

# ISAS Brief

No. 271 – 26 March 2013

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## Chittagong Port – Prospects for Revival

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*The Chittagong port, as the largest port in Bangladesh, is the lifeline of the country's economy. Considering the growth prospects of Bangladesh, the port is expected to handle increasing volumes of traded goods. While Chittagong port has undergone noticeable improvements in handling containers and optimising the use of facilities, further investment and development need to be undertaken for it to become a national hub and an economic gateway to southeast Asia.*

### Overview

The Chittagong division itself is situated in the south of Bangladesh, with the port located near the Bay of Bengal. This location has important implications not only for Bangladesh but also for the development of landlocked countries in south Asia such as Bhutan and Nepal, besides northeast India. The use of the port by Nepal and Bhutan is contingent upon the transit agreement with India, while the proposed Chinese investment to further develop the port as a commercial outlet for Yunnan in southwest China may have both strategic and commercial intentions to it.

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Given the importance of Chittagong as the second largest city after Dhaka and despite the presence of a major seaport, the city's contribution to the country's economy has not been considerable. Of Bangladesh's total GDP, only a slice of about US\$ 25.5 billion as of 2010, is attributed to Chittagong; and this has been the case in spite of the dominance of industrial activities in the city and other adjoining areas. However, a significant portion of the country's sea-borne trade goes through Chittagong port (92 per cent), while the remainder is handled by Mongla port in southwest Bangladesh. The export items consist mainly of garments, knitwear, frozen food, jute and jute products, leather, tea, frozen food among others.

In 2011, trade worth US\$ 60 billion went through Chittagong. Given the steady growth of the economy and trade over the years, the volumes of containers handled have experienced consistent growth as well. The capacity of the port to hold containers and cargo has increased, with 1.39 million TEUs (twenty-foot equivalent unit) and 43 million tons respectively being handled in 2011. This represents an increase from managing only 870,000 TEUs of containers and 27 million tons of cargo in 2006.<sup>2</sup> A sizeable increase in the capacity of the port can be attributed to the automation of various port activities and the allowing of private berth operators to manage containers and cargo. This has led to reduced congestion in the docks, a reduction in average turnaround times for ships and an increase in the volume of trade with the rest of the world.

## **Challenges**

Although the Chittagong port has exhibited improvements in efficiency and capacity to handle import and export of goods over the years, Bangladesh's increasing economic integration and prospects of growth in the globalised world hinge on how the port can develop into a world-class facility. For instance, although the average turnaround time for ships has been brought down to around two-and-a-half days at the moment, exporters assert that it can go down further and meet global standards. Compared to turnaround times of 12 hours and 10 hours in Singapore and Hong Kong respectively, Chittagong clearly needs to increase the competitiveness of its port, it is said.

The connectivity of Chittagong port to the hinterland and further into Bangladesh is robust, at least on paper, because of a network of railways, roads and inland waterways. A significant volume of cargo is cleared by road (75 per cent), with around 10 per cent and 15 per cent being transported via rail and river respectively.<sup>3</sup> An overdependence on transporting cargoes by road creates significant problems with respect to clearing containerised cargoes quickly; the railway network is underutilised. The maintenance of the Dhaka-Chittagong highway – the major highway in Bangladesh, further branching out to the rest of the country – is poor. The road network around the port city is dilapidated leading to severe gridlocks on the highway and causing delays and backlog of goods in the port. This has consequences for

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<sup>2</sup> Port Statistics, Chittagong Port Authority

<sup>3</sup> Ibid

businesses that rely on imported inputs and capital equipment. Most significantly, both exporters and importers have to incur a major portion of their costs as ports and terminal handling charges. For Bangladeshi traders, the exporting of a standard container of goods costs US\$ 450 as port charges out of a total of US\$ 1025, while importers have to pay around US\$ 650 out of a total of US\$ 1430.<sup>4</sup> The associated costs of exporting and importing through Chittagong port are quite prohibitive and thus act as another bottleneck in easing trade.

While infrastructure development in the port has been prioritised by the government, Chittagong is expected to handle an increasing traffic of ships and cater to the related business activities of the region in the near future. If the figures on managing containers, cargoes and the number of vessels docking at Chittagong are any indication, the port will have to further increase its capacity to meet the demand and cope with the rising operational costs. The number of vessels has increased at a decreasing rate, leading to concerns that the port is being stretched to its capacity again, and further expansion and up-gradation are required to handle more international vessels. Furthermore, Chittagong will find it increasingly difficult to handle container vessels beyond a certain size from East Asia, North America and Europe. The average size of vessels that the port can accommodate is around 2500 TEUs to 3000 TEUs, while the modern-day container vessels range from 5000 TEUs to 18,000 TEUs. Chittagong is far too small for the new-generation ships to dock at. The challenge for the port is to keep investing ahead of the global progress in raising the capacities of container vessels. This is something very difficult for Chittagong port at the moment, considering the enormous investment requirements. The inability of Chittagong port to handle new-generation ships would mean that shipping and other ancillary businesses would be less keen to base themselves in the city and invest. This in turn will lead to missed opportunities in trade and revenue.

## **Opportunities**

Despite the numerous constraints of the Chittagong port, there is still immense potential for further development. Keeping the expansion of shipping capacity in mind and with a view to reducing dependency on the port city, the government has approved the construction of the country's first deep-sea port on Sonadia Island near Cox's Bazar district. The port is expected to address Chittagong's inability to host large ships of more than 188 meters in length. The first phase of constructing the deep-sea port has been estimated to cost about US\$ 2.24 billion and is expected to handle large ships. However, the expected date of completion is around the year 2020, and only the short listing of consultants and builders has been done. In reality, the construction time could be longer than anticipated, given due processes and the bureaucratic procedures that are required for such a major project. The government has not been able to woo potential investors yet. In addition, little or no communication and port infrastructure exists around Sonadia, and the necessary infrastructure will have to be built. The UAE has

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<sup>4</sup> Doing Business 2013, The World Bank

recently expressed interest to build the seaport, along with establishing the rail inland container depot (ICD) and container freight station. The Dubai-based DP World, the world's third largest port operator, had conveyed keenness to invest between US\$ 3 billion and US\$ 4 billion for the Sonadia port.<sup>5</sup> The proposed building of ICD, along with developing communications around Sonadia for greater connectivity inland, should at least address the issue of poor infrastructure in and around the area. However, this increased attention on Chittagong and Sonadia ports may not last long, given the moves for the completion of a deep-sea port at Kyaukphyu in neighbouring Myanmar. The feasibility of constructing the Sonadia deep-sea port now merits even more urgency – Bangladesh will have to construct the port soon and compete with Kyaukphyu lest it loses out on shipping revenues.

Private foreign investment in the Sonadia and Chittagong ports is imperative. In the short to medium-term, Chittagong offers great scope for investment in upgrading port facilities. Singapore can consider investing on lines similar to the lead taken by Overseas Port Management (OPM) to expand Yemen's port of Aden in a US\$ 450 million deal in 2007 – among a consortium of firms, OPM invested around US\$ 23 million. In order to attract more private sector investment, the berth operations in Chittagong port can be leased out to companies to handle containers and cargo. This is also expected to streamline the port operations – profit-seeking private companies will be cautious of delays in handling cargoes that hurt their businesses. Furthermore, Bangladesh can stand to earn millions of dollars by leasing its port facilities to other countries.<sup>6</sup>

Increased up-gradation of the Chittagong port can also lead to positive spill-over effects in industrial activities in the adjacent areas. The heavy industrial activities in the dry docks, oil refinery, steel mills, power plants, chemical plants, textile factories, fertilizer factories, among others, may become more lucrative; they will enjoy greater access to foreign markets and investment. With improved facilities and greater prospects for manufacturing units, multinational companies may be induced to invest in sectors located in or near Chittagong. Several industrial units and commercial centres have already established themselves around the port, so a foreign company may not have to build the structure/s from scratch. Furthermore, plenty of land around Chittagong is still available for future expansion of industrial activities. Prospective multinational companies can take advantage of this.

## **Conclusion**

The Bangladesh economy can be stimulated further if the physical facilities at Chittagong port are developed for increased trade facilitation. There is sufficient scope to handle increasing volumes of trade and to integrate Chittagong with the economies of Southeast Asian countries. The shipping route is potentially lucrative not only for Bangladesh's present-

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<sup>5</sup> "Is a deep-sea port now in the making?" *The Financial Express*, 21 February 2013

<sup>6</sup> "Bangladesh pins hope on Chittagong port", *BBC*, 3 September 2012

day commercial and industrial activities, but also for international cargo-handling and manufacturing companies. With intensive development can come increased economic activity in the port and this is expected to attract firms dealing with financial services ranging from shipping insurance to export credit among others. The outlook for resurgence in Chittagong port is very encouraging, but it will take some bold vision, which has been long overdue, from the policy makers to truly seize the initiative.

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