



# **Toward CAREC Economic Corridors: A Concept Note**

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## Executive Summary

The concept of “economic corridors” suggests a potentially useful mechanism to accelerate regional economic cooperation and development. An economic corridor is simply a geographic area where commercial activities are concentrated. Therefore such corridors must be firmly anchored in a clear commercial and economic rationale. Development of economic corridors expands the boundaries of traditional sector-based CAREC projects, e.g. a road project, to include a simultaneous focus on developing associated production, investment, and trade-related linkages within a well-defined geographic area. In this context, the development of economic corridors is also aimed at linking CAREC-based enterprises more effectively to international production and distribution systems (i.e. “global value chains”) and world markets. Therefore a critical requirement for implementing economic corridor initiatives is an effective partnership between the public and private sectors. The role of economic corridors in the CAREC Program includes the following:

- Linking economic cooperation more directly to the central challenges of competitiveness within the framework of specific global value chains and production networks, e.g. agro-industry development;
- Contributing directly to the pressing concerns of employment and income generation, especially in lagging areas, by expanding the scope for market-driven economic activities;
- Providing a well-defined framework for activity-based cooperation among the CAREC governments, private sector (domestic and foreign), and Multilateral Institutions, and potentially widening the scope of cooperation in a narrower geographic space, e.g. to areas such as tourism, environmental management;
- Providing ‘pilot projects’ for reforms in both domestic (‘behind the border’) and cross-border rules, regulations and procedures (e.g. investment approval, trade facilitation related to specific value chains such as agro-industry) that may be scaled-up over time; and
- Expanding options for resource mobilization, particularly from the private sector, for subregional initiatives.

## I. INTRODUCTION

1. The CAREC Member Countries, as a group, are strategically positioned in the global economy, located adjacent to some of the world's largest and fastest-growing markets (e.g. People's Republic of China, India, EU). However, exports for the most part have been concentrated in a narrow range of primary commodities such as crude oil, metals and cottons, with imports dominated by finished products including machinery and equipment, and consumer goods. Foreign investment has had limited impact thus far in diversifying the regional economy, with the overwhelming majority of such investment concentrated in the development of energy- and resource-related industries in selected countries. Therefore transforming geographic proximity to effective economic linkages as a means of diversifying production and making the Region more attractive to investors has been the central challenge and core focus of the CAREC Program, involving an emphasis to date on cooperation in areas such as transport, transit and trade.<sup>1</sup>

2. The contribution of the private sector to regional economic growth and development has generally been constrained by a difficult business environment; lack of necessary support systems and services; and a challenging policy, legal, and regulatory framework. Therefore the 4<sup>th</sup> Ministerial Conference in November 2005 stressed the need to integrate more effectively the private sector into the regional cooperation and development process.<sup>2</sup>

3. The concept of "economic corridors" is intended to provide a mechanism, building on existing initiatives of the CAREC Program and its increasing focus on the private sector, to accelerate the regional economic cooperation and development process. Very simply, *an economic corridor is a geographic area where commercial activities are concentrated*. In the context of the CAREC Program, a focus on economic corridors places activities in individual sectors, such as transport, in the broader context of regional integration and general economic development, reflecting the interdependence of sectors. For example, agro-industry and tourism cannot develop without adequate infrastructure services; while the primary role of such services is to serve the needs of other economic sectors. In the process, the nature and role of basic infrastructure also evolves, for example from individual transport projects such as roads, to a 'business logistics' perspective that addresses a broad set of integrated 'hardware' and 'software' issues related to getting products competitively to regional and global markets. This also reflects an emphasis in the economic corridors approach on linking domestic enterprises more effectively to international production and distribution systems (i.e. "global value chains") and world markets. Therefore a critical requirement for implementing economic corridor initiatives is an effective partnership between the public and private sectors.

4. This note outlines the concept of economic corridors, and suggests key steps required to implement it within the framework of the CAREC Program. The next section (II) presents a brief summary of relevant dimensions of the CAREC Program which provide the foundations for economic corridors; and touches on the concept of 'global value chains' that is transforming the competitive structure of the global economy with important implications for CAREC in general and the economic corridors approach in particular. Section III outlines key elements of 'economic corridors'; and the final section (IV) suggests the next steps for implementing this approach within the framework of the CAREC Program.

5. It should be noted that *no suggestions are made* in this note as to what are likely economic corridors for focus under the CAREC Program. Indeed a key message of the approach taken here is that the careful identification and assessment of potential CAREC

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<sup>1</sup> CAREC Secretariat (2005)

<sup>2</sup> CAREC (2005)

economic corridors is a critical necessary step that requires the commitment, attention and resources of the CAREC Member Countries and supporting MIs.

## **II. CONTEXT: CAREC PROGRAM AND THE NEW FACE OF GLOBAL COMPETITION**

### **A. Building on the CAREC Program**

#### **1. Introduction**

6. Regional cooperation through the CAREC Program has been primarily sector-driven to date, focusing on transport, trade policy, trade facilitation, and energy. An increased emphasis on the role of the private sector was signaled through the initiation of the 'Regional Business Roundtable' (RBR) prior to the 4<sup>th</sup> Ministerial Conference. Together, these sectors and related initiatives can provide effective foundations on which to develop CAREC economic corridors. This section is intended to very briefly summarize the focus of the CAREC Program from this particular perspective.

#### **2. Transport**

7. The landlocked status of key CAREC Member Countries underscores the importance of improving transport infrastructure and related services in the region. More efficient and reliable access to internal and global markets is essential for accelerating and diversifying development. A key focus of CAREC is therefore aimed at improving transport-related infrastructure in order to integrate the region's economies, and strengthen linkages with outside markets. In addition to individual projects, a regional transport sector road map (2005-2010) is now in preparation aimed at identifying the requirements for developing an integrated and efficient transport system. This comprehensive assessment will address key sector issues including regulatory differences, lack of transport connections, poorly equipped border posts, bureaucratic cross-border procedures, poor infrastructure maintenance, lack of competition in the rail system, and limited institutional and human resource capacity in the transport sector; and will link to a study on harmonizing transport regulations and simplifying cross-border road and rail transport procedures in CAREC countries.

#### **3. Trade Policy and Practice**

8. Trade barriers among the CAREC Member Countries that constrain the development of regional economic integration, as well as accessing global markets are of two general forms: restrictive trade policies, and restrictive trade practices. Restrictive trade policies include prohibitions and licensing of exports and imports of commodities and products; constraints on export-import contracts; and variable charges on imports and exports. Restrictive trade practices, relating to regulatory and institutional barriers, include difficulties with border crossings and customs clearances; and inadequate or inappropriate inspection procedures and trade documentation. All this adds significant delays, costs and uncertainty to trade involving the CAREC countries. Furthermore, the proliferation of overlapping regional and bilateral trade agreements leads to confusing and at times conflicting trade policies and practices.

9. **Trade Policy.** The focus on trade policy through the work of the Trade Policy Coordinating Committee (TPCC) is to help CAREC countries adopt more open trade regimes in order to facilitate both intra- and inter-regional trade. This involves an emphasis on assessing existing and potential constraints on liberalizing and harmonizing trade policy among the CAREC Member Countries; and identifying measures to address such constraints within the general framework of accession to the WTO. Examples of the kinds of issues requiring attention under the TPCC include the nature and impact of tariff rates and

tariff-related uncertainty on trade flows; role and impact of export and import licensing, contracting, and taxes (particularly on imports); the relationship between the region's comparative advantage and trade flows; and an assessment of regional trade agreements and their implications for WTO accession and trade expansion.

10. **Trade Facilitation.** The CAREC Trade Facilitation Program is aimed at reducing impediments to trade, including transit trade, through simplified and harmonized border procedures, and improved customs information and other services involved with the cross-border transshipment of goods. This includes issues and initiatives such as identifying specific barriers to the entrance and exit of both final and intermediate products; problems with inspection and clearance procedures, certification requirements, and related documentation; application of risk management-based customs control practices; development of e-commerce systems and processes; and trade-related support services such as information, cross-border insurance and travel facilitation.

#### 4. Energy

11. An important focus of the CAREC Program is on developing the energy potential of the region, and the cooperative management of energy-related resources for mutual benefit. Issues requiring attention include the creation of effective power trade arrangements and a regional power market to fuel the sustainable expansion of economic activities throughout the CAREC region, for example to support agro-industry and manufacturing; efficiency improvements and institutional strengthening related to power generation and transmission; and cooperation in energy-related infrastructure to access global markets, including creating conditions for attracting private investment.

#### 5. Strengthening the Role of the Private Sector

12. The Regional Business Roundtable (RBR) held in conjunction with the 4<sup>th</sup> Ministerial Conference (MC) in November, 2005 signaled an increasing emphasis on the role of the private sector in regional cooperation and development. The 4<sup>th</sup> MC further highlighted the need for strengthening the private sector focus of CAREC through actions that will help mobilize private investment (e.g. project finance) for implementing CAREC projects; facilitating private investment that utilizes regional initiatives, e.g. build on transport and trade facilitation for development of agro-industry and manufacturing activities; improving the business climate in the region; and helping CAREC-based enterprises, particularly SMEs, access international markets. In this context, it is important to understand how the global economy and international business is evolving, and its implications for the CAREC Program in general, and the concept of economic corridors in particular.

### B. Changing Face of Global Competition

*“To produce a line of garments, the specifications are likely to be defined by a leading brand such as the US-based Levi; coordination of manufacturing turned over to a global ‘full package provider’ such as Li & Fung in Hong Kong; who might purchase South Korean yarn that would be woven and dyed in Taiwan; send the fabric to be cut in Bangladesh by a subcontractor; ship the pieces for final assembly to affiliates in China and Thailand, where the garments would be matched with Japanese zippers, and deliver the finished product to geographically dispersed affiliated retailers in North America and Europe. This set of firm-specific linkages, within the framework of the global apparel value chain constitutes an international production network.”<sup>3</sup>*

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<sup>3</sup> Abonyi (2004)

13. As with Levi in garments, so it goes with Dell in computers, Cisco in IT, Ford or Toyota in automobiles, Ericsson in telecommunications, and Carrefour or Nestle in food and agro-industry. Two complementary and interdependent processes are changing the international economy, with important implications for the competitiveness of enterprises, and the prosperity of nations. The first process is the integration of product markets and related relocation of economic activities: the internationalization of production. This is leading to the emergence of global value chains (GVC) in a variety of industries. The second involves 'breaking up' of key business functions such as production, marketing and distribution, and moving them outside the firm, often to new locations. This is creating international production networks (IPN) involving the coordination and integration of production among geographically dispersed locations, as illustrated by Levi's jeans. These value chains and associated networks are emerging as the organizing framework for production, investment, and trade in an increasingly broad range of product groups such as garments, agro-industry, furniture, automobiles/auto-parts, consumer electronics, telecommunications, and IT. The result has been increasing specialization in production, and the relative acceleration of growth of intra-industry or even more of intra-product trade, as compared with traditional trade in final products.

14. Within the framework of GVCs, regional and global markets increasingly involve exports of components instead of 'complete final products'. As production systems become fragmented and more specialized, new market opportunities emerge for all types of firms, including SMEs, to access global markets. Even small components can be produced for international markets if they are part of the sourcing structure of global or regional value chains and networks. For example in manufacturing, local firms may begin by specializing in the more labour-intensive parts of the production process, and upgrade over time into increasingly technology-intensive export activities through specialization. This has become an effective way for smaller local producers to take advantage of growth opportunities offered by the global economy. However, in order to participate in such value chains and networks, firms must be able to deliver a specified product in the right quantity, with required quality, at the right time to buyers with global reach.

15. These developments in the international economy pose important challenges to the CAREC Program and the participating countries. Within the framework of global value chains and production networks it is essential to provide for ease of export and import of parts and components, as well as of "final" products. There must be in place effective trade-facilitation systems and related institutions, rules and procedures (e.g. such as customs procedures, import and export regulations); as well as competitive supporting services—such as transport and communication infrastructure within the framework of integrated 'logistics systems'. The related challenge to the CAREC Program is to move toward a more integrated approach to transport, trade and transit—within the framework of market-oriented and relatively open trade policy regimes. Furthermore, responding to the challenges of globalization requires the explicit involvement of the private sector in the planning and implementation of key CAREC initiatives whose primary role is to stimulate economic/commercial activities.

16. The concept of economic corridors could provide an effective mechanism for integrating various dimensions of the CAREC Program to strengthen intra- and inter-regional economic linkages. It could also be a potentially effective and pragmatic way to implement public-private sector collaboration responsive to challenges of globalization.

### III. CONCEPT OF ECONOMIC CORRIDORS

#### A. Introduction: A note on possible CAREC Economic Corridors

17. As noted in the Introduction, no suggestions are made here for particular CAREC economic corridors. As will be discussed, selection and assessment of specific options for such corridors is a key step in the implementation of the 'economic corridors approach' that should not be short-circuited. However, it may be useful to keep concrete examples in mind in order to anchor in the CAREC region subsequent sections of this note on the general concept of economic corridors. One such possible example is an east-west corridor linking Tashkent and Kashgar, with the potential for expanding extra-regional linkages; extending to Andizhan in Uzbekistan, through Osh and Sary Tash in the Kyrgyz Republic, to Irkestan on the PRC border (Xinjiang Uygur Autonomous Region) border, and on to Kashgar. This transport route is presently receiving on-going rehabilitation and improvement support<sup>4</sup>, and associated traffic and trade flows would also benefit from the on-going trade facilitation and customs initiatives.<sup>5</sup> Private sector participation could focus on the potential of the Ferghana Valley for diverse agricultural production for regional and perhaps global markets. The tourism potential of Lake Issyk-Kul could also stimulate economic activity and private investment in the corridor, as could perhaps mining (e.g. gold) in the surrounding mountains.

18. Another possible example under the Central and South Asia Transport and Trade Forum (CSATTF) is the *North-South Corridor*, connecting the Central Asian Republics through Afghanistan, to the ports of Karachi, Gwadar, and Port Qasim in Pakistan.<sup>6</sup>

#### B. Purpose of Economic Corridors

19. As noted, the basic concept of 'economic corridors' is relatively simple: it is a geographic location where commercial activities are concentrated. Such corridors closely linked to efficient transport infrastructure--such as roads, railways, ports, airports--necessary to bring production competitively to market. Development of economic corridors therefore expands the boundaries of traditional sector-based CAREC projects, e.g. a road project, to include a simultaneous focus on developing associated production, investment, and trade-related linkages within a well-defined geographic area.<sup>7</sup> This can serve the following purposes:

- Link economic cooperation more directly to the central challenges of competitiveness, and related economic adjustment and restructuring in the region, particularly within the framework of specific global value chains and production networks, e.g. agro-industry development;
- Contribute directly to the pressing concerns of employment and income generation, especially in lagging areas, by expanding the scope for market-driven production and trading activities;

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<sup>4</sup> "Southern Transport Corridor Road Project", *Phase I and II*. The project will rehabilitate the sections of the Andizhan-Osh-Irkestan-Kashgar road passing through the southern Kyrgyz Republic. The road, which links the PRC and Uzbekistan, needs rehabilitation to allow effective use of this international transport corridor and to promote economic growth through increased regional trade and cooperation. The route is also likely to have extraregional transport potential.

<sup>5</sup> "Regional Customs Border Posts Infrastructure". Promotion of international trade is an integral part of the pro-poor growth strategy for poverty reduction. Trade facilitation is critical to enable developing member countries in Central Asia to overcome the problems of being landlocked, broaden their production base, and access international markets.

<sup>6</sup> CSATTF (2005)

<sup>7</sup> Based on Abonyi and Zola (2003)

- Provide a well-defined framework for activity-based cooperation among the CAREC governments, private sector (domestic and foreign), and Multilateral Institutions, focused on an integrated set of projects and programs, and potentially widening the scope of cooperation in a narrower geographic space, e.g. to areas such as tourism, environmental management;
- Provide ‘pilot projects’ for introducing and demonstrating reforms in both domestic (‘behind the border’) and cross-border rules, regulations and procedures (e.g. investment approval, trade facilitation related to specific value chains such as agro-industry) that may be scaled-up over time; and
- Expand options for resource mobilization—direct investment and project finance—for subregional initiatives, in particular from the private sector.

20. Key motivations for implementing the concept of economic corridors include: (i) establishing a clearer relationship between investment in production and trade expansion, and the financing of infrastructure projects, in order to attract and sustain investor interest in both infrastructure project finance and direct investment complementary to the CAREC Program; and (ii) to redefine the scope of the CAREC Program in the context of the challenges of economic restructuring and employment/income generation in an increasingly competitive and integrated global economy, particularly as related to integration with global value chains. The intent is that in the context of economic corridors, the rationale for both financing infrastructure and investment in production and trade clearly reinforce each other. This is expected to: (i) increase the investment attractiveness of CAREC as a region; (ii) provide for a more effective and integrated subregional development strategy; and (iii) mobilize and focus more effectively private sector interest and investment in regional commercial opportunities.

### **C. The Basic Concept**

21. Economic corridors must be firmly anchored in clear commercial and economic rationale. They cannot be artificial creations that defy economic and commercial logic; they are intended as pragmatic responses to market inefficiencies and breakdowns (e.g. constraints on information available to investors; political risks arising from policy uncertainties, both domestic and cross-border; transaction costs requiring coordination among countries in cross-border investment, both public and private). This implies that economic corridors as a base for commercial activities are intended to promote *enterprises (businesses)* not products or sectors, with *demand* as the starting point, and increasing the volume and diversity of products to markets as the goal. It is in this context that subregional economic corridors provide cross-border spatial frameworks for linking infrastructure-related initiatives, production, and trade within a specified geographic area.

22. Investment in infrastructure-related services (e.g. logistics systems) and production opportunities are then mutually reinforcing within the framework of an “economic corridor”, with clear economic and commercial rationale in terms of expected returns. This is more likely to attract and sustain investor interest for both infrastructure project finance and direct investment. In the context of the CAREC Program this means that both a road project and the utilization of that road through well-defined production activities in the participating countries are linked from the outset. This linkage provides a clearer and effective basis for “marketing” specific CAREC initiatives—both infrastructure and subregional business opportunities—to the investment community.

23. The “economic corridor” concept allows participating CAREC countries to experiment with various dimensions of subregional economic cooperation in tangible ways, but with more limited risk. For example, cross-border investment and trade facilitation measures (e.g.

streamlined customs procedures) may be undertaken in a spatially limited way along the corridor, focused on particular product groups (e.g. fresh and/or processed fruit and vegetables; textile and garments). Similarly, in production centres or designated “special economic zones” along the corridor streamlined “one-stop” or trans-shipment facilities may be introduced for investors on a limited basis. If successful, such measures may then be scaled up in the future.

#### **D. Building Blocks of Economic Corridors**

24. Conceptually, an economic corridor is composed of (i) “nodes” of economic activity (e.g. production centres; trans-shipment points); and (ii) “flows” among these nodes (e.g. of resources, goods, services, and people). Improved infrastructure services and streamlined policies and procedures then increases the efficiency of flows, and expand access to both factors of production (e.g. raw materials, components), and to markets (e.g. regional and global).<sup>8</sup>

25. Focusing explicitly on developing “nodes” of economic activity along a corridor can increase efficiency in production through the clustering of essential service functions and of enterprises in specific areas; facilitate access to reliable infrastructure; and provide an attractive policy and regulatory environment.<sup>9</sup> Such production centres can provide economies of scope and scale for enterprises, including SMEs. These centres may also take the form of specialized commercial zones, industrial estates, or export processing zones that can provide properly directed incentives to attract private sector investment in production and trade-related activities in areas such as agro-processing and value-added manufacturing. These ‘nodes’ or production/transit centres can be key sources of local employment and income generation, with an expanded hinterland through the development of feeder roads and ancillary services. Such ‘nodes’ of economic activity along corridors may be located within participating countries, or in a more challenging form, straddle borders as joint economic zones.

26. In general, the key building blocks facilitating the emergence of economic corridors include:

- Clear, market-driven economic and commercial rationale, anchored, to the extent possible, in particular global value chains, e.g. agro-industry;
- Investment in integrated physical infrastructure facilities and related institutions to provide efficient logistics systems for getting goods to buyers;
  - In this context, a well-maintained network of feeder and secondary roads connecting to the trunk roads can play a key role in moving subsistence farmers into the commercial agricultural economy;
- Streamlined policies and procedures, both domestic and cross-border, to minimize non-physical barriers (e.g. corridor-specific transport, trade and investment facilitation measures) that allow the economic utilization of the corridor’s infrastructure facilities;
- Production and trans-shipment centres along the corridor, both domestic and cross-border, that can increase efficiency through a clustering of essential services and

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<sup>8</sup> This is consistent with economic gravity models. In general, these suggest that if two production points are connected, then if the income level (or population) of each one increases, or the distance between the two points becomes closer in terms of accessibility (i.e. in terms of space and time), then the transportation infrastructure connecting them will become more effective.

<sup>9</sup> There is an extensive literature on cluster development, see for example Andersson et al (2004)

access to reliable infrastructure, as well as provide an effective and predictable policy and regulatory environment;

- These centres can also provide the base for outreach to more dispersed and disconnected producers in the hinterland; and
- Effective “marketing strategy” of the economic corridor concept as a set of specific, tangible, and commercially sound investment opportunities.

27. The concept of “economic corridors” increases the potential attractiveness of subregional projects to investors, and expands likely sources of financing. With respect to infrastructure project finance, both the economic benefits and revenue generating potential of such projects becomes clearer, when linked directly to production and trade generation within the framework of particular corridors.

28. A staged ‘building blocks’ approach can also be utilized for implementing the concept of economic corridors. At the early stages of corridor development a variety of small projects ranging from cash crops and agro-processing, to mining, energy, and light manufacturing may be identified and developed. These cumulatively can create conditions to increase the likelihood of larger projects being undertaken, that would, in turn, generate demand for more extensive logistics systems, spur investment in supporting infrastructure and associated development, and induce wider employment opportunities. A key requirement is to create an improved business-friendly institutional environment in the economic corridor that would encourage foreign and domestic investment to identify and develop these project opportunities; which could then provide the foundations for more extensive and larger-scale corridor development.

## **E. Cooperation in Developing Economic Corridors**

29. Development of economic corridors requires a partnership among the CAREC governments, the private sector (domestic and foreign), and the MIs. In particular:

- **Government:** The role of CAREC Governments is twofold:
  - To provide the cross-border framework necessary for the commercial viability of investment in economic corridors, including credible agreements related to minimizing non-physical barriers, trade and investment facilitation, including, as appropriate the establishment of cross-border ‘economic zones’;
  - To provide the necessary domestic or ‘behind the border’ framework (e.g. appropriate policies, rules, regulations, procedures and their effective implementation and enforcement) for investment related to specific production- and trade-related activities in the economic corridors.
- **Private sector (domestic and foreign investors):** The private sector is the source of necessary investment for both production- and trade-related activities, and for selected (commercially viable) infrastructure.
  - More fundamentally, the economic logic of corridors is anchored in the commercial logic of subregional investment, production and trade, where the private sector plays the central role.
- **MIs:** The role of MIs is threefold:
  - Act as ‘facilitator’ for cross-border agreements among CAREC governments related to specific economic corridors, as needed;
  - Provide financing and technical assistance to economic corridor-related initiatives, as appropriate, particularly in the early stages when the private sector

(and perhaps government) is less aware of cross-border opportunities and/or does not yet see them as credible; and

- Assist in underwriting the risk (e.g. political) to both CAREC governments and to the private sector for investment in economic corridors, particularly cross-border projects, including ‘facilitating’ stable agreements between CAREC Governments and private sector investors.<sup>10</sup>

30. The interaction among the 3 players involves a dynamic interactive process. It is likely that each will be looking to the other 2 before committing resources to corridor development. For example, the private sector is likely to want to be relatively certain that the CAREC Governments will enter into credible domestic and cross-border agreements necessary for the viability of specific corridors, e.g. trade facilitation; infrastructure investment. They are therefore likely to look to the MIs to “facilitate” reaching and implicitly ‘guaranteeing’ such agreements; to underwrite some of the initial preparatory costs; as well as to help “manage” some of the associated risks (e.g. political).

31. As this example suggests, the MIs have a special role to play in facilitating the development of economic corridors: both the CAREC governments and the private sector are likely to be looking to the MIs to ensure that the necessary conditions are in place for viable economic corridors as follows:

- For the CAREC Government, the MIs potentially:
  - provide technical and financial support necessary to undertake initiatives related to the development and implementation of “economic corridor”;
  - act as a “guarantors” that private sector proposals and investments will indeed serve their countries’ interests; and
  - act as “facilitators” in brokering stable agreements with investors.
- For the private sector, the MIs potentially:
  - ensure that the CAREC Government commitments are credible, will be implemented, and will endure over the expected investment time horizon;
  - provide support to underwrite some of the initial preparatory costs (that arise from the cross-border nature of initiatives), and some of the political/policy risks associated with corridor-related initiatives.

#### **IV. CONCLUSION: NEXT STEPS**

##### **A. Introduction/Overview**

32. Fundamentally, development of an economic corridor involves:

- Identifying the range of opportunities for private-sector activities in the corridor;
- Identifying the major constraints to the private sector’s development of these opportunities; and
- Devising ways to minimize these constraints.

33. Given the institutional and physical constraints in the CAREC region, economic corridor development will require sustained commitment and involve a multi-step and multi-directional process over an extended period. In general, in the context of CAREC, the next steps could involve the following:

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<sup>10</sup> In the GMS, the Theun Hinboun power generation project provides an example, involving a Thai-Lao cross border public-private partnership, facilitated by ADB through technical assistance and financing..

- **Clear CAREC commitment:** The first step is to obtain agreement from the CAREC Member Countries and the MIs that economic corridors could provide a viable focus for the CAREC Program. This ‘pre-commitment’ to the concept is essential, since subsequent steps will require the commitment of scarce time and resources.
- **Corridor identification:** The next step is to identify, including through consultations with the private sector and the CAREC governments, specific options for economic corridors where CAREC governments are prepared to undertake the necessary supporting actions—cross-border and domestic; and which have/are likely to attract investor interest. To the extent possible, economic corridors should build directly on existing CAREC initiatives (e.g. transport corridors; trade facilitation agreements).
- **Pre-investment study:** Once a potential economic corridor is selected as a joint priority, a “pre-investment study” may be initiated. This study is intended to provide a detailed and focused assessment of key issues and specific business opportunities related to the development of a potential economic corridor. The fundamental purpose of the study is to help mobilize investment—in particular, private investment. The rationale for undertaking an MI/Government-supported pre-investment study is anchored in the assumption that the private sector is likely to have limited appreciation of business opportunities made possible by CAREC initiatives (e.g. transport, trade facilitation). This is particularly likely to be the case with respect to cross-border projects since investors are generally focused on projects within one country. In this context, the private sector is unlikely to invest on its own sufficiently in ‘buying information’, i.e. pre-investment analysis, especially with respect to cross-border opportunities. Therefore such a study is intended to provide necessary ‘pre-investment’ information for public and especially private decision makers that would allow them to undertake project development-related activities in potential economic corridors (e.g. private feasibility studies).

## B. CAREC Commitment

34. The “economic corridor” concept is still at a very early stage. Critical elements essential for its feasibility have not yet been assessed, especially in a CAREC environment where the private sector may be cautious and constrained. It is important not to “oversell” the concept at this stage.<sup>11</sup> Therefore the next step should be to seek from the Ministers and MIs endorsement to: i. develop the concept of economic corridors in more detail in terms of its operational implications, for example by assessing experience elsewhere, e.g. the Greater Mekong Subregion Program’s East-West Economic Corridor, economic corridors in Southern Africa such as the Maputo Development Corridor, experience in Europe for example involving the United Nations Economic Commission for Europe (UNECE), examples in Latin America for example supported by USAID in Peru; ii. assess the feasibility of the concept of economic corridors in the context of the CAREC Program; iii, develop a feasible implementation strategy including a framework for identifying and assessing possible options for CAREC economic corridors and a preliminary framework for the pre-investment study of the selected corridor.

## C. Identification of Corridor Options

35. It is essential to develop at most 1-2 pilot “CAREC economic corridors” as demonstration projects likely to attract private investor interest and government support. Therefore the selection of the initial pilot projects must be undertaken with great care, ensuring that they reflect sound economic rationale, and where there is clear evidence of private sector commercial interest. This implies the following steps:

- Identify potentially viable options for CAREC economic corridors

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<sup>11</sup> The Greater Mekong Subregion East West Economic Corridor could be an instructive example.

- To the extent possible build on existing/planned CAREC-related infrastructure projects where preliminary economic and technical feasibility assessment is available, and where CAREC government commitment is already in place, e.g. with respect to infrastructure and/or trade facilitation initiatives;
- Where there are gaps in the preliminary assessment of the likely viability of such corridors, further analysis may be required of the economic, technical, and commercial feasibility of potential corridors;
- Consult with the CAREC governments on the specific requirements on their part necessary for the development of potential economic corridors, and the likelihood of these requirements being put in place; e.g. specific types of cross-border agreements needed; domestic adjustments in rules, procedures, and policies, to be implemented to support private sector activities;
- Consult with the private sector, particularly likely buyers of corridor products, as well as potential investors in economic activities along the corridor—including identification of key factors likely to influence investment decisions;
  - Experience reflects that private sector participation at the early stages of economic corridor initiatives is essential to promote development that reflects the voice and opinions of key buyers and investors.
- Consult with key MIs on the role they are prepared to play in supporting the implementation of the corridor concept in particular geographic settings, e.g. technical assistance for pre-investment; support for project feasibility and design; co-financing of construction; risk guarantees to private investors; establishment of “subregional financing mechanisms” for facilitating private investment.

#### D. Economic Corridor Pre-Investment Study

36. The key step in the development of a specific economic corridor is the preparation of a pre-investment study to provide usable information to potential private sector participants, governments, and donors. The analysis necessary for the assessing the feasibility of economic corridors is closely linked to an analysis of the global (and regional) value chains to which economic activities in the corridor may be linked (e.g. fresh fruit and vegetables, wood furniture, consumer electronics). The pre-investment study should respond to the needs of buyers (e.g. medium and large businesses that link to global buyers and/or to international markets), and of potential investors in corridor-based production. A pre-investment study should involve the following:

- **Set the initial spatial boundaries:** Identify the geographic scope of the ‘economic corridor’—for example as determined by the core infrastructure services, e.g. existing/planned transport network, keeping in mind that as more is learned about the potential for commercially viable corridor activities the spatial boundaries of the corridor may also change, e.g. expanding to include feeder roads to support secondary production and storage sites;
- **Assess what is there:** Identify existing economic activities along the corridor e.g. existing production and trade patterns, transit (storage) activities, etc.;
- **Market linkage assessment:** Identify existing trading arrangements along the corridor in terms of the level/composition of buying and outsourcing presently undertaken by firms, and assess what is likely to be bought by existing and/or potential buyers—including medium scale/large buyers linking to global markets—if produced to acceptable standards (e.g. quantity, quality, timeliness);

- **Mapping the corridor potential:** Based on the above, identify what is produced and shipped, where in the corridor; and what could be produced given potential demand (range of potential buyers), and how these products would ‘flow’ along the corridor, as well as ‘in and out’ of the corridor from/to external markets;
- **Identify constraints which are not allowing demand to be met:** What are the key constraints on expanding production to meet existing and/or potential demand, e.g. logistics constraints, trade facilitation requirements, financial constraints;
  - This should include an assessment of the capacity and interest of local producers to modify present methods to meet buyers’ needs, e.g. with respect to quality, quantity, timeliness, consistency;
- **Classify constraints as ‘public services’ or ‘business opportunities’:** Identify which constraints require government ‘behind the border’ (domestic) actions, which require cross-border actions by governments, and which constraints are potential ‘spin off’ business opportunities, e.g. small lot shipping;
  - This step should include identification of the potential role of donors in assisting government and/or the private sector to respond to constraints on commercial activities along the economic corridor; and
- **Prepare a ‘joint corridor development strategy’:** A corridor development strategy should contain 3 types of components: credible political commitments at the highest level that participating CAREC governments are willing to provide the necessary support for the development of the economic corridor—including domestic and cross-border government initiatives relating to both ‘hardware’ (e.g. infrastructure investment) and ‘software’ (e.g. trade facilitation measures); credible commitments by donors to support both government and private sector activities related to corridor development; and a marketing strategy for promoting business opportunities in the economic corridor to CAREC-based and foreign (global) investors and buyers; and
- **Recommend an institutional framework to oversee corridor development:** Coordination of activities both within and among participating CAREC countries is a key success factor in developing an economic corridor, requiring the establishment of an institutional framework to oversee corridor development and ‘marketing’ strategy—this could include the establishment of a ‘CAREC Corridor Economic Development Coordinator’ that manages the economic studies, manages relationships with donors, investors, and other stakeholders; as well as the establishment of a high level “CAREC Economic Corridor Development Steering Committee” composed of senior representatives of the participating countries to guide corridor development.

37. The economic corridor pre-investment study therefore involves 3 types of activities and outputs: (i) generates operationally useful information for public and private decision makers; (ii) serves to focus dialogue among the 3 key ‘players’ namely CAREC governments, private sector (domestic and foreign), and donors, on what is required and feasible for the development of the economic corridor; and (iii) elicits credible commitments from the key players as to their expected role in developing the selected economic corridor.

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