

Progress Report of the Senior Officials' Meeting to the 3rd Ministerial Conference

The following report was discussed and finalized at the Preparatory Senior Officials' Meeting (SOM) under the Central Asia Regional Economic (CAREC) Program held on 13-14 September 2004 in Almaty, Kazakhstan.¹ The report will be presented to a Ministerial Conference (MC) on Central Asia Regional Economic Cooperation to be held on 31 October - 1 November 2004, to be hosted by the Government of Kazakhstan in Astana.

This report has three sections. The first section reports on progress made since the 2nd MC held in November 2003 in Tashkent Uzbekistan. The second section reports on sector outcomes. The third section makes recommendations on certain issues for ministerial consideration and guidance.

A. Progress Made Since the 2nd MC

At the 2nd MC, the ministers expressed strong commitment to working together to pursue the shared vision of a region where people live in harmony and prosperity, with free movement of goods, people and ideas. The ministers reiterated the critical and urgent importance of regional economic cooperation to realize this vision, and strongly advocated a consensus-based and results-oriented approach. Noting the progress made in the priority sectors of transport, energy, and trade facilitation, as well as institutional strengthening, the ministers requested the Multilateral Institutions (MIs)² to (i) further cooperation in priority sectors including financing of key regional projects and policy dialogue; and (ii) strengthen the overall institutional framework (OIF) of the CAREC program.

Transport. Significant progress was made in new financing for the regional transport networks since the 2nd MC. The EBRD approved Euro 128.1 million for two transport projects: (i) Aktau-Atyrau Road for Kazakhstan, and (ii) the Baku-Georgia Road in Azerbaijan. The IsDB approved a loan of \$22 million for the Baku-Georgia Road. Two transport loans were also approved by ADB totaling \$52.1 million, one for rehabilitating the road between Dushanbe and the Kyrgyz Republic border (Phase I) and the other for developing the remaining section of Mongolia's north-south road corridor to link the PRC and Russia through Mongolia. The ADB is processing a loan for the South Kyrgyz Republic Transport Corridor Road Rehabilitation Project (\$32.8m), to be approved later this year. A technical assistance (TA) was approved by ADB for the preparation of a feasibility study for a further section of Baku-Georgia Road in Azerbaijan. In addition, ADB in close consultation with other MIs, assisted the Central Asia Cooperation Organization (CACO) in developing a concept for a transport consortium. A TA from the WB with joint funding from Kazakhstan is financing an ongoing Transport Sector Strategy that will define the necessary policies and actions for improving transport infrastructure, particularly for transit traffic.

Trade Facilitation. Regional Customs Modernization and Infrastructure Development Projects for Tajikistan and Kyrgyz Republic will be approved by ADB by end 2004 with a loan amount of \$18.2 million. UNDP will implement the Silk Road Area Development Program (Phase II) for 2004-2005 by providing support for transit, trade and tourism to improve linkages between the PRC and CARs. The WB has finalized a report on Trade and Transport Facilitation in Central Asia: Reducing the Economic Distance to Markets. The WB sponsored (i) a regional seminar (November 2003, Almaty) jointly with USAID/Pragma and the Eurasian Economic Community to discuss the concept and implementation plan of a recently developed customs risk management system; and (ii) a regional conference (April 2004,

Bishkek) jointly with USAID/Pragma, culminating in the establishment of the Congress of Business Associations of Central Asia and Russia (CBACAR). Under the Customs Cooperation Committee (CCC), two regional forums were held: (i) Development of Simplified Transit Systems (February, Bishkek); and (ii) Customs Reforms and Modernization (April, Beijing). Bilateral customs cooperation has advanced significantly with the signing of a transit agreement between the Kyrgyz Republic and Kazakhstan in March, pilot-testing of joint-border processing between the Kyrgyz Republic and Kazakhstan effective July; proposed transit agreement between the Kyrgyz Republic and Tajikistan; a data-sharing agreement between the Kyrgyz Republic and PRC (to be signed in September), and preparation of a framework agreement on customs cooperation between the PRC and Uzbekistan. A CCC forum on private-public partnership for Customs Modernization will be held on 14-16 October in Manila. A training workshop on Risk Management and Customs Intelligence will be held in Tashkent in November in partnership with a private sector company. The 3rd CCC meeting of Heads of Customs is scheduled tentatively on 1-3 December to be hosted by Azerbaijan Customs.

Trade Policy. Following initial discussions at the April SOM, the first meeting of a trade policy sector committee was organized by the IMF in conjunction with the September SOM to draft a possible work program.

Energy. Project agreements for the Uzbekistan-Tajikistan Power Transmission Modernization Project funded by EBRD and ADB were signed. Negotiations for a power trade relations agreement have been completed and will be signed soon, which will clear the way for loan effectiveness. A loan agreement for the first Kazakhstan North-South Transmission Line Project partially funded by EBRD was also signed. A meeting of Central Asian Electricity Regulators was held in Manila in March 2004 to discuss power sector reforms and regulations. It is anticipated that a CAREC Members Electricity Regulators Forum (CMERF) will be established by mid-2005. The WB has carried out an analysis of regional electricity export potential and the report will be discussed in October 2004. The WB is also in process of preparing a revised paper on the Syr Darya water-energy nexus in view of recent developments. In consultation with other donors, the WB has supported CACO in developing a concept for the Water-Energy Consortium.

Cooperation with Neighboring Countries has advanced well. ADB convened a working group meeting on Central and South Asia Transport and Trade Forum in Dubai, UAE in March 2004 where delegations from Afghanistan, Pakistan, Tajikistan and Uzbekistan discussed background studies on customs harmonization and border infrastructures. The first meeting of Trade and Customs Working Group is planned for 27-28 October and a Ministerial Meeting will be held in November. A Ministerial Conference on Afghanistan's Regional Cooperation: Central Asia, Iran and Pakistan was organized by UNDP in May in Bishkek, to discuss a range of issues pertaining to Afghanistan's re-entry into the regional economy.

Since the 2nd MC, progress has been made in **strengthening the OIF**. To better perform its intended role, two SOMs have been convened in 2004, in April and September, both in Almaty. The SOMs reaffirmed the consensus principle as a foundation for cooperation. The SOM also agreed that the Ministerial Conference should serve to confirm high-level agreements, while the SOM should serve to address issues, resolve differences and forge agreements. The SOMs discussed the suggestions regarding promotion of private sector participation, preparation of a regional newsletter on regional cooperation and initiation of capacity building activities tailored, and cooperation with other cooperation initiatives in the region. The meetings of sector committees and working groups convened to discuss work plans and to prepare comprehensive sector road maps. The MI working group created at the

last MC has worked well in forging improved MI coordination through a series of videoconferences and retreats, as well as joint preparation of a Central and South Asia regional business roundtable, a CAREC newsletter, and priority sector updates.

B. Sector Outcomes

Country delegations reviewed the sector updates prepared by the MIs for the September SOM, and agreed that concrete steps are being taken to move forward in the priority areas of transport, energy, trade facilitation and trade policy. The following summaries of sector outcomes were endorsed at the September SOM:

1. Transport

Transport Sector Coordinating Committee Meeting. Following discussions made at the April SOM to expand transport activities beyond individual country-based investments into “soft” areas such as harmonization of regulatory frameworks among CAREC member countries, a Transport Sector Coordinating Committee (TSCC) was constituted and held its first meeting on 30 June – 1 July 2004 in Almaty to prepare a joint work program.

Regional Transport Agreement. At the first meeting of the TSCC, country delegations agreed that because the Shanghai Cooperation Organization (SCO) has already taken steps to prepare an agreement on Facilitation of International Road Transport in collaboration with UNESCAP, consideration on this issue should await the outcome of the next SCO meeting, at which point the TSCC would consider next steps.

Transport Consortium of the Central Asia Cooperation Organization (CACO). Both the draft concept and the ADB-prepared implementation proposal for a transport consortium under CACO are under review by its member countries. It was agreed that the implementation schedule would be revisited once CACO’s member countries approve a concept for the transport consortium.

Regional Transport Sector Road Map. At the 1st TSCC meeting, the country delegations endorsed the need to develop a regional transport sector road map. The country delegations reviewed the draft road map circulated during the meeting and provided useful comments. It was agreed that the Secretariat would revise the draft based on the comments provided at the meeting and present a revised road map at the next TSCC.

Proposed MI’s Assistance Pipeline for 2004-2006. The country delegations reviewed the proposed MI’s assistance pipeline for 2004-2006. Some suggestions were made: (i) the two proposed ADB projects for Kazakhstan, namely the Aktau-Atyrau and the Borovoe-Petropavlovsk road projects should be excluded from the assistance pipeline; (ii) Tajikistan’s request for MI assistance to rehabilitate the Tajikistan section of Dushanbe-Tashkent road; (iii) the Kyrgyz Republic’s request for MI assistance for a regional railway project connecting the PRC and Uzbekistan through the Kyrgyz Republic. It was also agreed that formal requests concerning the above would be submitted to the MIs for consideration.

The Next TSCC Meeting. It was agreed that the next TSCC meeting would be held in February 2005 at a site to be determined. A follow-up workshop on the World Bank’s Transport and Trade Facilitation study would also be held in February, in conjunction with the TSCC meeting.

The Mongolia delegation appreciated the ADB's offer to assist negotiations on a Transit Traffic Framework Agreement among Mongolia, the PRC and Russian Federation. The Mongolia delegation requested ADB to field a fact-finding mission for the Western Transport Corridor Development soonest.

2. Trade Facilitation

The country delegations emphasized the importance of a pragmatic and result-oriented approach in customs cooperation, and reaffirmed the importance of complementing region-wide and bilateral initiatives with country-specific support for customs reforms and modernization. In this regards, the country delegations welcomed the ADB's planned financial assistance to the Kyrgyz Republic and Tajikistan for customs automation and border-post infrastructure development. EBRD continues to support regional trade by providing trade guarantees and pre exporting financing under its Trade Finance Programme. Below is a brief summary of proposals submitted by the country delegations for consideration at the 3rd MC.

Country-specific proposals are broadly centered on three areas: (i) capacity building for adopting risk management-based modern customs practices (Kazakhstan, Tajikistan, Uzbekistan), (ii) support for needs assessment for automation and reforms of the legal framework (Azerbaijan, Mongolia, Uzbekistan), and accession to the TIR Convention (PRC). In-country training on risk management and customs intelligence will be planned for the Customs of Kazakhstan, Tajikistan, and Uzbekistan. Support for the needs assessment and feasibility study on customs modernization requested by Mongolia and Uzbekistan Customs and accession to TIR requested by PRC Customs will be explored through further dialogue with the respective Customs Administrations.

Regional activities will remain focused on (i) training and knowledge sharing and (ii) support for bilateral initiatives. The importance of maintaining the annual CCC Meeting was stressed by the country delegations to ensure senior management commitment and guidance in the customs cooperation program. The Azerbaijan country delegate reaffirmed the commitment to host the 3rd CCC Meeting tentatively scheduled the first week of December 2004. The Kyrgyz Republic delegate expressed interest to host the 4th CCC Meeting in 2005. Highlights of the region-wide and bilateral initiatives proposed by the country delegations are the following:

- Bilateral consultation forum on joint customs control involving all the border agencies and private sector stakeholders of the Kyrgyz Republic and Kazakhstan;
- Preparation of a transit agreement between the Kyrgyz Republic and Tajikistan Customs;
- Development of an information platform for data-sharing initially between the Kyrgyz Republic and PRC Customs, and between the Kazakhstan and PRC Customs;
- Regional training seminar on risk management in 2005 cofinanced with the PRC Customs;
- Regional training seminar on the TIR Convention in 2005, co-sponsored with PRC Customs;
- CCC Forum on Customs Automation in February 2005, cofinanced with the Government of Singapore.

Streamlining of Border Procedures. The country delegations emphasized the need to consult with other border agencies and private stakeholders in customs cooperation activities. The pilot testing of joint customs controls by Kazakhstan and the Kyrgyz Republic

demonstrates that the benefits of trade facilitation of joint customs control cannot be fully realized unless all the relevant parties are involved and understand the benefits of trade facilitation. These suggestions point to a future broadening CAREC's trade facilitation program. On the need to broaden the there is a need to broaden the several member country delegates stressed the need to broaden the scope of trade facilitation to include

3. Energy

Regional Projects: The Tajikistan and Kyrgyz Republic delegations confirmed that the 54-km Batken-Kanibodom transmission line (37 km of which lies in Tajikistan) will be completed in 2005. The Kazakhstan delegation confirmed that the North South Line in Kazakhstan will be completed in 2007.

Water Energy Nexus in Syr Darya: The country delegations confirmed that in recognition of the average and multi-annual base flows in the Syr Darya basin, the existing and planned hydro-technical facilities, and the potential for growing power exports from Central Asian countries, and in light of the above agreed that the irrigation and energy regime for the Syr Darya basin would be reviewed by the countries in accordance with the existing agreements and programs. The country delegation emphasized that such review should encompass the facilities in the entire Syr Darya basin (including Kairakkum, Andijan, Chardara, Arnasai, etc) – not just Toktogul.

Recognizing that despite the potential for increased water flows in winter (under a modified irrigation regime), there would still be winter energy shortages in Kyrgyz Republic, the country delegations agreed that the options to meet this deficit in a least cost way would be reviewed. These options would include bringing Bishkek – I thermal power plant to operate properly with adequate fuel supplies and completing the Bishkek – II thermal power plant. The Kyrgyz Republic delegation said that: (a) if Bishkek II proves to be the better option to meet the winter deficit in Kyrgyz Republic, it is most likely to happen under private investors' auspices; and (b) even with Bishkek II, Kambarata is still needed to meet the long term demand in the country and this was the reason why the Kyrgyz Government was actively partnering with Russian institutions (e.g., RAO UES) to develop Kambarata.

The Tajikistan delegation noted that the construction of Sangtuda ???-1 is planned in accordance with agreements with Russia's RAO UES and the Ministry of Energy and Water Resources of Islamic Republic of Iran, and would contribute to enhancing Tajikistan's ability to export electricity.

The country delegations agreed that when analyzing the development of the energy (including oil and gas) sector, trade with countries to the east and south Asia, including PRC, Mongolia, Afghanistan, and Pakistan should be taken into account. In addition, energy conservation and efficiency improvements, together with use of all available renewable energy sources should be considered as an important component of a country's energy strategy, hence country delegations agreed that future energy reviews will explicitly include these potentials.

Water Energy Consortium. The country delegations recognized that work on water-energy cooperation is complex, with a need to seek innovative solutions, and where compromise, cooperation and patience are needed. The Kazakhstan delegation emphasized the need to prepare an Agreement on the Water Energy Consortium. The country delegations acknowledged that the water-energy dialogue is currently carried within three major forums (CACO, CAREC, and the Eurasia Economic Community) that have only

partially overlapping membership. Further progress with the establishment of the WEC consortium does need additional consensus building and decisions at the Heads of State level.

Establishment of the CAREC Members Electricity Regulators Forum (CMERF). All the CAREC member countries have designated departments, agencies or ministries for electricity regulation, but there are differences in their responsibilities and authorities. Recent trends in power sector reform require the strengthening of regulatory functions, which brings greater transparency and predictability in operations, and thereby improves decision making related to large investments in creating infrastructure. The country delegations welcomed ADB's proposal to establish a forum of electricity regulators to: (i) share regulatory experiences, (ii) build regulatory skills and conduct training programs for members and stakeholders, and (iii) cooperate to harmonize electricity regulations. An action plan has been agreed whereby ADB will start consultation for a draft MOU regarding shared goals, objectives and institutional arrangements. The regulatory experts will consider the draft MOU during their next meeting in June 2005. The agreed MOU will then be submitted to the member government for review and comments so that a consensus is possible.

4. Trade Policy

WTO Accession. The first meeting of the Trade Policy Sector Coordinating Committee (TPSCC) discussed WTO accession issues. TPSCC noted benefits of WTO accession from countries that have already acceded to the WTO (PRC, Kyrgyz Republic, Mongolia) - increased trade volumes, improved access to information on trade policies in other countries, reforms that enhanced competitiveness and brought trade policies in line with international best practices, and increased foreign investment (PRC). At the same time, it was noted that the process of WTO accession could have adverse implications for a country's ability to diversify, including infant industry protection. While WTO accession would have to be pursued individually, the country delegations emphasized (i) the importance of ensuring cooperation and full information sharing with other countries in the region, and (ii) each country keeping regional interests and commitments in mind in WTO accession negotiations. Almost all country delegations expressed significant interest in the role of agricultural policy in the WTO, and in particular the need to seek sufficient room for agricultural subsidies, though the Kyrgyz Republic delegate noted their elimination of agricultural subsidies.

Regional and Bilateral Trade Issues. Particular attention was paid to how to ensure compatibility of the trade components of various regional agreements—in particular, the planned Single Economic Space, the Eurasian Economic Community, and the various free trade agreements—as well as the compatibility of these agreements with the obligations inherent in WTO accession.

Proposed Agenda for Future Work. The following lists the three priority areas proposed for work by the TPSCC, as well four other important areas for future work by the committee. There was an agreement that the inclusion of a regional analysis of the impact of WTO accession would be discussed in the 3rd MC.

Priority Work Program for the Committee

- Study of comparative advantages in trade in the Central Asia region and in global markets, and the potential role for trade policies related to infant industries.

- Review of regional trade agreements, including (i) analysis of the relationships and potential conflicts between existing and/or planned regional agreements signed by Central Asian countries; (ii) analysis of the relationships and conflicts between regional agreements signed by Central Asian countries and actual or potential WTO obligations; and (iii) review of other regional trade agreements, and their lessons for Central Asia.
- Regional analysis of existing barriers to trade in Central Asia and an evaluation of the potential benefits of adopting measures to facilitate trade.

Areas for Future Work

- Regional analysis of the impact of WTO accession, including both benefits and losses, as well as sectoral analysis.
- Agricultural policy and WTO accession.
- Regional program of information and education about WTO accession focused on the general public and civil servants.
- Regional measures to address the special trade-related problems of land locked countries.

C. Other Issues

The SOM recognized the importance of an environment conducive for regional cooperation to ensure further and steady progress in economic cooperation and implementation of key investment and other projects. In this context, the SOM would like to seek your kind endorsement of the following recommendations.

Regional Newsletter. To promote information disseminating and exchange and enhance communication among member countries, MIs, and other stakeholders, a widely circulated periodic newsletter on regional cooperation is urgently needed. The following is proposed to publish such a regional newsletter.

- **Format and frequency.** The newsletter is proposed to be a 4- to 8-page quarterly pamphlet.
- **Contents** would include: (i) reports on major regional events; (ii) articles on important regional issues; (iii) articles on regional initiatives, regional projects, etc; and (iv) other relevant information on regional cooperation.
- **Intended Audience/Distribution:** The intended audience of the newsletter is government, MIs, academia, NGOs, and the business community, and will be distributed accordingly. English and Russian versions will be produced; both will be uploaded to the CAREC website.
- **Responsibility.** ADB (CARECU) as the secretariat will serve as a focal point for the newsletter. MIs and participating governments will contribute articles, their activities, events, etc. to the newsletter.

Regional Business Roundtable. The private sector has played an instrumental role in fostering regional economic arrangements in recent years across the world. As such, private sectors are encouraged to actively participate in CAREC activities. In particular, a gathering of private sector including corporate sector representatives could enhance business inputs into CAREC program, facilitate regional trade and investment, and help build private sector networks. In this context, it is proposed to have a “Business Roundtable” be held on a pilot basis in conjunction with the SOM or MC next year. The roundtable would focus on the transport, energy and trade facilitation sectors. Close coordination with ongoing initiatives

would be ensured. Subject to the outcome of the first meeting, support for a business forum under the CAREC framework might be considered.

Capacity Building Activities for Regional Cooperation. Capacity building is an integral part of sustaining regional cooperation by assuming enhanced country ownership and greater roles. Welcoming the support given by ADB's regional TA on capacity building for regional cooperation, the country delegations requested that TA implementation should be accelerated and should address the specific priorities and needs of member countries.

CAREC Cooperation with CACO. The country delegations noted and appreciated the letter written by the CAREC Secretariat in support of the CACO initiative. They supported the importance of having all regional initiatives, including CACO, closely coordinated.

Analytical Works. The country delegations were pleased to note that UNDP and ADB are working together for preparation of a second Central Asia Regional Human Development Report, which aims to demonstrate the importance of regional cooperation and integration in the region. The country delegation recommended that the Report be presented at the Ministerial Conference next year for information.

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1. CAREC Member Countries include Azerbaijan (Azerbaijan), People's Republic of China (PRC), Kazakhstan (Kazakhstan), Kyrgyz Republic (Kyrgyz Republic), Mongolia (Mongolia), Tajikistan (Tajikistan), and Uzbekistan (Uzbekistan).
 2. Multilateral Institutions include the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the International Monetary Fund (IMF), the Islamic Development Bank (IsDB), the United Nations Development Programme (UNDP), and the World Bank (WB).