



SOUTH ASIA REGIONAL INTEGRATION

PROGRAM BRIEF



WORLD BANK GROUP



Home to Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka, South Asia is one of the most dynamic regions in the world, with a population of 1.67 billion people and economic growth of 7.1 percent over the last decade. But despite recent shifts, it is also one of the least economically integrated regions, reflecting historical political tensions and mistrust, with cross-border conflicts and security concerns contributing to a low-level equilibrium.

South Asia faces formidable development challenges: accelerating poverty reduction for more than 400 million people who still live in poverty; providing gainful employment to over 12 million people that enter the labor force each year; and addressing the growing risks from natural disasters and climate change.

Meeting these challenges will require more than business as usual.

At present, energy sharing within the region is limited, despite significant potential and unmet demand. Intra-regional trade accounts for only

5 percent of South Asia's total trade, compared to 25 percent in ASEAN. Intra-regional investment is smaller than 1 percent of overall investment. Due to limited transport connectivity, onerous logistics and regulatory impediments, it costs more to trade within South Asia than between South Asia and the world's other regions. Finally, there is little cooperation within the region on managing shared natural resources and disaster risks that threaten sustainable growth.

Greater cooperation and regional economic integration can bring about gains in these areas and enhance the prospects for poverty reduction and shared growth in a region that is home to more than 40 percent of the world's poor. It can, among other things, help alleviate energy shortages, unlock new growth and job opportunities, enhance climate resilience, and reduce the prices of critical products in the region's land-locked areas.

The momentum for greater economic integration in South Asia has been building in recent years. Growing recognition of the benefits of economic integration and risks of non-cooperation has spurred greater interest from key political leaders in the region in fostering stronger regional links.



THE WORLD BANK GROUP'S STRATEGY

Regional integration is a key part of The World Bank Group's strategy in South Asia. Over the past five years, progress has been made in building political support for regional integration, deepening knowledge in key areas, and developing a portfolio of over US\$900 million supporting transformative cross-border operations.

The Bank's efforts, which are rooted in country strategies that recognize the importance of regional integration for national development, utilize a multi-tier approach of engagement that includes:

- ▶ Lending to finance, and leverage financing for, investment in infrastructure and institutions for regional connectivity cooperation and trade.
- ▶ Providing technical assistance to strengthen country capacity and inform decision-making on projects and policies.
- ▶ Convening and supporting in-country and cross-border discussions among key stakeholder groups such as youth, private-sector organizations, think tanks,



and influential policymakers (foreign as well as economic policy), practitioners and thinkers to deepen support for high-priority regional integration interventions.

- ▶ Conducting analysis and communications (in cooperation with think tanks) to promote an informed view of regional economic integration's benefits, believing that increased knowledge, relevant analysis and successful projects will create momentum for new pragmatic and sustainable initiatives.

The Regional Integration Strategy has three pillars: energy; transport connectivity and trade facilitation; and collaborative management of shared natural resources. The program also includes cross-cutting efforts to improve policy and attitudes vis-à-vis regional integration, and to facilitate economic opportunities for vulnerable people, especially women, from in-country and cross-border connectivity.



Bilateral and multi-lateral partnerships—notably with the governments of United Kingdom, Australia, and United States, and the European Union, European Investment Bank, and Asian Development Bank are critical to

the Bank's regional integration program, providing financing, helping align global support, and mobilizing additional financing for priority investments.

ENERGY: REDUCING ENERGY COSTS AND LOAD SHEDDING – WITH CLEANER ENERGY SOURCES

The potential gains from regional trade in energy are substantial in South Asia.

Less than 20 percent of the region's hydropower potential is realized (less than 1 percent for Afghanistan and Nepal), and the region is highly dependent on coal and imported oil to meet energy needs.

› 1. The World Bank Group (WBG) will support putting in place the building blocks for an integrated South Asia electricity market linked to Central Asia and potentially Myanmar with the goal of reducing energy costs and load shedding, and shifting the region to a mix of cleaner power sources.

APPROACH:

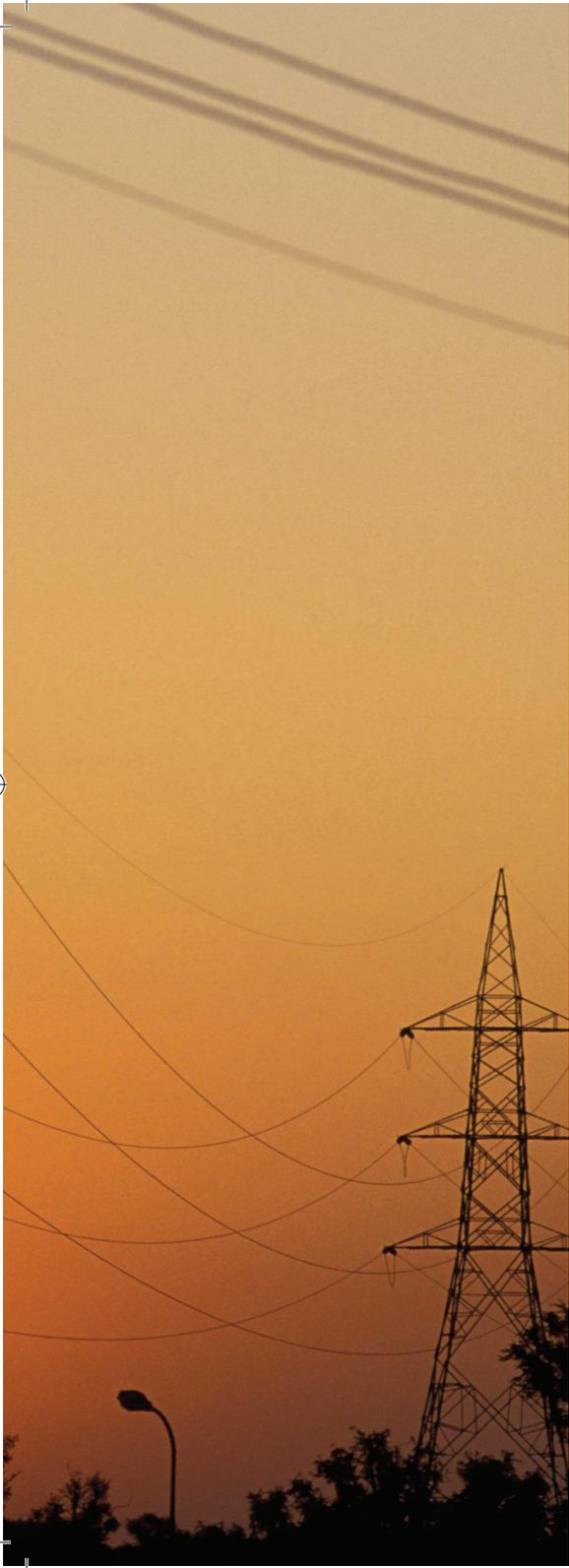
- › Support high-priority investment in transmission systems and power plants.

- › Provide analytical support to inform policy and investment decisions.
- › Put in place institutional arrangements for managing connectivity and trade.
- › Foster regional dialogue among practitioners, including energy secretaries and senior officials.

LENDING PORTFOLIO:

1. Central Asia-South Asia Electricity Transmission & Trade Project (CASA-1000) to enable electricity trade of 1,300 megawatts (MW) of existing summertime hydropower surplus between Kyrgyz Republic and Tajikistan in Central Asia and Afghanistan and Pakistan in South Asia (see Box on last page).
2. Nepal-India Electricity Transmission & Trade Project to support construction of a





high-voltage electricity line between the two countries, capable of transmitting up to 1000 megawatts of power.

PRIORITIES AHEAD

To support the process of developing an India-Bangladesh

Electricity Transmission corridor (and potential finance) and continue working with Pakistan on options to connect with India and the emerging South Asian grid. The Bank will also seek to support developing Nepal's hydropower.

TRADE AND TRANSPORT CONNECTIVITY: REDUCING TIME AND COST OF CROSS BORDER TRADE

South Asia's intra-regional trade is the lowest in the world, making up less than 5 percent of total trade within the region. If barriers to trading with neighbors were removed, intra-regional trade in South Asia could increase from the current US\$28 billion to US\$100 billion.

and with Central and East Asia to enhance competitiveness and local opportunities with the aim of moving South Asia towards ASEAN levels of intra-regional trade and investment.

APPROACH:

▶ **2.** The WBG will support strengthening of infrastructure and policy and regulatory frameworks that facilitate trade, and bolster connectivity within South Asia

▶ Support holistic development of economic corridors, which entails designing and using anchor infrastructure to ensure last-mile connectivity and crowd in private sector development.



- ▶ Take advantage of in-country connectivity by extending it to others in the region and to Central and East Asia.

LENDING PORTFOLIO:

1. Nepal-India Regional Trade & Transport Project to reduce transport time and logistics costs for Nepal's international trade by alleviating policy, institutional and infrastructure constraints along the Kathmandu-Kolkata Corridor.
2. Mizoram Roads II Regional Connectivity Project to enhance connectivity for Mizoram state and the rest of northeast India to Bangladesh and Myanmar.

PRIORITIES AHEAD

A series of connectivity projects that facilitate transport connectivity, trade and transit in the eastern corridor of South Asia, including Bangladesh, Bhutan, North East India and Nepal.

NATURAL RESOURCES – STRENGTHENING RESILIENCE AND REDUCING DISASTER RISKS

There is little cooperation in South Asia on urgent, shared natural resources and climate change issues such as managing shared rivers and disaster risks. In the past two decades, over 50 percent of South Asians (more than 800 million people) have been affected by at least one natural disaster. By building common interests across borders, regional integration can pave the way for South Asian countries to cooperate on shared climate change-related challenges which threaten sustainable growth.

3. The WBG will support efforts to improve the base of knowledge and institutional capacity for better management of shared rivers, disaster risks and wildlife protection.

APPROACH

Use in-country and regional entry points to promote dialogue, and

generate and share knowledge and capacity; and strengthen institutional arrangements towards more effective management of shared resources and disaster risks.

TECHNICAL ASSISTANCE:

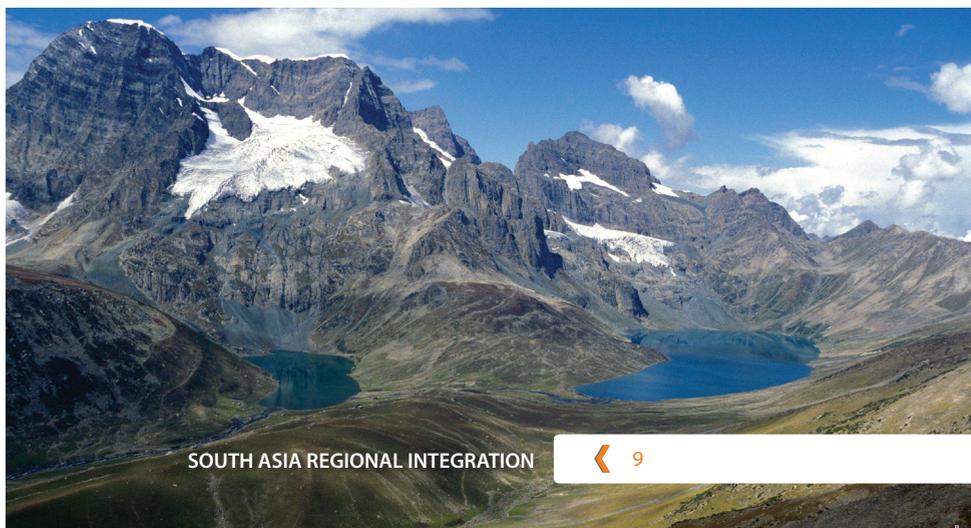
1. Strengthening Regional Cooperation in Wildlife Protection Program to assist Bangladesh, Nepal and Bhutan in building shared capacity, institutions, knowledge and incentives to protect wildlife.
2. South Asia Water Initiative to promote analysis, dialogue and

capacity building for improved management of shared river basins.

3. Help develop institutions and promote cross-border cooperation on water-related risk management.

PRIORITIES AHEAD

A series of investment projects and knowledge activities that will seek to strengthen institutions, facilitate knowledge exchange and enhance cooperation with respect to hydro-meteorological risks between South Asia countries.



POLICIES AND PRACTICES: BUILDING AWARENESS AND COALITIONS TO IMPROVE POLICIES THAT SUPPORT DEEPER REGIONAL COOPERATION

A long history of mutual mistrust prevents South Asian countries from reaping the economic benefits of geographical proximity and complementary resource endowments. Negative stereotypes cast a shadow over cooperation efforts and limited access to accurate

information about neighboring countries perpetuates damaging myths. However, recent successes in implementing cross-border projects and increasing (though still infrequent) people-to-people contacts have created a potential opening to begin turning around long-standing negative attitudes.

➤ **4.** The WBG will build awareness and coalitions to systemically improve policies and practices that can facilitate regional economic cooperation. It will also

APPROACH:

- ▶ Use WBG convening power and analytical capability to support: cross-border platforms for dialogue; program development and delivery; advocacy, communications and assimilation of lessons from emerging experience.
- ▶ Build awareness of, and broaden support for, win-win opportunities.
- ▶ Facilitate knowledge sharing and capacity-building to enhance economic opportunities for poor/vulnerable groups.



ACTIVITIES:

1. Facilitated a regional “championing” process that has bolstered country efforts for greater regional integration and shaped the Bank’s integration strategy. It has also spawned “South Asia Vision” paper to articulate a compelling future and catalyze wider engagement.
2. Helped Pakistan’s Ministry of Commerce establish an advisory group to improve economic cooperation with its neighbors.
3. Supported India’s cross-border parliamentarians dialogue, an effort led by the private sector.
4. Designed the CASA-1000 community support program.
5. Established the BEES network for self-employed women’s groups that is expanding business opportunities through regional integration, and supported the South Asia Economic Students Meetings (SAESM).
6. Supported the South Asia Economic Conclave to foster public-private dialogue and business-to-business collaboration

PRIORITIES AHEAD:

- ▶ Continue to support the championing process, and use the Vision paper as a platform to deepen coalitions and stakeholder support at the country level.
- ▶ Support private sector engagement through focused analysis and advocacy around key roadblocks to trade and foreign direct investment.
- ▶ Continue to develop and disseminate the “SARConnect” just-in-time policy notes, addressing key and emerging challenges to economic cooperation.
- ▶ Ramp up outreach to key constituencies, including youth, media and the private sector.
- ▶ Deepen analytics around poverty and economic integration linkages, and support interventions that enhance economic benefits of poor and vulnerable groups including women, especially along economic corridors.

A POSSIBLE FUTURE FOR SOUTH ASIAN REGIONAL COOPERATION

The Bank’s strategy of facilitating high-level and substantive dialogue to broaden stakeholder engagement, supporting vital demonstration projects, and developing and nurturing institutional arrangements is helping South Asia move toward greater regional integration.

Over the next five years, there is the potential for:

- ▶ A doubling of transmission connectivity and trade.
- ▶ Improved transport connectivity, streamlined border crossings and expanded regional trade along priority economic corridors.
- ▶ Common protocols and shared institutional capacity for wildlife protection and water-related disaster risk management.
- ▶ Institutional arrangements for collaborative management of some shared river basins.

It will also require assistance from the private sector. While governments will put in place policies, regulations, institutions and infrastructure that facilitate trade, the bulk of that trade will be done and sustained by the private sector, which will need support at all levels of enterprise.

The risks are high but, for the countries of South Asia, so too are the rewards.

CASA-1000: CENTRAL ASIA SOUTH ASIA ELECTRICITY TRANSMISSION AND TRADE PROJECT

The US\$1.17 billion CASA-1000 illustrates the challenges and benefits of regional economic integration, involving four countries, two regions and several development partners.

CASA-1000 will put in place infrastructure, contracts and institutional arrangements for Kyrgyz Republic and Tajikistan to export 1,300 megawatts of surplus hydropower during the summer to Afghanistan (300 MW) and Pakistan (1000 MW), alleviating shortages in South Asia, providing revenue to

the two Central Asia nations, and helping establish Afghanistan as a viable transit country.

Nearly 400 million people in South Asia lack reliable access to electricity. Businesses cite energy shortages as one of the most binding constraints to their operations, expansion and job creation. Both Afghanistan and Pakistan rely heavily on oil for power generation. Cleaner and affordable electricity imports from Central Asia will enable improved service, reduce shortages over the critical summer

period and lessen the financial pressure of fuel imports.

The project will finance the engineering design, construction and commissioning of transmissions lines and three new converter stations. Additionally, the Bank will provide country-specific community support programs through a Multi-Donor Trust Fund and the Afghanistan Reconstruction Trust Fund to help improve livelihoods in communities living along the project corridor and facilitate revenue-sharing.



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