

Regional Cooperation and Integration (RCI) BHU: SASEC Transport, Trade Facilitation and Logistics Project

A. Background and Introduction

1. The Asian Development Bank (ADB) promotes South Asian connectivity through its regional cooperation and integration (RCI) support for the region, characterized by a multi-pronged, multi-phased approach consisting of (i) national projects with subregional dimensions, (ii) subregional efforts through the South Asia Subregional Economic Cooperation (SASEC) program,¹ (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.

2. **SASEC.** The SASEC Program brings together Bangladesh, Bhutan, India, the Maldives, 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.

3. Under the SASEC transport program, improving regional connectivity is crucial for unlocking economies of scale and increasing competitiveness especially for the landlocked countries of the region. With the advent of supply chains, premium is placed on moving goods rapidly, reliably and cheaply through trade facilitation and improved logistics performance.

4. In trade facilitation, ADB assistance is focused on addressing key constraints to trade in the subregion, such as high tariffs, inefficient customs and land border procedures, and inefficiencies in port operations and logistics performance. In 2014, the SASEC countries adopted the SASEC Trade Facilitation Strategy (2014-2018), formulated with ADB support, to focus on five key priority areas that would address various trade facilitation issues in the subregion, namely: (i) customs modernization/ harmonization, (ii) standards and conformity assessment strengthening, (iii) cross-border facilities improvement, (iv) through transport facilitation, and (v) institution/ capacity building.

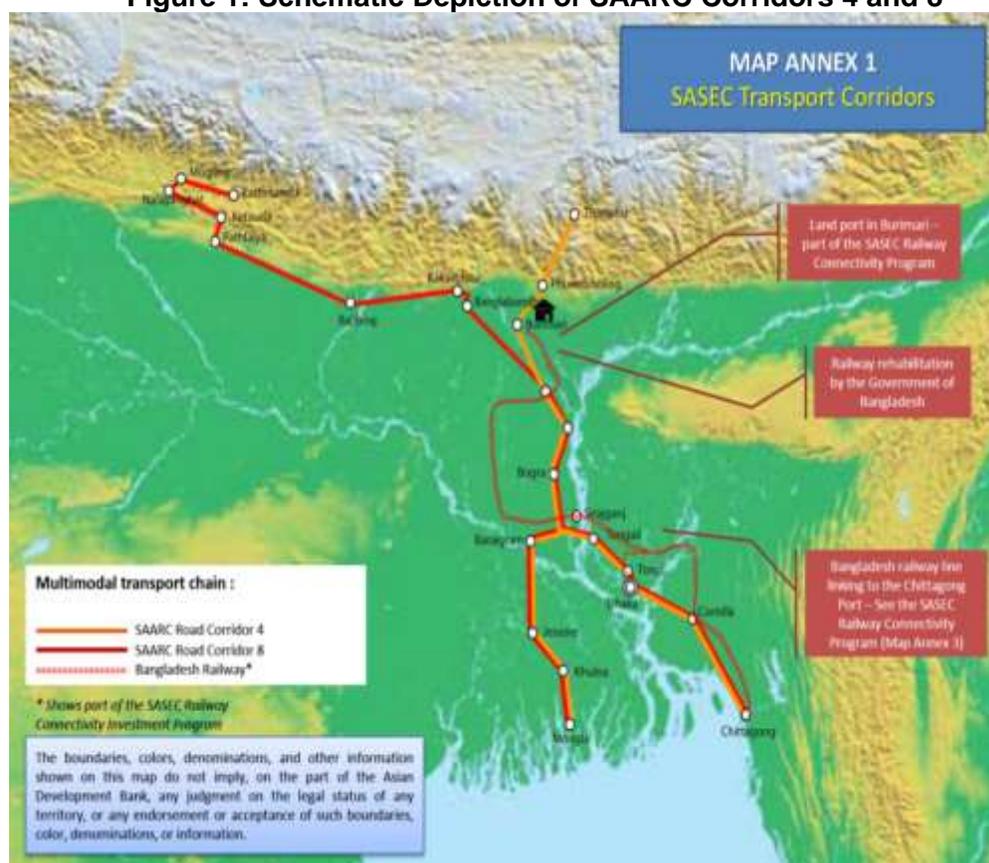
5. **SASEC 2025.** The SASEC Trade Facilitation and Transport Working Group (TFTWG) meeting in Kathmandu (November 2014) agreed on the need to formulate the 10-year strategy and road map for the SASEC program—SASEC 2025—which will define and articulate the program's vision, strategic priorities and priority regional projects and initiatives. ADB, as SASEC Secretariat, is coordinating the preparation of SASEC 2025. Consultants have prepared the needed diagnostics for priority SASEC sectors and areas of cooperation (transport, trade and transport facilitation, energy, and economic corridor development). A brainstorming workshop was held in Singapore on 14–15 October 2015 to discuss and agree on the various elements of sector/ thematic thrusts, and on the timetable for key action points for finalizing the SASEC 2025 document. A second workshop, held in Delhi on 10-11 May 2016, discussed the structure of the SASEC Vision Document, which articulates the long-term potential of the subregion as an integrated entity. The workshop also further refined SASEC 2025's operational plan and priorities.

¹ Bangladesh, Bhutan, India and Nepal formed the South Asian Growth Quadrangle in 1996; they organized SASEC in 2000 and requested ADB to help advance their economic cooperation initiative, with ADB acting as Secretariat and lead financier and development partner of the grouping; after the 47th Annual ADB meeting (Astana, Kazakhstan, May 2014) SASEC has expanded to include Maldives and Sri Lanka, with Myanmar as observer. SAARC includes all the SASEC members plus Afghanistan and Pakistan. BIMSTEC comprises Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, and Thailand. See <http://sasec.asia> for more details

B. Transport: Progress and Future Directions

6. Two SAARC corridors (4 and 8) are broadly covered under the SASEC Program (Fig. 1):
- (i) SAARC Corridor 4: Kathmandu (Nepal)-Kakarbhitta (Nepal)-Panitanki (India)-Phulbari (India)-Banglabandha (Bangladesh)-Mongla/Chittagong (Bangladesh).
 - (ii) SAARC Corridor 8: Thimphu (Bhutan)-Phuentsholing (Bhutan)-Jaigaon (India)-Changrabandha (India)-Burimari (Bangladesh)-Mongla/Chittagong (Bangladesh).

Figure 1: Schematic Depiction of SAARC Corridors 4 and 8



Source: Asian Development Bank.

7. Various SASEC transport projects are contributing to the development of SAARC Corridors 4 and 8. In Bangladesh, upgrading to 4 lanes of the 70 km Dhaka Northwest Corridor (Joydevpur-Chandra-Tangail-Elanga Road) and land ports in Benapole and Burimari, are being implemented with ADB assistance.² In Bhutan, the Southeast Highway and Pasakha Access Road improvement works are being implemented under ADB Loan 3149 (Bhutan SASEC Road Connectivity Project). In India, the Road Corridor (Kakarbhitta NEP-Panitanki/Fulbari IND-Banglabandha BAN upgrading works are under implementation financed by ADB Loan 3118 (India SASEC Road Connectivity Investment Program Tranche 1). In Nepal, Strategic Road Improvement includes alternate East-West Highway Route, Border Connectivity Road (near Kakarbhitta) and Mid-Hill East-West Corridors under Loan 3012 (Nepal SASEC Road

² 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.

Connectivity Project). The SASEC Trade Facilitation and Transport Working Group (TFTWG) is also discussing development of an east-west corridor linking SASEC with Myanmar, involving projects in Bangladesh and India. This coincides with sections of Asian Highways 1 and 2 promoted by the UN Economic and Social Commission for Asia and the Pacific (UNESCAP).

8. The SASEC countries are also prioritizing a number of national projects with subregional implications. In Bangladesh, this includes ADB rail projects covering the Dhaka-Chittagong and Dhaka-Khulna rail corridors, and the Akhaura-Laksam double tracking. In Bhutan, the Chamkuna-Phuentsholing section is being assessed under a future ADB project scheduled for approval in 2016. In India, the Meichi River Bridge (Kakarbhitta NEP-Panitanki IND) development is to be financed by ADB Loan 3118 Tranche 2. In Nepal priority road sections such as Bhairahawa-Lumbini-Taulihawa and East-West Highway are being prepared for a future SASEC road project scheduled for approval in Q3 2016.

9. **Future directions in transport.** The TFTWG meeting (Tokyo, November 2015) agreed on the following process of identifying, selecting and prioritizing future SASEC projects: (i) a long list of regional projects, based on strategic objectives and operational priorities of SASEC 2025 with preliminary due diligence, will be derived; (ii) the SASEC working group will identify a rolling pipeline of SASEC projects; and (iii) implementation of the rolling plan will be based on due diligence and preparedness of member countries. In consultation with concerned SASEC members, ADB will facilitate the regular monitoring mechanism of SASEC projects.

C. Trade Facilitation: Progress and Future Directions

10. The SASEC Trade Facilitation Strategic Framework (2014–2018), adopted by the SASEC members in March 2014, is now being fully implemented and has achieved considerable progress across its five priority areas of: (i) customs modernization/ harmonization, (ii) standards and conformity assessment, (iii) cross-border facilities improvement, (iv) through transport facilitation, and (v) institution/ capacity building.

11. **Customs.** The SASEC Customs Subgroup (SCS), which was established in March 2013 to coordinate Customs reform efforts, and to serve as regional forum for addressing Customs cooperation issues, is now actively operating. Its second meeting (Kathmandu, Nepal, May 2014) attended by high-level SASEC Customs officials, resulted in the endorsement of the SCS Work Plan 2014–2015 consisting of five subregional and 20 national projects and identification of training priorities in six areas: customs valuation and database, risk assessment, nomenclature for trusted trader program, national single window, international standards and conventions, and post-clearance audit. Discussions during the subsequent SCS Meetings (Goa, India, March 2015, and Cebu, Philippines, October 2015) focused on the implementation status of these projects and on measures to advance their progress, the capacity building program to support the Customs agenda, and possible new areas for cooperation and training to build core competencies in Customs.

12. **Standards and conformity assessment.** A focused SASEC meeting held in Bangkok (December 2014) agreed on next steps to move forward the SASEC agenda on sanitary/phytosanitary standards (SPS) and technical barriers to trade (TBT), which included (i) conducting national level diagnostics studies in SPS and TBT; (ii) based on data emerging from the national diagnostics studies, conducting a regional diagnostics study, to identify common issues/challenges that could be addressed at the regional level; (iii) the need to engage expert consultant resources to deliver the diagnostics studies at both national and regional levels, to be funded by ADB; and (iv) the possibility of establishing a SASEC SPS and TBT Subgroup

(SSTS), to serve as a forum to promote mutual cooperation on SPS and TBT-related issues among the SASEC countries, facilitate bilateral trade, and create an environment of trust and cooperation among participating countries (subject to available funding).³ The initial scope of work will include (i) coordination of analytical work, (ii) information sharing on options to facilitate trade, and (iii) capacity building.

13. **Cross-border facilities improvement.** Efforts to improve cross-border facilities are integrated in the SASEC Road Connectivity projects for Bangladesh, Bhutan, India, and Nepal as discussed in (SASEC Transport Corridors) above.

14. **Through transport facilitation.** In this area, SASEC has adopted a two-pronged approach: (i) harmonization of policies/ regulations in through transport, and (ii) the use of technology for ensuring cargo security and integrity. With respect to (i), the protocols to implement the Bangladesh-Bhutan-India-Nepal (BBIN) Motor Vehicles Agreement (MVA) are being finalized. The BBIN MVA, signed in Thimphu last June 2015, is a landmark framework agreement to facilitate passenger, personal and cargo vehicular traffic between the BBIN countries, in order to reduce costly and time-consuming transshipment of people and goods at border crossings. A similar MVA among India-Myanmar-Thailand (IMT), including its protocols, will be finalized soon to ensure efficient transshipment between South Asia and Southeast Asia. On (ii), the feasibility study for the pilot implementation of the electronic cargo tracking system (ECTS) along the Kolkata-Jaigaon-Phuentsholing corridor is being finalized. This has provided lessons on real-time cargo tracking along the corridor. The next steps in this area include the actual application of ECTS by piloting it along the Kolkata-Phuentsholing route (6 months), constituting a task force to oversee the piloting, and exploring the participation of Bangladesh and Nepal in their MVA routes.

15. **Institution/ capacity building.** Key training programs in trade facilitation have been implemented since May 2014, mostly in the areas of customs reform/ modernization and standards/ conformity assessment.

16. **SASEC Trade Facilitation Program loans/ grants (Bangladesh, Bhutan and Nepal).** The SASEC Trade Facilitation Program (STFP) was designed to promote modern customs administration, streamline trade processes and enhance participation of relevant stakeholders in trade facilitation, with the aim of increasing trade through more efficient, transparent, secure and service-oriented processing of cross-border trade. The release of the final tranche in December 2014, signaled substantial compliance by the three countries of the various policy conditions under the program, including helping bring them closer to compliance with the Revised Kyoto Convention (RKC).⁴

17. **Future directions.** Discussions between ADB and the SASEC countries for a second round of investment/ program support for trade facilitation reforms and infrastructure investments, have resulted in the inclusion of the next phase of trade facilitation investment/ program support in the ADB country operations business plan (COBP) for Bhutan and Nepal for 2016.⁵ Under the SASEC Trade Facilitation Strategic Framework, future thrusts under each priority area include:

³ All materials are available at www.sasec.asia/index.php?page=event&eid=125&url=sasec-trade-facilitation-week

⁴ The STFP is now closed (Nov. 2015) and the project completion report is under process. There is currently no Phase 2 of this program loan in the COBP (which may change in the future).

⁵ The trade facilitation project in Bhutan will comprise infrastructure investment, while the project in Nepal will have an element of trade facilitation reform.

- a. **Customs.** SCS monitoring of the implementation progress of the agreed action plan, especially on electronic exchange of customs data and on the capacity building program for the SCS. For Bangladesh, Bhutan, and Nepal, where there are ongoing Japan Fund Poverty Reduction (JFPR) trade facilitation TAs, future activities will include ratification of new Customs acts and their associated rules and regulations, continued implementation of the provisions of the RKC, further strengthening of the automated customs systems (ASYCUDA World for Bangladesh and Nepal, RAMIS for Bhutan), and development and establishment of the trade portal (for Nepal) including capacity building for its management and maintenance.
- b. **Transport and Trade Facilitation Monitoring Mechanism (TTFMM).** A mechanism for monitoring of trade processes in support of policy reform and implementation, TTFMM emphasizes the institutional arrangement and places emphasis on building national capacity. Its implementation will be aided by ADB and UNESCAP.
- c. **SPS/ TBT.** National-level consultations with all SASEC members will be needed to finalize the terms of reference for the national diagnostics studies, ensuring that national priorities and preferences are accommodated. SASEC members will finalize identification of nodal points and core groups to lead the SPS and TBT agenda in their respective countries. ADB and UNESCAP propose holding the inception meeting of the SSTS in 2016, to further develop the three areas proposed in the SSTS terms of reference and agree on a work plan for 2016–2017.
- d. **Transport facilitation.** Activities in the pipeline include (i) organization of joint ADB and UNESCAP workshop on developing a strategy for transport facilitation in SASEC, to present international good practices, and to seek agreement on a sub-strategy and action plan for transport facilitation in 2016; the workshop will also discuss transport facilitation issues and experiences under various transport modes, and will take stock of various transport facilitation initiatives in South Asia, (e.g., the SAARC MVA, BBIN MVA, and IMT MVA, bilateral road transport agreements), and explore ways to move these forward through SASEC; (ii) holding of the IMT Transport Ministers Meeting to serve as a forum to sign the IMT MVA and to reach an agreement on the implementing and institutional mechanisms for the MVA; and (iii) moving toward implementing the BBIN and IMT MVAs, through the finalization of relevant protocols and full implementation of both.

D. Regional Cooperation

18. Bhutan continues to be active in ADB's regional cooperation program as evidenced by the government's active participation in the SASEC, SAARC, and BIMSTEC. Regional cooperation activities in Bhutan are focused on the energy, trade facilitation, and transport sectors.

19. Since 2012, ADB's assistance program for regional cooperation includes five projects in Bhutan: Green Power Development (additional financing), Green Power Development Project II, SASEC Road Connectivity Project, Air Transport Connectivity Enhancement Project, and SASEC Trade Facilitation Program. The total is \$268 million (ADB financing of \$228 million).

Table 1: RCI Projects in Bhutan

Project Name	Sector	Year of Approval	Funding Source	Value (US\$ M)
Road Network Project	Transport/Road	2005	Loan	34
Green Power Development Project	Energy	2008	Loan/Grant	151
Road Network Project II	Transport/Road	2009	Grant	39
Air Transport Connectivity Enhancement Project	Transport/Air	2012	Grant	8
Green Power Development Project: Additional Financing	Energy	2013	Loan	40
Bhutan: Second Green Power Development Project	Energy	2014	Loan/Grant	139
Bhutan: SASEC Road Connectivity Project	Transport/Road	2014	Loan/Grant	69

RCI = Regional Cooperation and Integration, SASEC = South Asia Subregional Economic Cooperation
Source: Asian Development Bank.

E. Importance of South Asian RCI Efforts to Bhutan's Development

20. The SASEC Program, which has progressed significantly, has immensely benefitted Bhutan. In transport, Road Network Projects I and II (approved in 2005 and 2009 respectively) aimed to improve the transport efficiency of Bhutan's trunk road network which would expand accessibility to rural areas and expand economic opportunities and reduce poverty. More specifically, construction of critical sections of the southern east-west highway will facilitate industrial development in southern areas, integrating them better with primary markets in India. A SASEC Road Connectivity project approved in 2014 will improve regional connectivity with neighboring SASEC countries through investments in road construction and land ports with customs stations facilitating cross border trade.⁶ It will also expand the national road network especially in remote areas of eastern Bhutan, opening up their access to better economic opportunities and social services. The November 2015 SASEC TFTWG meeting in Tokyo, Japan endorsed two key transport projects in Bhutan: (i) SASEC Transport and Trade Facilitation Logistics (2016); and (ii) Air Transport Connectivity Enhancement (additional financing, 2016).

21. The SASEC Subregional Trade Facilitation Program assistance of \$11.67 million for Bhutan (\$8.34 million loan, \$3.33 million grant) approved in November 2012, and associated TAs were implemented successfully with the second tranche disbursed in December 2014. These initiatives accelerated Bhutan's pace toward a more modern, effective and transparent customs administration. Its accession to RKC has instigated reforms that include aligning Bhutan's Customs Act with best practice, implement automated customs management system and operationalize the National Trade Facilitation Committee (NTFC).

22. The technical assistance (TA 8437) financed by the Japan Fund for Poverty Reduction (JFPR) approved in August 2013, is helping strengthen technical and institutional capacity of

⁶ Comprising 68.3 kilometers of road along the Southern East-West Highway; 1.2 km of access road from border crossing point near Pasakha; and approximately 2.7 km of bypass road around Phuentsholing City; mini-dry port in Phuentsholing and Allay land custom station; draft engineering designs for Allay land custom station, and Phuentsholing City bypass road.

Bhutan's Customs, by better aligning its procedures and practices with internationally accepted standards.

23. These initiatives laid the legal, institutional and technical ground for comprehensive trade facilitation reforms in the country. Its new Customs Act (being finalized for Parliament) will bring customs administration and management in line with international good practices prescribed in the RKC and SAFE Framework of Standards to Secure and Facilitate Global Trade (SAFE Framework), which would reduce trade costs, increase direct foreign investments, boost supply chain security, protect legitimate trade, and enhance overall economic competitiveness. Support for customs automation (e.g. RAMIS) and development of the National Single Windows (NSW) will lay the foundations for streamlined and transparent trade processes which will lower costs and increase efficiency of trade transactions.

24. In energy, Bhutan has been actively participating in the development of the SASEC Transmission Master Plan, which will be critical in ensuring well-coordinated cross-border transmission planning and implementation to reap benefits from an interconnected regional power grid. This study is being overseen by the SASEC Electricity Transmission Utility Forum (SETUF). A recent meeting of SASEC energy officials (Delhi, April 2016), discussed the various recommendations for the study to provide relevant regulatory, technical and operational guidance to power officials in developing feasible power links among the countries.

25. A recent energy project of regional significance for Bhutan was the SASEC Green Power Investment Program's project preparatory technical assistance (Bhutan) (\$1.5 M from JFPR). The proposed investment program will be prepared to support the development of run-of-river hydropower plant and transmission system facilities, mainly for power export from the eastern region of Bhutan. The plant's capacity will be 442 megawatts (MW) in the the Nyera Amari River. The power generated from the plant facilities can be supplied through the eastern grid network system for export and domestic consumption. This approach will make the country's geographical balance in the development support from the Asian Development Bank (ADB), following the Dagachhu hydropower plant (126 MW) in the western region, and the Nikachhu hydropower plant (118 MW) in the central region. The multitranche financing facility is considered for 2018 and 2019.