

As of 16 June 2014



Central Asia Regional Economic Cooperation Program

Reference Document  
For Session 1 of the Senior Officials' Meeting  
June 2014

# **Economic Corridor Development Study: Update**

**Senior Officials' Meeting  
Central Asia Regional Economic Cooperation  
26–27 June 2014  
Manila, Philippines**



## Economic Corridor Development Study: Update

(This note provides a quick update on the status of the Economic Corridor Development (ECD) study and a thematic outline of the presentation to be made at the Senior Officials' Meeting (SOM) in June. The ECD study will be formalized based on the approach outlined here and feedback at the SOM).

1. The ECD Study was initiated with a pilot focusing on CAREC Corridor 1b, which includes 3 countries (People's Republic of China, Kazakhstan, and the Kyrgyz Republic) and is a major transit route to Western Europe. Analysis of trade flows along the corridor has been completed, along with assessment of opportunities to reduce the costs of moving goods along the corridor. In April 2014, a workshop was held in Kuala Lumpur, Malaysia, to highlight lessons from implementation of ECD in other countries in Asia. This note provides an update on the status of the ECD study in preparation for the CAREC SOM on 26–27 June 2014 in Manila.

2. Guidance of the SOM will be requested to finalize the ECD Study as a deliverable for the 13th CAREC Ministerial Conference in Bishkek, the Kyrgyz Republic, in 2014.

3. **ECD framework:** Has the dual anchor of: (i) ensuring connectivity of member countries to enable movement of goods into the country at lowest possible costs,<sup>1</sup> and (ii) creating jobs and economic diversification to promote inclusive economic growth and development.

4. **ECD Trifecta:** In Central Asia, as in rest of the world, ECD can pursue 3 tracks: (i) Track 1 (T1): ensure connectivity (within the country, within the region, and outside the region); (ii) Track 2 (T2): enable smooth transit through countries; and (iii) Track 3 (T3): create jobs, promote economic activities, and contribute to economic development of the country. The three may not always be mutually consistent in every context. The 3 tracks can be pursued in parallel but sequenced over time (for example, T1 would generally be initiated before T2, while T1 and T2 may both start prior to T3).

5. **ECD and Central Asia:** The road transport network was historically relatively underdeveloped (compared to railways) and substantial investments have been needed since independence. Countries are also seeking to develop networks that do not require going through another country for even domestic movements of goods. To varying degrees, all the CAREC member countries continue to strongly prioritize upgrading of their domestic road transport network.

6. **ECD and CAREC:** To date, CAREC has pursued a 2-pronged approach to development of corridors: ensuring connectivity, and promoting transit. For landlocked countries, both of these are high priority. The first stage of corridor development, pure transport connectivity or T1, has been completed for only 52% of the targets set in 2007 by CAREC (based on transport sector update).

7. The third ECD track (ECD T3) noted above — building on corridor connectivity to create jobs and promote economic activities — has received less priority under the CAREC program. However, ECD has been emphasized as priority area under the CAREC 2020 framework. Creation of jobs and increasing economic activities are also priority for the member countries,

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<sup>1</sup> Also exports, where relevant. The role of roads in exports is relatively small compared to other modes (pipelines, railways), except for transit and for intra-regional trade. CAREC intra-regional trade has grown strongly but is still quite small as a percentage of total international trade of the member countries.

through measures to promote economic diversification, spatial transformation and agglomeration of economic activities.

## 8. ECD and CAREC: Looking ahead

- Further development of the corridors should continue towards ECD T1 by enhancing road infrastructure through rehabilitating and/or building to physically complete the CAREC corridors. This has been covered by the refined Transport and Trade Facilitation Strategy (TTFS) 2020 endorsed at the CAREC Ministerial Conference in 2013.
- Efforts should also continue towards ECD T2 through improving the institutional and regulatory aspects of the corridors to reduce time and costs, and to increase reliability of movement of goods on the corridors. This is being pursued under CAREC by support for customs modernization, integrated border management and sanitary and phytosanitary regime. Other issues have also been identified in the refined TTFS such as road safety, energy efficiency, and corridor management units; enhanced transport sector competitiveness will also contribute to reduction in costs and increase in efficiency.
- The likely participation of the Kyrgyz Republic in the Customs Union (CU) will lead to considerable changes at several border crossing points on CAREC corridors—with both Kazakhstan and Kyrgyz members of the CU—as well as having an effect on trade flows in the region. These effects will be multiplied should the CU extend to additional CAREC countries. The uncertainty created by these developments implies a substantive assessment of the impact of the CU for the trade and transport facilitation aspects of the CAREC TTF strategy may be necessary.
- CAREC member countries are increasingly interested in the third aspect of ECD, i.e. building on the connectivity being developed under ECD T1 and T2 to promote spatial transformation, agglomeration and economic diversification.<sup>2</sup> This will require development of large urban centers that are also well connected to smaller urban centers as well as encompassing urban-rural links. The CAREC program will look into possible support for national ECD T3 projects with regional implications. Since the scope of cross-border inter-urban links will also be affected by the CU, CAREC's ECD T3 work can add value by promoting coordination across similar programs in neighboring countries as well as specific cross-border urban links (e.g., Almaty-Bishkek or Bishkek-Taraz).
- The ECD study has brought together experience from other countries in Asia towards efforts at similar corridor development. In the final stage, the ECD study will need to identify potential applications for ECD T3 in the CAREC region. These applications can be both cross-border as well as national with regional implications.
- Based on preliminary consultations and assessment, two possible ECD T3 applications may be undertaken at this stage. One could draw upon the regional development plans covering urban agglomeration and economic transformation being considered by Kazakhstan that is linked to CAREC Corridor 1b. Combined with the proposed accession of the Kyrgyz Republic to the CU, the ECD study could assess and analyze prospects for an Almaty-Bishkek Corridor Development (ABCD) as part of its finalization, if

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<sup>2</sup> The presentation to immediately follow will be by Kazakhstan, which has already put in place a regional development plan that will build on the connectivity of CAREC Corridor 1b.

acceptable to the respective governments. The second ECD T3 application would assess prospects for a domestic corridor in Tajikistan, with the location to be determined in consultation with the Government of Tajikistan.

- Given the focus on urban agglomerations as part of the ECD T3, it will be useful to promote dialog between major CAREC corridor cities. For example, plans are in formulation for Almaty towards its objective of agglomeration and spatial transformation, while Bishkek is also currently refining its development plan until 2030. Given both countries may be part of the CU, it could be useful for them to share their planning efforts.
- Again in the context of ECD T3, where the objective is to attempt a high multiplier for private sector investment for every unit of public sector investment, it is desirable for the CAREC program to initiate greater engagement with the private sector. This is a relatively new area for the CAREC program,<sup>3</sup> and will need to be developed over a longer period, but could start after the completion of the ECD Study.

9. **SOM consideration:** The SOM will be requested to provide guidance towards acceptability of the following as the proposed contents of the ECD Study.

- Introduction
- Framework for ECD, and lessons from practice of ECD
- Status of ECD T1 and T2 tracks for Corridor 1b, and analysis of trade flows on the corridor, along with suggestions for further reducing trade costs
- Case study for ECD T3 application in CAREC (one or both of the two cases mentioned above).
- Action plan for identifying possible CAREC projects for Corridor 1b.
- Suggestions and lessons for extending the ECD analysis to other corridors

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<sup>3</sup> The CAREC Federation of Carrier and Forwarder Associations (CFCFA) brings together transporters and freight forwarders from private sector. The reference here is to engagement with a broader slice of the private sector.