



Sub-regional cooperation in South Asia: Latest developments in the SASEC Initiative

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ABSTRACT: The South Asian Sub-regional Economic Cooperation (SASEC) program is a project-based partnership, formed by Bangladesh, Bhutan, India and Nepal, to promote prosperity in the region by enhancing trade amongst its members, improving cross-border connectivity and promoting regional cooperation. Maldives and Sri Lanka became the members of in 2014. This initiative was commenced at the request of the South Asian Growth Quadrangle (SAGQ), comprising BBIN with the Asian Development Bank (ADB)'s assistance to support and facilitate regional cooperation initiatives in six priority sectors: energy and power; environment; information and communication technology (ICT); tourism; trade, investment and private sector cooperation; and transport [1]. The ADB is the secretariat and lead financier of this program and to date has approved forty projects worth almost \$7.7 billion in transport, energy, trade facilitation, and ICT. The SASEC is playing a vital role in boosting South Asia's growth in an environment of uncertainty and global challenges and also suggesting ways about ways to take regional cooperation in South Asia to its next best level. This paper throws light on the recent developments in the SASEC initiative in the sub-region, in the areas of Connectivity, Trade Facilitation and Energy.

I. INTRODUCTION

The period of 1990s brought new challenges for the Asian countries to achieve greater economic cooperation, partly to protect themselves from the formation of regional trading blocs by the western world and partly because of the growing pressures of globalization in the modern economic era. Soon after the World War, North American Free Trade Area (NAFTA) and European Union (EU) were formed, followed by the formation of Association of Southeast Nations (ASEAN) in 1967. However, the South Asian region was not interested in the concept of regional cooperation, and has been a slow and late starter in the process of regional integration [1].

The initiative for regional cooperation in South Asia was taken as late as in 1980 and it was only in the year 1985 that South Asian Association for Regional Cooperation (SAARC), the regional cooperation body of South Asia was created. However, the slow implementation of the regional investment projects within the framework of SAARC, the go-slow approach of SAARC for promoting regionalism in South Asia and slow infrastructural growth compelled the member countries to seek cooperation at the sub-regional level.

The successful experience of Southeast Asian nations with the growth zones led to considerable interest among the policy makers in the South Asian region to replicate this model of sub-regional cooperation. The Ninth Summit of the SAARC, held in Male, Maldives in May 1997 endorsed the setting up of SAGQ as a sub-regional initiative under the framework of SAARC, which led to setting up of the new sub-regional ventures such as The South Asian Growth Quadrangle (SAGQ) and some cross-border initiatives such as BIMSTEC, the Kunming Initiative etc.

The SAGQ initiative did offer numerous benefits for the sub-region. However, political opposition from the non-members - Pakistan, Sri Lanka and Maldives; lack of support from Bangladesh and negative perceptions about the SAARC regional organization were some factors that did not go so well with the successful implementation of this initiative right from the beginning.

The SASEC initiative was commenced at the request of the SAGQ, comprising BBIN with the ADB assistance to support and facilitate regional cooperation initiatives in six priority sectors [2]. This program brings together the BBIN members, the Maldives and Sri Lanka in a project-based partnership that aims to promote regional prosperity,

improve economic opportunities, and build a better quality of life for the people of the sub-region. Myanmar has officially joined the SASEC program as its 7th member in February 2017.

The South Asian Region

South Asia, which comprises of eight countries, namely, India, Afghanistan, Bangladesh, Bhutan, Maldives, Nepal, Pakistan, Sri Lanka, consists of members, are unequal in size, population and level of economic development. Though the region did face some setbacks after the global financial crisis of 2008-09, the region has come up again in recent years.

According to a World Bank report (2016) [3], the South Asian region has become the fastest growing regional economy in Asia and the Pacific in 2015. Strong domestic consumption and sustained increase in public investments have resulted in the region growing by 7.4%, with India achieving 7.6% rate of growth in 2015. The region has huge market potential because of its population around 1.7 billion, as reported last in 2013.

Despite this, the region is also one of the least integrated regions, which suffers from mistrust, cross-border conflicts and security concerns that have affected growth negatively in the region. About 399 million people *i.e.* forty percent of the world's poor live on less than \$1.25 a day. More than 200 million people live in slums, and half a billion people have no access to electricity (4). Only five percent of South Asia's total trade is reported due to intra-regional trade accounts, compared to twenty five percent in ASEAN. Intra-regional investment is smaller than one percent of overall investments. There is limited transport connectivity and logistic bottlenecks, which costs more to trade within South Asia than between South Asia and the world's other regions.

By 2050, the region's population is likely to exceed 2.2 billion from the current level of 1.7 billion, which would mean big additions to its labor force [5]. It is important to note here that two countries of South Asia, India and Bangladesh along with China will have the largest number of old people living in poverty which would mean some alternate policy initiatives for achieving high growth and development of their people in the region and improving their quality of life.

Regional and Sub-regional Co-operation in South Asia

The initial formation of a regional cooperation organization arose out of political reasons [6]. It was the Asian Development Bank (ADB), which emphasized the need for regional cooperation in South Asia, as it believed in the benefits of regional cooperation for the region and its potential as well. The South Asian Association Regional Cooperation (SAARC) was formed in December 1985, with the major objective of accelerating economic growth, social progress and cultural development in the region, thus promoting welfare of the people of South Asia. Sub-regional cooperation in SAARC is possible under Article VII of the SAARC Charter. This relatively newer form of cooperation within the SAARC region was accepted in the meeting of the SAARC Council of Ministers in New Delhi in May 1996 when the idea of forming SAGQ was endorsed [7].

The South Asian Growth Quadrangle (SAGQ)

In South Asia, the concept of sub-regional cooperation became popular in December 1996, with the setting up of the SAGQ, which consisted of Bangladesh, Bhutan, Nepal, the state of West Bengal and the seven Northeastern states of India (BBIN). A detailed description of the SAGQ sub-region, is given in the concept paper on sub-regional cooperation in South Asia presented by Nepal at the Kathmandu Meeting of the Foreign Secretaries of Bangladesh, Bhutan, India and Nepal on 2 April 1997.

This initiative looked more like the Greater Mekong sub-region, which was formed to benefit the neighborhood economies in reducing the poverty levels. The GMS has played a significant role in the declines in poverty in the GMS countries. Between 1990 and 2003, the sub-region recorded significant reductions in the percentage of people living on less than \$1 a day [8].

The SAGQ initiative was established with the objective of providing numerous benefits to its people, but in reality lot of political, financial and institutional hurdles came up in its implementation right from the beginning. This was due to negative perceptions about its impact on the SAARC process, political opposition from its non-members, as well as some anticipated security threats arising out of India's political domination in the SAGQ sub-region. Though, initially World Bank and ADB did show some interest, but later on it seemed to fade away. Despite all efforts, required investments did not come from the concerned governments, private sector and the MNCs [9]. There seemed to be an overall lack of political will and policy coordination, which led to a halt of the process of sub-regionalism in the region.

South Asia sub-regional Economic Cooperation (SASEC)

SASEC was launched in 2001, in response to the request of members of SAGQ, to help transform the lives of its people. The member countries share a common vision of connecting to Southeast Asia through Myanmar, to the People's Republic of China and the global market, by exploiting the tremendous potential of this sub-region. In 2010, the intra-regional trade was a mere 4.3% of South Asia's total trade due to infrastructural constraints, lack of access to regional and global markets, and low investments [10]. Many areas within SASEC countries do not have access to reliable electricity connection, safe water supply, and adequate road and transportation facilities.

The major objective of SASEC is to increase trade linkages within the sub-region by promoting cross-border movement of people, goods, and business and overall growth. Hence, the current focus of the program is on transport, trade facilitation, and energy, with constant up-gradation and expansion of road, rail and air links [11]. The Asian Development Bank (ADB) is providing financial and technical support as well as acting as a catalyst in building consensus among the members of SASEC.

As of July 2016, 40 SASEC projects totaling \$7.7 billion have been completed or are under way in the designated areas, with the addition of India's Bihar New Ganga Bridge Project on 24 July 2016, to be built across River Ganga [12]. For this 9.8 kms bridge, the ADB has approved a \$500 million loan out of the total cost of \$715 million. This new bridge and the associated approach road network is expected to significantly improve connectivity between north and south Bihar, and provide enhance transport capacity and linkages to Patna.

SASEC investment projects and knowledge development are supported by 70 technical assistance projects worth \$65.39 million. The 40 SASEC projects support 28 investments in the transport sector, worth \$6.32 billion, 1 in trade facilitation (\$48 million), 10 in energy (\$1.28 billion), and 1 in information communication and technology (ICT; \$18 million) have been taken up since 2001. The number of projects and total costs (US\$) is shown in table 1.

Table 1: 2001-2016 SASEC Project Portfolio Summary.

No. of Projects	Total Costs (US\$)	
Overall Loans and Grants	43	\$ 8.87 billion
Transport	30	\$ 7.04 billion
Trade Facilitation	1	\$ 48 million
Energy	10	\$ 1.28 billion
ICT	1	\$ 18 million
Overall Technical Assistance	70	\$ 65.39 million

Source: <http://www.sasec.asia/index.php?page=projects>

According to the latest information obtained from the SASEC website (www.sasec.asia), its project portfolio has surpassed the \$9 billion mark with the December 2016 approval of Nepal's SASEC Roads Improvement Project, worth \$256.5 million [13]. Now there are 44 SASEC investment projects worth a cumulative \$9.13 billion. The SASEC transport sector now comprises 31 active projects worth \$7.30 billion, followed by the energy sector with 10 projects worth \$1.28 billion, 1 trade facilitation project worth \$48 million, and 1 ICT project worth \$18 million.

SASEC Transport Sector Strategy

South Asia has one of the largest railway networks in the world, stretching over 77,000 km mostly through India, Pakistan, and Sri Lanka. The vision of the SASEC Transport Sector Strategy is to create dynamic multimodal transport networks and effective logistics facilities to increase intraregional trade and boost economic growth. This is expected to increase intra-regional trade within South Asia by almost 60% and that of South Asia with rest of the world by over 30%. Some of the most prominent projects in improving connectivity in the sub-region are mentioned below [14].

North Eastern State Roads Investment Program in India

Launched to accelerate growth process in the North Eastern Region of India, this program aims at improving interstate connectivity, enhancing higher-class roads, national highways and state roads in the region to improve accessibility. The project got approved on 2 Dec 2013, with the total cost of \$ 157.26 million. Under this project about 236 kilometers of state highways in the states of Assam, Mizoram, Manipur and Tripura have already been improved.

SASEC Road Connectivity project, Nepal

This project is expected to enhance the road transport connectivity within Nepal, and between Nepal and its neighbors. An alternate route in Sunsari and Saptari districts will be built, creating year round passable conditions along the East-West highway, especially across the Koshi River. It got approval on 30 July 2013 with total cost of \$ 97 million, of which \$ 75 million has been financed by ADB. Under this project 73 Kilometers of alternate road and broader road have been laid and 114 kilometers of roads have been upgraded to intermediate-lane mid hill roads.

Bangladesh-Bhaka-Chittagong Expressway Public-Private Public Design Project

ADB is helping the Ministry of Communication of the Government of Bangladesh design a new expressway between Dhaka and Chittagong to boost trade and ease congestion on the existing highway linking these cities. This TA project, ready for financing under a private-public partnership scheme, got approval on 30 March, 2012 with a total cost of \$12.50 million out of which ADB agreed to finance \$10 million.

Bangladesh Bhutan India Nepal (BBIN) Motor Vehicles Agreement (MVA)

The BBIN motor vehicles agreement, with ADB's TA, is a shining example of cross-border cooperation among four countries to ease movement of vehicles and goods transiting through third countries. Over five years, 30 road projects were to be implemented at a cost of \$8 billion – to fill in, and upgrade, connectivity gaps. However, Bhutanese legislators are worried that the BBIN plan may cause environmental trouble for their country and are carefully weighing the pros and cons of the road agreement [15].

Bangladesh: SAARC Road Connectivity Project

This project will upgrade about 110 kilometers (km) of Dhaka-Northwest corridor by 4-laning of the Joydebpur-Chandra-Tangail-Hatikamrul Road and also improve 2 land ports at Benapole and Burimari, which forms part of a major international road corridor. By increasing road capacity of a major international trade corridor and enhancing land port capacity, the project is expected to facilitate sub-regional cooperation, and increase intra-regional trade. The project got approved on 22 November, 2012 with a total cost of \$ 314.70 million.

Air Transport Capacity Enhancement Project

This project will enhance safety and capacity at Tribhuvan International Airport (ITA) in Kathmandu and three remote domestic airports- Lukla, Rara and Simikot. This ADB funded project, with a total cost of \$ 92 million, is expected to improve interstate connectivity in the states of Assam, Manipur, Mizoram, and Tripura.

The Trade Facilitation Sector Strategy,

The major focus of this program is on increasing trade of SASEC countries by reducing or removing non-tariff barriers (institutional, administrative and technical) to trade. Another objective is to upgrade infrastructure at border-crossing points to facilitate intraregional trade in South Asia. The project will assist Bangladesh, Bhutan, and Nepal in adopting international practices and upgrading to automated, transparent customs systems, including “single window” systems to simplify transactions. ADB is helping these countries to boost intraregional trade by refurbishing their outdated and costly customs procedures as well as set up web-based information for traders.

The SASEC Energy Sector Strategy

SASEC countries are rich in renewable resources but these energy resources are not distributed evenly. India has huge coal reserves; Bangladesh has natural gas, while Bhutan and Nepal have hydropower. Domestic and cross-border energy resources in South Asia are not being fully exploited, which has resulted in shortages and increasing fuel imports from outside the region.

The SASEC Energy Sector Strategy aims at improving cross-border electricity transmission connectivity, increase power trade, increase cooperation in energy efficiency and clean power development as well as capacity development.

Recently, SASEC has also established specialized forums on customs and electricity transmission to provide more focused technical support to national and bilateral efforts in these areas.

The SASEC Operational Plan (OP): 2016-2025.

The SASEC Operational Plan 2016–2025 [16] is the first comprehensive long-term plan of SASEC which aims at promoting greater economic cooperation among the member countries. The preparation of the operational plan involved intensive consultations with the SASEC countries. With Myanmar indicating an intention to join SASEC, the plan may be expanded to include projects that help link South Asia with East and Southeast Asia. The SASEC Operational Plan has identified over 200 potential transport, trade facilitation and energy projects, which will require over \$120 billion in investments for the next five years, out of which 74 projects have been identified in India with

an estimated project cost of over \$60 billion. Majority of these projects are located in North East or Eastern part of the country [17].

India's Initiatives in SASEC

India is planning to develop regional connectivity projects worth almost \$5 billion in SASEC [18]. For improving connectivity, it is involved in the negotiation of the India-Myanmar-Thailand (IMT) Motor Vehicle Act.

With ADB support, India is presently developing two priority road corridors. The first one will connect India with Bangladesh, Nepal and Bhutan through the "chicken neck" area of North Bengal. The Siliguri Corridor, or Chicken's Neck, is a narrow stretch of land, which is located in the Indian state of West Bengal. This stretch connects India's northeastern states to the rest of India, with the countries of Nepal and Bangladesh lying on either side of the corridor.

The second road corridor will establish India-Myanmar connectivity in the state of Manipur. India is also developing the East Coast Economic Corridor (ECEC), with ADB as its lead partner, in line with the Government's 'Act East' policy (AEP), which was launched at the East Asia Summit in Myanmar in November 2014, thereby giving a boost to the Indo-ASEAN ties.

Besides facilitating the movement of the bulk of India's major natural resources like coal and iron ore, it will lead to creation of world-class infrastructure, transport corridors, logistics services etc., thus removing major constraints to the overall growth process.

According to the ADB team, the proposed project would be India's First Coastal Corridor, covering approximately 1700 km of coastal line and connecting six major ports and three of India's deepest draft ports. The corridor would also connect the mineral-rich hinterland having 86 per cent of coal reserves, 82 per cent of iron reserves, 70 per cent of bauxite reserves and 40 per cent of natural gas reserves. Due to problems in trade facilitation, non-tariff barriers (NTBs) and infrastructure bottlenecks, intra-regional trade has always been hindered in South Asia, which is among the least integrated region in the world.

Recently, India launched a major port-led development initiative called "Sagarmala", which will help modernize India's Ports and coastlines to contribute more in India's growth as about 90% of India's trade by volume and 70% by value are moved through these ports. India is also developing two new ports on the same coast-line at Dugarajapatnam in Andhra Pradesh and at Sagar Island in West Bengal.

On the Energy side, India has been helping its neighbors to improve their power situation. The India-Bangladesh transmission line is providing safe interconnection of the power grids to supply of 500 MW of power from India to Bangladesh. 1320 MW Maitri Thermal Power Project, a Joint Venture of India's NTPC Ltd. and the Bangladesh Power Development Board, will be developed. The Power Grid Corporation of India is also engaged in developing three 230 KV transmission lines in Myanmar with the support of a credit line of US \$ 64 million between the Exim Bank of India and the Myanmar Foreign Trade Bank. India is also investing to develop hydroelectric projects in Nepal and Bhutan. India is currently engaged in discussions for a mega gas pipeline project linking Turkmenistan, Afghanistan and Pakistan with India. Under this project, a 1,680 km long pipeline would be constructed. All this will be done in consultation with the ADB, which has agreed to house the secretariat of this project.

II. CONCLUSION

The strong commitment by SASEC countries to regional and sub-regional cooperation over the past 15 years, and continuous support for the program by the ADB, and guidance by the Operational Plan 2016 is expected to work well towards realizing the common vision of sustainable and inclusive growth. Achievements of SASEC have found expression in the form of \$33 billion worth of infrastructural projects that these nations have undertaken together. Also, the boost given to the intra-regional trade is going to generate income and employment opportunities in these countries, which will lift people out of poverty. However, there are still barriers to further development in the sub-region. Faster infrastructural growth and relaxed visa norms for businessmen can help in giving a thrust to trade and efforts to make the region a free trade region can further enhance its untapped trade prospective and help in making this region more powerful economically and socially. The key challenges in the next few years will be to sort out the priorities of projects across transport, trade facilitation, and energy. It is very important to develop a strong institutional framework, knowledge support as well as a pre-emptive involvement of all its stake holders will go a long way in fulfilling the dreams of making South Asia a prosperous and integrated region in the world.

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