'D line showing Bangladesh's gain of BB' amount of service charges in return for BD corridor service. But if Bangladesh can succeed in exacting the highest amount of service charges that India should be ready to pay (from economic point of view), then Bangladesh's position will be represented by DB''. The DB, DB' and DB'' lines are some of the trade off lines for Bangladesh and their slopes denotes the gain for Bangladesh from respective service trade deals. Rationally, Bangladesh should not settle to the left of DB' line, because in that case the gains from the deal will not cover the minimum cost of providing the services. Similarly to the right of DB'' line, there will be no deal, because in such case Indian businessmen will have no gains, hence no incentive, in using the Bangladesh corridor for transporting their goods. So B'B'' is the tradeoff range where the deal should be struck. However within the B'B'' range, the specific point of a deal will depend on the concerned parties' bargaining skill, tenacity, perception of direct and indirect cost-benefits and their respective desire to reach a deal.

Implementation of Corridor through Bangladesh

The corridor services through Bangladesh has been envisaged to be executed using Railway, land routes and waterways. Land routes will connect western India with northeastern seven-sister states through Benapole (Jessore) and Tamabil (Sylhet) points. Both points again will be connected with Chittagong port. Railway routes will run from Karimgonj, Agartala in northeastern India through Kulaura and Akhaura to all the way to western India through Jessore, Gaibandha points. Water route will connect western India through Bangladesh river-port Ashugonj (Brahminbaria) and from there, through a road connection of less than fifty kilometers, to all the way to Tripura of northeastern India.

Gains and Risk for Bangladesh from Corridor service

A recent CPD study has estimated that Bangladesh will be able to earn 3 billion US dollar over a period next 30 years from fees to be charged on movement of Indian cargo through Bangladesh territory. This comes to 100 million US dollar per year. On the other hand according to a report by South Asian Center for Policy Study, the implementation of corridor service through Bangladesh will require a staggering amount of investment of around 5 billion US dollars in infrastructure development over next five to seven years. One does not have to be an expert in cost-benefit analysis to conclude that such a staggering amount of investment is not at all worthwhile because it will not cover even the invested amount over a period of 30 years (the lifetime of capital/infrastructure created).

Apart from the security and political risks, such a deal involving so huge an investment will put Bangladesh to a dangerous financial risk. Let us assume that Bangladesh decides to make the investment over a period of 5 years. Once Bangladesh has made the investment, she will be stuck to the deal. But the other party, that is, India may not want to avail the service at some point of time. What can Bangladesh do other than sitting with crossed fingers and counting the costs of such a huge investment?

The Effect of Corridor deal

Granting of corridor-service to India through Bangladesh (albeit, in the name of so-called transit) is being advocated on the ground that it will promote regional connectivity, economic cooperation and thereby regional economic development. But the result of connectivity/cooperation through such mode may turn out to be more isolation for Bangladesh from the seven-sister states of northeastern India.

Although, India would prefer to keep all the options of using all the corridor-routes open, in all likelihood, Indian businessman will find it more convenient and cheaper to use the water route from Silghat (Calcuta) to Ashuganj (Bhrahminbaria) and from Ashuganj to only a short distance (less than fifty Kilometers by road) in Tripura.

This is going to be the most frequently used route for movement of most of the Indian cargo between western India and northeastern seven-sister states. Besides, this **Ashugonj river port with a feeder service connecting the Calcutta sea port, will emerge as a sea–outlet for the land-locked seven sister states**. Consequently, the dependence of these states on Chittagong port will be reduced to the minimum. The corridor service through Bangladesh, particularly through this water route, will economically isolate the seven-sister states from Bangladesh to the greatest possible extent. The goal which the Indian leadership pursed relentlessly since 1947 to isolate the northeastern seven-sisters states from the then East Pakistan and later Bangladesh and integrate the former with the western India more intensely will be successfully accomplished through this corridor, more specifically, water corridor through Bangladesh. Presently for every 1000 taka worth of imports from India, Bangladesh exports only 10 taka worth of goods to India. With the implementation of corridor service through Bangladesh, exports to India particularly to seven-sister states from Bangladesh are likely to decrease even further. Consequently trade-deficit of Bangladesh with India is going to deteriorate even further.

Regional Cooperation through Trade: An alternative

Successful globalization is not possible while neglecting regional cooperation and integration. So in this age of globalization, regional cooperation for mutual peace, progress and prosperity is an undeniable proposition. But while promoting regional cooperation, the real obstacles to such efforts must be addressed adroitly with skill and sensitivity. The best way to promote cooperation among the countries of the South-Asian region, particularly among Bangladesh, Bhutan, Nepal and India is to promote trade among these countries. And such promotion of trade can be easily designed to take care of the Indian need to move her goods between the northeastern land-locked seven-sister states and the western India through Bangladesh at cheaper costs and more quickly. I am not going to describe the relevant trade model here. Such a trade model has been expounded elaborately in the book by the present author entitled, *Top Priorities : Tough Decisions,* published by the University of Chittagong. Yes, Indian goods will move between northeastern seven sister states of India and western India through Bangladesh. But this could be accomplished by profit-driven Bangladeshi businessmen by way of trade without creating so much fuss about transit, corridor, security, appropriate fee/service charge and so on. Bangladeshi businessmen handle a traffic of goods worth about 4 billion U.S. dollars annually in the form of import from and export to India alone; and they can be reasonably expected to be quite capable of handling similar/larger amount of cargo in order to move them between the western mainland India and the land-locked seven-sisters states of northeast India through Bangladesh.

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