

## REGIONAL COOPERATION AND INTEGRATION

### A. Background and Introduction

1. The Asian Development Bank (ADB) promotes South Asian connectivity through its regional cooperation and integration support for the region, characterized by a multi-sectorial approach consisting of (i) national projects with subregional dimensions, (ii) subregional efforts through the South Asia Subregional Economic Cooperation (SASEC) program, (iii) regional efforts through the South Asian Association for Regional Cooperation (SAARC), and (iv) interregional approach through the Bay of Bengal Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) program.<sup>1</sup>

2. **South Asia Subregional Economic Cooperation and South Asian Association for Regional Cooperation.** The SASEC program brings together Bangladesh, Bhutan, India, Maldives, Myanmar, Nepal, and Sri Lanka in a project-based partnership to promote regional prosperity by improving cross-border connectivity, facilitating faster and less costly trade among member countries, and strengthening regional economic cooperation. ADB is the secretariat and lead financier and development partner of SASEC. The SAARC platform is dedicated to improving the welfare of the people of South Asia through economic growth, social progress and cultural development, and the SAARC Development Fund has three windows to finance regional opportunities: social, economic, and infrastructure. Kathmandu hosts the SAARC Secretariat, and Thimphu the SAARC Development Fund Secretariat. Under the SASEC transport program, regional connectivity improvements are aimed to increase subregional trade and improve the competitiveness of local industries, particularly for Bhutan and Nepal which are landlocked, as the deficiency of the cross-border infrastructure network results in high transport costs and impedes regional integration and trade with indirect neighbors. Excluding India, trade with all other member countries of SASEC and SAARC account for only 0.8% of Nepal's total trade.<sup>2</sup>

3. **SASEC 2025.** The SASEC Operational Plan for 2016–2025 was adopted in May 2016 and finalized in September 2016.<sup>3</sup> It provides a rolling pipeline of over 200 potential priority projects requiring over \$120 billion investments over the next five years in transport, trade facilitation, energy and economic corridor development. Currently, the SASEC portfolio amounts to about \$10.7 billion by the end of 2017, for 49 projects covering the transport sector, energy, economic corridor development, trade facilitation, and ICT. Transport is the largest sector with 32 projects costing \$8.5 billion, followed by energy with 11 projects at \$1.45 billion. ADB contributed almost \$6.2 billion of the total cost, while SASEC governments and other cofinanciers contributed over \$4.5 billion. The SASEC Nodal Officials and Working Group meeting held in Singapore in March 2018 aimed to review the progress of ongoing projects in transport and trade facilitation, review the progress of SASEC Vision in the energy sector, and discuss the integration of Myanmar in SASEC.

---

<sup>1</sup> Bangladesh, Bhutan, India, and Nepal formed the South Asian Growth Quadrangle in 1996; they founded SASEC in 2000 and requested ADB to help advance their economic cooperation initiative, with ADB acting as its Secretariat and lead financier and development partner. After ADB's 47th Annual Meeting in Astana, Kazakhstan in May 2014, SASEC expanded its membership to include Maldives and Sri Lanka as full members. Myanmar became its seventh member in April 2017 during the SASEC Finance Ministers' meeting held in New Delhi. SAARC includes Afghanistan, Bangladesh, Bhutan, India, Nepal, Pakistan, and Sri Lanka. BIMSTEC comprises Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, and Thailand.

<sup>2</sup> Government of Nepal, Department of Customs. 2018. *Annual Foreign Trade Statistics FY2016/17*. Kathmandu.

<sup>3</sup> SASEC Secretariat. 2016. *Operational Plan 2016–2025*. Manila.

## B. Transport Infrastructure Strategy

4. **Transport infrastructure.** Transport infrastructure continues to be the main priority of SASEC, but with focus on realizing seamless movement along intermodal transport systems in key trade routes, and is aligned with connectivity initiatives in SAARC and BIMSTEC. The operational priority 1 (OP-1) for road transport is to upgrade and expand the road network along major trade routes, including the upgrade of: (i) key routes to Asian Highway Class 1 standards; (ii) road links to primary SASEC routes and key borders; and (iii) access roads to border and ports to address “last mile” connectivity. For rail (OP-2), the priority is to improve connectivity between: (i) Bangladesh and India; (ii) landlocked countries and seaports; and (iii) ports and their hinterlands. For maritime transport (OP-3), the priority is to improve port handling efficiency and port capacity by: (i) developing deep water ports; and (ii) reducing port dwell times by augmenting port operating efficiency. For inland waterways (OP-4) the priority is to promote coastal shipping and inland water transport to handle international trade. For airports (OP-5) the priority is to expand capacity to handle both passenger and air freight traffic, as a result of growth in tourism and global value chains.

5. **Economic corridor.** This area is the most recent addition to priorities of the SASEC program, which involves leveraging of infrastructure connectivity to unlock the full potential of markets. Better linkages between in-country economic corridors will generate synergies from improved infrastructure and connectivity, industrial value chain linkages, and urban development. Seven national corridors have initially been identified as having potential synergies with other in-country corridors in SASEC, based on spatial proximity and complementarities between them. These are: (i) Kathmandu–Kakarvitta (via East–West Highway) (Nepal); (ii) Kathmandu–Kakarvitta (Via Mid–Hill Highway) (Nepal); (iii) East Coast Economic Corridor (India); (iv) Amritsar–Kolkata Industrial Corridor (India); (v) Banglabandha–Dhaka–Chittagong–Cox’s Bazar Economic Corridor (Bangladesh); (vi) Sylhet–Dhaka–Khulna Economic Corridor (Bangladesh); and (vii) Colombo–Trincomalee Corridor (Sri Lanka).

6. The project road is part of SAARC corridor 4 under the SASEC Program. It is also related to a broader network of corridors aiming to strengthen regional cooperation. These include:

- (i) SAARC Corridor 4: Kathmandu (Nepal)–Kakarbhitta (Nepal)–Panitanki (India)–Phulbari (India)–Banglabandha (Bangladesh)–Mongla/Chittagong (Bangladesh);
- (ii) SAARC Corridor 7: Kathmandu (Nepal)–Nepalganj (Nepal)–New Delhi (India)–Lahore (Pakistan)–Karachi (Pakistan);
- (iii) SAARC Corridor 8: Thimphu (Bhutan)–Phuentsholing (Bhutan)–Jaigaon (India)–Changra-bandha (India)–Burimari (Bangladesh)–Mongla and Chittagong (Bangladesh); and
- (iv) SAARC Corridor 10: Kathmandu (Nepal)–Bhairahawa (Nepal)–Sunauli (India)–Lucknow (India)

7. Several SASEC transport projects are contributing to the development of SAARC corridors:

- (i) In Nepal, strategic road improvement includes the alternate East–West Highway Route, Border Connectivity Road (near Kakarbhitta) and Mid–hill East–West Corridors under Nepal SASEC Road Connectivity Project.<sup>4</sup> The SASEC Roads

<sup>4</sup> ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance Grant to Nepal for the South Asia Subregional Economic Cooperation Road Connectivity Project*. Manila (Loan 3012-NEP).

- Improvement Project finances Bhairahawa–Lumbini–Taulihawa, and the Narayanghat–Butwal section of the East–West Highway.<sup>5</sup>
- (ii) In India, Tranche 1 of the SASEC Road Connectivity Investment Program finances upgrading works for the road corridor Kakarbhitta (Nepal)–Panitanki/Fulbari (India)–Banglabandha (Bangladesh).<sup>6</sup> Tranche 2 is expected to finance Mechi Bridge at the border between Nepal and India in Kakarbhitta, and Imphal to Moreh close to the border with Myanmar.
  - (iii) In Bangladesh, the 70-kilometer Dhaka Northwest Corridor upgrading to 4 lanes (Joydevpur–Chandra–Tangail–Elanga Road) and land ports in Benapole and Burimari, are being implemented under the Bangladesh SASEC Road Connectivity Project approved in November 2012.<sup>7</sup>
  - (iv) In Bhutan, the Pasakha Access Road improvement works are being implemented under the Bhutan SASEC Road Connectivity Project, while the Phuentsholing–Chamkuna Road is being implemented under the SASEC Transport, Trade Facilitation and Logistics Project.<sup>8</sup>

### C. Regional Cooperation and Development Priorities

8. Nepal continues to be active in regional cooperation programs as demonstrated in the government's active participation in SASEC, SAARC and BIMSTEC. Regional cooperation activities in Nepal are focused on transport, energy, trade facilitation, and economic corridor sectors. It is also party to the Bangladesh–Bhutan–India–Nepal (BBIN) Motor Vehicle Agreement, signed in Thimphu in June 2015, a landmark framework agreement to facilitate passenger, personal and cargo vehicular traffic among the participating countries. The BBIN countries aim to reduce costly and time-consuming transshipment of people and goods at border crossings and are working on formulation of the Agreement's protocols.

9. Nepal has prioritized improving its regional connectivity and establishing multiple transit routes to overcome the disadvantage of being a landlocked country. Thus, the transport sector has been the most dominant SASEC priority sector in terms of the investment size, with steady implementation of road and air connectivity projects since the inception of the program in 2001.

10. ADB's RCI support to Nepal includes several completed and ongoing investment projects under SASEC (Table 1).

---

<sup>5</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Nepal for the South Asia Subregional Economic Cooperation Road Improvement Project*. Manila (Loan 3478-NEP).

<sup>6</sup> ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranchise Financing Facility to India for the South Asia Subregional Economic Cooperation Road Connectivity Investment Program*. Manila (Loan 3118-IND).

<sup>7</sup> ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Loan and Technical Assistance Grant to the People's Republic of Bangladesh for the South Asia Subregional Economic Cooperation Road Connectivity Project*. Manila (Grant 0400-BAN).

<sup>8</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Grant to the Kingdom of Bhutan for the South Asia Subregional Economic Cooperation Transport, Trade Facilitation and Logistics Project*. Manila (Loan 3492-BHU).

**Table 1: Ongoing Regional Cooperation and Integration Projects in Nepal**

SN	Project (Approval Year)	Status	ADB Amount (\$ million)	Project Scope
1.	Subregional Transport Facilitation (2004)	Completed 2010	20.0	The Project improved about 41.4 km two lane access road to connect Birgunj and Bhairahawa ICDs to national highways, constructed an ICD at Kakarbita gateway at the eastern border, and improved automation system of customs cargo clearance and management along with strengthening capacity of customs agency.
2.	Road Connectivity Sector I Project (2006)	Completed 2012	55.2	Expanded and upgraded feeder roads connecting PRC and southern Nepal, improved efficiency and sustainability of DOR in planning, constructing, and managing the SRN.
3.	SASEC Information Highway Project (2007)	Ongoing	5.0	Establish high speed direct fiber optic connection among SASEC countries. The Project is assisting regional cooperation among Bangladesh, Bhutan, India, and Nepal through the SASEC program by implementing most urgent improvement in SASEC ICT development master plan in areas of (i) cross-border connectivity, (ii) rural access to information, and (iii) human resource capacity.
4.	South Asia Tourism Infrastructure Development Projects (2009)	Ongoing	55.5	The Project aims to have a sustainable and inclusive development by tapping the potential of contiguous and complementary tourism assets of Nepal.
5.	Subregional Transport Enhancement Project (2010)	Completed 2017	49.0	Provide north-south link between Nepal's northeastern region and EWH, improve major international corridors, and customs modernization.
6.	SASEC Subregional Trade Facilitation Program (2012)	Ongoing	15.0	The program aims to modernize and strengthen customs administration and management; streamline and improve trade processes and procedures; and improve services and information for private sector traders and investors, including women entrepreneurs.
7.	Air Transport Capacity Enhancement Project (2009)	Ongoing	80.0	The project intends to improve safety and capacity at Tribhuvan international Airport and three remote domestic airports in Lukla, Simikot and Rara and strengthen institutional capacity of Civil Aviation Authority of Nepal.
8.	SASEC Road Connectivity (2013)	Ongoing	75.0	The project will improve domestic and regional connectivity in Nepal. The main investment is an alternate route in Sunsari and Saptari districts which will create year-round passable conditions along the EWH, especially across the Koshi River. The repair of three feeder roads in the hill areas will improve connectivity between villages.
9.	SASEC Power Systems Expansion Project (2014)	Ongoing	180.0	The Project seeks to increase power transmission capacity and power distribution network, and mini-grid-based renewable energy systems in off-grid areas.
10.	SASEC Roads Improvement Project	Ongoing	186.2	The project will improve domestic and regional connectivity by financing the development of Bhairahawa–Lumbini–Taulihawa, and Narayanghat–Butwal Road section of the East–West Highway.
11.	SASEC Customs Reform Modernization for Trade Facilitation program loan	Ongoing	21.0	The program will support the simplification, harmonization, and modernization of Nepal's trade processes to meet international standards, and help the country fulfill its commitments to the Trade Facilitation Agreement (TFA) of the World Trade Organization (WTO)
12.	Regional Urban Development project	Ongoing	215.0	The project will improve the resilience and delivery of urban services and facilities in eight municipalities in the southern Terai region of Nepal bordering India. The project will support municipal infrastructure investments, urban planning, and institutional strengthening.

DOR = Department of Roads; EWH = East–West Highway; ICD = inland clearance depot; ICT = information and communications technology; PRC = People’s Republic of China; SASEC = South Asia Subregional Economic Cooperation; SRN = strategic road network.

Source: Asian Development Bank.

11. The revised road pipeline aims to upgrade capacity of the strategic road network, improve road links between remote areas and key trade routes and gateways and undertake last-mile border connectivity to support expansion of domestic and regional trade. Improving the internal rail network as well as rail connections with India will be pursued. Major airport investments are aimed at expanding capacity of the main gateway (Kathmandu) as well as upgrading of alternative airports to international standards to handle increased tourism. Table 2 lists the potential SASEC transport projects directly related to Nepal.

**Table 2: Potential SASEC Transport Projects in Nepal**

<b>Project</b>	<b>Estimated Cost</b> (\$ million)	<b>Indicative Funding Source</b>
<b>ROAD</b>		
<b>Upgrade of key routes to Asian Highway Class 1 standards</b>		
New four-lane expressway construction of the Kathmandu–Nijgadh Sector (76.2 km) and upgrading of Nijgadh–Pathlaiya Sector from 2-lane to four lane (18 km)	1,089.0	PPP
Four-laning of East–West Highway Narayanghat–Pathlaiya Section (106 km)	181.0	ADB
Four-laning of East–West Highway Kakarbhitta–Laukahi Section (120 km)	200.0	ADB
Four-laning of East–West Highway Dhalkebar–Kamala Section (21 km)	50.0	ADB
Four-laning of East–West Highway Laukahi–Kanchanpur (Koshi River Bridge) (15 km)	300.0	N/A
Dedicated two-laning of Narayanghat–Mugling (AH42) (33.2 km)	48.0	World Bank
Four-laning of Mugling–Kaubese–Kathmandu (AH42) (96 km)	257.0	World Bank
Four-laning of Mugling–Pokhara (90 km)	180.0	ADB
Malekhu–Lothar Road with 3 km Tunnel (43 km)	200.0	ADB
Mirchaiya–Katarai–Ghurmi Road (75 km)	42.0	ADB
Dumre–Besisahar Road (43 km)	24.0	ADB
Four-laning of Suryabinayak–Dhulikhael (AH42) (17 km)	60.0	Japan
Dedicated two-laning of Dhulikhael–Barhbise–Kodari (AH42), (87 km)	160.0	PRC
Four-laning between Pathailaya and Birgunj (AH42)-26 km	45.0	Government
<b>Upgrade of road links to primary SASEC routes and key borders</b>		
Belhiya–Butwal Road (24 km)	38.0	Government
Dhankuta–Leguwaghat–Khadbari–Kimathanka Road (248 km) – (DPR and financing not yet ready)		Government
Four-laning of Koshi Corridor (Rani–Biratnagar–Ithari–Dharan (50 km)	48.0	Government
Gaidakot–Palpa–Ramdi–Kaligandaki–Rudrabeni–Maldhunga–Beni–Jomsom–Chaile–Korala (435 km)	180.0	Government
Four-laning of Mohnapul–Atariya–Godabari (14.5 km)	35.0	Government
Six Laning of EWH (Dhelkebar–Janakpur (26 km)	60.0	Government
Six Laning of Jatahi (India Border)–Janakpur (13 km)	30.0	Government
Four Laning of Janakpur–Jaleswor–Bhittamod (Postal Highway) (18.75 km)	9.5	Government
Two Laning of East–West (Mid-Hill) Highway (1,500 km out of 1,776 km)	3,034.0	Government
Two Laning/ Intermediate Laning of Postal Highway (1031.9 km)	350.0	Government/ DA
Two Laning of Dharan–Chatra–Hetauda Road (318 km)	180.0	Government
Two Laning of Galchhi–Trishuli–Mailung–Syaprubeshi–Rasuwegadi Road (82 km)	34.0	Government
<b>Upgrade of access roads to border and ports to address “last mile” connectivity</b>		
Construction of Connecting Road between Sirsiya Integrated Checkpost and the Dryport Bypass (.7 km)	1.3	NF
Expansion of the Birgunj Dryport Bypass Road (11 km, 6-laning)	10.0	NF
<b>RAIL</b>		
<b>Improved connectivity with landlocked countries to seaports</b>		
New line–Kapilavastu–Basti via Bansi (91 km)	100.0	Indian Railways

<b>Project</b>	<b>Estimated Cost (\$ million)</b>	<b>Indicative Funding Source</b>
New Line- Nepalganj Road (India) –Nepalgang (Nepal) (12 Km)	NA	Indian Railways
New Line- Nautanwa (India)- Bhairahawa (Nepal) (15 Km)	NA	Indian Railways
New Line- New Jalpaiguri (India) –Panitanki/Kakkarvitta(Nepal) (70 Km)	NA	Indian Railways
New Line- Khushinagar (India) –Kapilavastu (Nepal)	NA	Indian Railways
New Line- Barhni (India) –Kathmandu (Nepal)	NA	Indian Railways
<b>Enhanced connectivity between ports and their hinterlands</b>		
Construction of Bardibas–Simra–Birgunj Railway (115 km)	544.0	Government
Construction of Bardibas–Kakarbhitta Railway (247 km)	1,048.0	Government
Birgunj–Kathmandu- (100 km.) Second Phase	400.0	Government
<b>AIR</b>		
<b>Expand capacity to handle both passenger and air freight traffic</b>		
Major Development of Tribhuvan International Airport, Kathmandu	900.0	ADB/Government/ PPP
Construction of Second International Airport at Nijgadh	650.0	Government
Construction of New Airport at Pokhara-Regional International Airport Project	216.0	PRC
Expansion and Upgrading of Gautam Buddha Airport	97.2	ADB/ Government

ADB = Asian Development Bank; NF = non-sufficient funds; PPP = Public-Private Partnership; PRC = People's Republic of China; SASEC = South Asia Subregional Economic Cooperation.

Source: Asian Development Bank.