



The Chattogram sea port leasing debate

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There is an ongoing policy debate on the proper handling of the decision to lease several Chittagong Seaport terminals to foreign enterprises. This is a healthy debate, and the Interim Government should welcome it, evaluate the arguments on their merits, and modify or adjust its leasing decision with the aim of securing the best possible outcome for Bangladesh.

The first logical question is: why lease seaport terminals to foreign enterprises? To understand the rationale, one must review the broader issue concerning the competitiveness of Bangladeshi exports. Bangladesh is striving to boost its exports in order to create good labor-intensive manufacturing jobs and raise the GDP growth rate. The RMG revolution has shown the way forward. A key determinant of exports is international competitiveness, which

depends on several factors. One core variable is the efficiency and cost of trade logistics.

The World Bank prepares a measure of the efficiency of trade logistics based on several indicators. This measure, known as the Logistics Performance Index (LPI), comprises trade logistics performance in six interrelated areas: efficiency of customs procedures, internal transport infrastructure, international shipments, logistics competence, tracking and tracing, and timeliness. The performance of the last four indicators is closely related to the efficiency of the seaport handling agency.

The latest available LPI data is from 2023. The 2023 LPI score for Bangladesh is 2.6, with most scores below 3. In comparison, the score for China was 3.7, Thailand 3.5, Malaysia 3.6, Indonesia 3.0, India 3.4, the Philippines 3.3, and Vietnam 3.3. Clearly, Bangladesh has a substantial international competitiveness handicap owing to weak trade logistics relative to its competitors. Improvements in port infrastructure, port handling, and customs procedures are all necessary to strengthen Bangladesh's international competitiveness.

There are several ways to enhance port handling efficiency. Given that weak LPI performance has persisted for a long period, it seems logical to argue that Bangladesh may currently face an internal capacity constraint. This provides a prima facie case for considering the leasing of port terminals, on a time-bound basis, to experienced international port agencies that have demonstrated superior performance capabilities.

But this is only a first step. The decision to move ahead and award a contract to a specific firm involves two additional crucial steps. The first is deciding which firm should receive the contract. The second is quantitatively assessing the expected benefit for Bangladesh from this leasing contract. International good practice provides clear guidance on how these two policy steps should be implemented.

Regarding the award of a contract, globally well-established practice is to adopt international competitive bidding (ICB) for any large project involving international procurement. This should be standard policy for relevant procurement in Bangladesh and elsewhere. ICB procedures are well known, and there is no reason they should not be applied to the leasing of port terminals. There are many competent global port-handling enterprises, and it is difficult to argue that any single firm stands out uniquely. Many political and economic

considerations influence an international firm's willingness to enter into business contracts in low-income countries. Without an ICB process, there is no way to demonstrate that Bangladesh received the best possible deal.

Once the ICB process yields a winner, the next step is to conduct a full cost-benefit analysis of the proposal and compare it with the returns from the current operations in Bangladesh. Once again, this is a basic and standard policy tool used to quantitatively assess the value of any investment proposal. If the net present value (NPV) of the new proposal comfortably exceeds the NPV of the present operation, then there is a clear justification for proceeding with the lease award to the firm selected through the ICB process.

There are several advantages to following this structured approach. First, it is a fully transparent process, and the results can be shared with the public. Second, it protects policymakers from future politically motivated accusations or harassment. Third, it reassures the nation that the policy is economically sound and beneficial. Fourth, it protects current policymakers from malicious or misinformed populist claims that national assets are being siphoned off to foreigners. Finally, it provides strong protection to the international investor against premature contract termination by future governments based on allegations of wrongdoing.

It is important that the lease agreement be time-bound, with the end date based on a fair assessment of a reasonable rate of return for the investor. It is also necessary to require a minimum level of local participation to facilitate training and technology transfer once the lease ends.

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