



# South Asia Regional Cooperation for Growth and Poverty Reduction

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Presentation to South Asia  
Regional Management Team

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# Development Context

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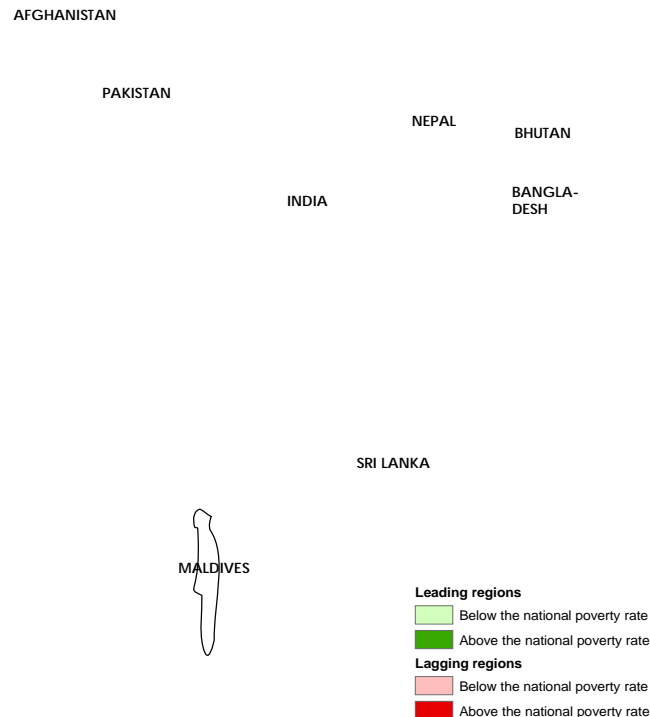
## Substantial scope for increased regional trade, investment and connectivity that will boost growth

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- South Asia is the least integrated region of the world with intra-regional trade accounting for only 5 percent of its total trade as compared with more than 50 percent in East Asia.
- South Asian countries have poor inter-connectivity and poor trade logistics due to lack of cooperation that raises transaction costs for trade and transit
- Intra-regional investment flows are heavily restricted by policy constraints
- With more and better cooperation trade can grow from less than \$5 billion today to \$20 billion

# Most border regions are lagging in income and poverty; regional cooperation will reduce poverty by helping the lagging regions

Map 3: Distribution of Poverty by Leading and Lagging Regions

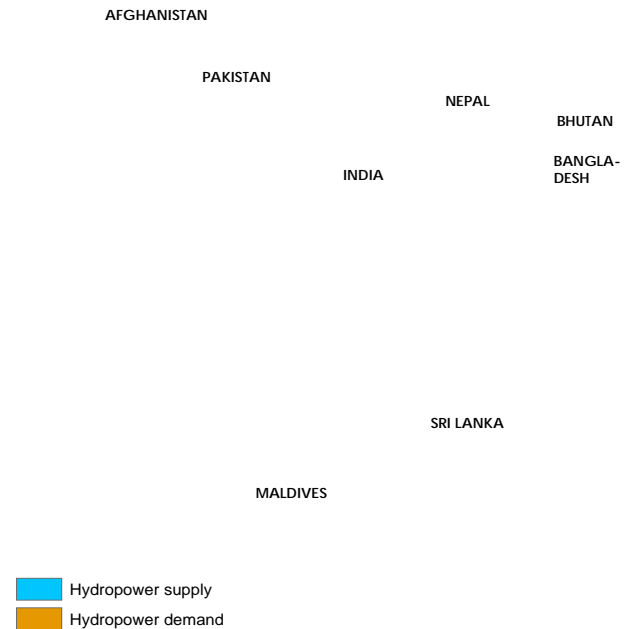


- The landlocked countries of both Afghanistan and Nepal are among the lowest per capita income group in region.
- Out of 14 states of India that have borders with neighbors, 12 have per capita income levels that are at or below national average.
- In Pakistan, per capita income is lower than average in the border provinces of North-West Frontier, Balochistan, and rural Sindh.
- In Bangladesh, the border districts tend to have lower than average per capita income than the national average.
- Most of the lagging regions in income terms are also lagging in terms of having higher than average incidence of poverty and/or poorer human development indicators.

# The growth benefit from energy trade is especially large

- Afghanistan and Nepal are sitting on water resources that could potentially generate some 24,000 MW of electricity from Afghanistan and 83,000 MW from Nepal
- Exploitation of this potential can unlock the energy constraints in India, Bangladesh, Pakistan.
- Afghanistan and Nepal, the two poorest South Asian countries will benefit tremendously as well from higher income from hydro-power
- Yet less than 1 percent is actually used due to lack of cooperation. Indeed without borders development of South Asia's hydro-power would be perhaps the highest return investment.
- There are similar opportunities in other sources of energy trade

Map 4: Distribution of Hydro Potential





# South Asia water and climate change: an increasingly vulnerable region

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- Indus-Ganges-Brahmaputra River basin home to 530 million people
- Shared between Pakistan, India, Nepal, Bangladesh (and China and Bhutan)
- Increased pressures on water resources
  - growing population and water demand
  - pollution
- Increased vulnerability from climate change
  - Monsoon will be more severe, less predictable
  - Reduced dry-season flows
  - Increased intensity and frequency of water related hazards
  - Sea level rise and salt-intrusion
- Countries acting alone cannot effectively address these risks

# Regional water cooperation – opportunities for development

- Water cooperation can be win-win (example: Indus Treaty)
- All riparians, particularly the poor, can benefit through
  - Enhanced productivity (irrigation, fisheries, navigation/access)
  - Reduced costs (floods, droughts, cyclones)
- Benefits are maximized if:
  - Optimal technical options adopted, regardless of national boundaries
  - Financial costs and output benefits are shared equitably
  - Cooperation focuses on bundling opportunities (institutions, infrastructure)
- Both Ganges and Brahmaputra have tremendous technical potential for upstream multipurpose infrastructure to :
  - cap flood peaks
  - raise dry season flows for irrigation and reduce saline intrusion in vulnerable ecosystems (e.g. Sundarbans)
  - increase hydropower availability & clean energy source
  - enhance navigability/access
- Data exchange and sharing can enhance regional disaster preparedness





# Political Economy of Cooperation

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# Regional cooperation can lead to peace with rich dividends

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- Border regions are hotbeds of conflict and security risks; they are also amongst the poorest.
- Conflict between Pakistan and Afghanistan and between Pakistan and India pose a serious threat to global and regional stability.
- Regional cooperation can lead to peace over the longer term yielding rich development dividends for South Asia



# Key Constraints

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- The gains from cooperation are obvious. What are the key constraints?
- First and foremost is the prevalence of a number of regional disputes (Kashmir problem, Taliban issue)
- Second is the lack of good information and analysis in the public domain about the benefits of cooperation
- Third is the internal political interests in countries that are divided along nationalistic, religious and ethnic lines that substantially complicate regional cooperation agenda
- Finally, the bilateral approach to regional cooperation has raised suspicions in smaller countries of India's dominance

# Yet, these constraints are not insurmountable

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- International experience shows that political constraints and historical conflicts need not be permanent barriers to cooperation (EU)
  - Presence of a dominant country should also not be a problem (China and ASEAN)
  - Fortunately the environment for cooperation is improving in South Asia with economic progress and a greater realization the cooperation is necessary for progress in the lagging regions and for addressing the infrastructure constraints
  - Most recently, the emergence of a new government in Bangladesh has opened up a firm window of opportunity for cooperation with neighbors in South Asia's North-East sub-region (Bangladesh, India, Bhutan, Nepal)



# Bank Strategy

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# Client consultations



- Wide-ranging consultations with governments, business and civil society leaders of Bangladesh, India, Nepal and Pakistan have suggested that the way forward is to identify concrete bankable projects where multi-country cooperation would yield tangible benefits for citizens.
- Clients identified trade facilitation; regional transport; energy trade; and water cooperation as priorities
- Cross-border transactions must be depoliticized and pursued on a commercial basis
- Enabling national and international private investors to participate in these transactions hold the most promise of success than bilateral political deals
- International financial institutions can play a major role by bringing global good practices, by providing technical assistance to smaller countries and by mobilizing external financing.



# Core principles of engagement

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- Focus on commonality of interest: two sub-regions: North East (Bangladesh, Bhutan, India and Nepal) and North West (Afghanistan, India, Pakistan)
- Identify and develop low-hanging fruits (trade logistics, regional transport, regional energy). Water projects will take longer
- Be prepared to move fast as opportunity emerges because these windows may not last long (strong AAA, core task teams)
- Engage more broadly beyond government with knowledge partnerships involving private sector, civil society and media
- Develop and maintain partnership with key development partners (ADB, DFID, EU)

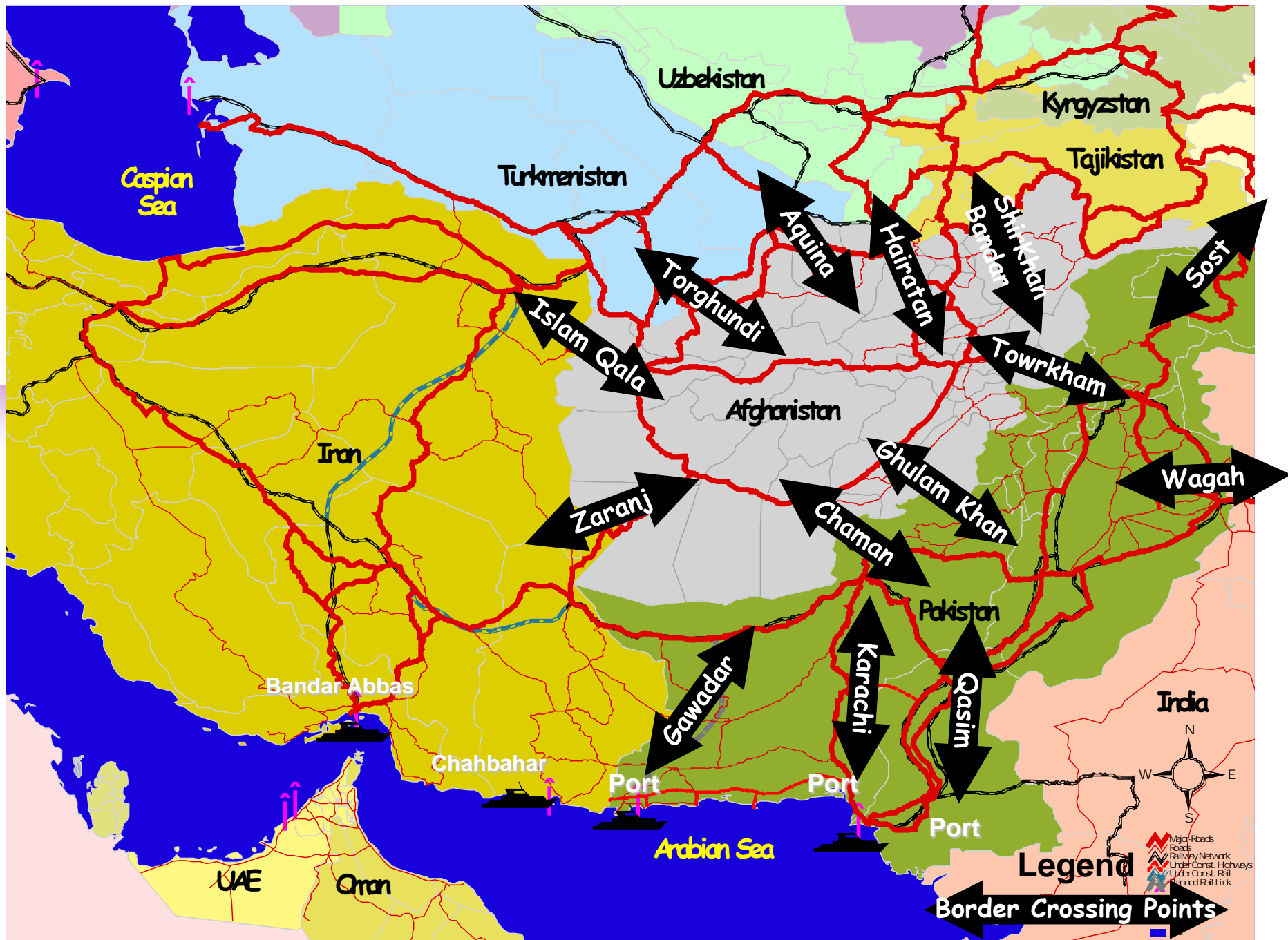


# Low hanging fruit: trade logistics and regional transport

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- North-West trade facilitation and transport project: Phase 1: Afghanistan and Pakistan , providing efficient port connectivity to Afghanistan; Phase 2: linking South Asia to Central Asia and India to Pakistan and Afghanistan.
- North-East trade facilitation and transport project (Bangladesh, North-east India, Bhutan, Nepal) providing inter-connectivity for North-East India to mainland and opening up Chittagong and Mongla ports in Bangladesh to other regional partners
- Both involve policies (transit rights) and physical infrastructure





# SOUTH ASIA INTERMODAL TRANSPORTATION NETWORK

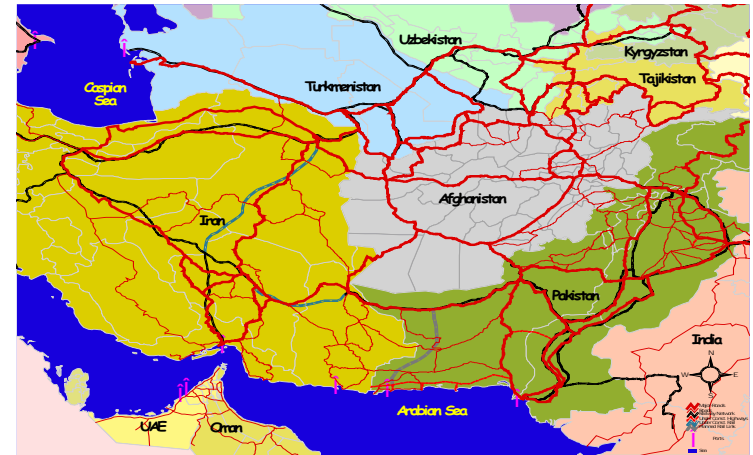
- |  |   |
|--|---|
|  MAJOR ROADS                |  KATHMANDU-CALCUTTA       |
|  RAILROADS - BROAD GAUGE  |  KATHMANDU-MUMBAI       |
|  RAILROADS - METER GAUGE  |  KAKARVITTA-BANGLABANDU |
|  RAILROADS - NARROW GAUGE |  PHUNTSHOLIN            |
|  WATERWAYS                |  PHUNTSHOLIN            |
|  |  CALCUTTA-SIL           |
|  |  CALCUTTA-AG            |

**Key Subregional Routes**



# Low-hanging fruit: energy trade options

- CASA REM project: 1000 MW of power exported from Tajikistan and Kyrgyzstan to Afghanistan and Pakistan  
Phase 1: Tajikistan-Afghanistan-Pakistan;  
Phase 2: Tajikistan-Kyrgyzstan-Afghanistan-Pakistan
- Sri Lanka-India HVDC under-sea cable interconnection
- Hydro-power exports from Nepal to India and Bangladesh
- Hydro and gas-based power from North-East India to Bangladesh





# Longer-Term Options in Regional Transport

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- Road, rail, port links between Central Asia and South Asia via Afghanistan and Pakistan (Karachi, Gawadar become regional sea ports)
- Road , rail, port links between East Asia and South Asia via Myanmar and Bangladesh (Chittagong Deep Sea Port)
- Asian highway linking Central Asia with East Asia thru South Asia



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# Longer-term energy options: trade with Central and East Asia

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- Iran-Pakistan-India gas pipeline
- Turkmenistan-Afghanistan-Pakistan-India gas pipeline
- Myanmar-Bangladesh-India gas pipeline
- South Asian Power Grid

# SOUTH ASIA SOUTH ASIA REGION AND ADJACENT COUNTRIES

- ENERGY FLOWS:**
- ELECTRICITY
  - NATURAL GAS
- PROSPECTIVE VOLUME:**
- LOW
  - MEDIUM
  - HIGH
- SELECTED CITIES**
- NATIONAL CAPITAL
  - MAIN ROADS
  - RIVERS
  - INTERNATIONAL BOUNDARIES

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# Progress So Far

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# Analytical work

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- A strong program of AAA with reports on regional trade, regional transport, regional energy, regional growth, regional climate change strategy already completed.
- Work ongoing/nearing completion in the following: services trade, lagging regions, regional agriculture, safety nets, disaster management and non-communicable disease
- Flagship tasks initiated on regional water, and regional food security (jointly with DFID).
- Completed AAA have been disseminated and provide the analytical foundations for developing specific projects as opportunities arise
- Monthly GDLN on regional issues provides a low-cost outreach



# Regional projects: background

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- Task teams established in the areas of trade logistics, regional transport, regional energy and regional water to conduct analytical work, dialogue and preparedness to engage with clients on projects as opportunities arise
- South Asia has a notional allocation of \$250 million for regional projects under IDA 15



# Regional projects: energy

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- The first regional project--the CASAREM-- is well advanced. Phase 1 involves 800 MW of power exports from Tajikistan to Afghanistan (200MW) and Pakistan (600MW) (Board in September 2010)
- Experience invaluable for future regional projects involving multiple countries and donors
- Dialogue well advanced on India- Sri Lanka 500/1000MW under-sea power transmission project.
- Dialogue underway on a range of quick-win power trade options involving:
  - India and Nepal: 100/250MW electricity imports from India to Nepal:
  - India and Bangladesh: i) 250 MW daily power trade (grid synchronization; ii) Bangladesh gas-based power import from Tripura
- The objective is to establish eventually a market for North East power trade with Nepal and Bhutan's hydro potential



# Regional projects: trade logistics and transport

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- North-West trade and transport logistic project Phase1 (Afghanistan and Pakistan). Three components:
  - (i) trade logistic (modernization of border outposts/new ATA); (ii) road-rail infrastructure (Landikotal-Jalalabad rail extension); (iii) transport services (trucks and rail cargo).
- Work well advanced. Next step: Third RECCA meetings in Islamabad.
- North-East trade logistic and regional transport project (Bangladesh-Bhutan-Nepal-India): Objective is to convert Chittagong, Mongla and Kolkata to regional ports. Dialogue underway to specify components.



# Knowledge partnerships

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- Several knowledge partnerships implemented/ongoing: 2 SAARC business conclaves; First South Asia Economic Summit; partnership with India's FICCI on North East Development Forum; partnership with Pakistan LUMS on global financial crisis
- Broad-based partnership being developed with a number of local institutions: ICRIER, IDSA, and RIS of India; IPS of Sri Lanka; LUMS of Pakistan; Enterprise Institute of Bangladesh; SACEPs of South Asia
- Conducted a large number of regional/country level workshops to promote the regional cooperation agenda involving civil society leaders, private sector and the media (example Dhaka Food Conference in November 2008)
- Several South-South knowledge initiatives underway



# Knowledge partnerships: upcoming events

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- North East Development Forum: Kolkata  
July 2009
- Climate Change Conference: Kathmandu  
September 2009
- South Asia financial crisis conference:  
Lahore June 2009
- Third SAARC Business Conclave:  
(date/venue to be determined)



# Development partners

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- Consultations held with ADB, EU and DFID on the regional program
- ADB is a key player in the regional area with substantial progress in East and Central Asia but limited progress in South Asia.
- WBG-ADB partnership will be critical for progress in South Asia
- WBG-DFID partnership progressing well with initial focus on food security and regional trade
- EU interested in partnership on issues relating to building local ownership



# Next Steps

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# Strengthening client and team engagement

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- High-level follow up with clients to facilitate faster progress with the low-hanging fruits
- Coordination with donor partners, specially ADB to join forces with focus on implementation
- Engage CDs to take stronger ownership of the regional cooperation agenda



# Issues and challenges

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- Given changing political circumstances and sensitivities continued engagement with highest level of policy makers will remain important
- Regional tasks are expensive and long-drawn. Finding resources and keeping task teams engaged is a challenge