



Briefing Note

**Senior Officials' Meeting on
Central Asia Regional Economic Cooperation
10-11 April 2006
Urumqi, XUAR, People's Republic of China**

I. INTRODUCTION

1. The agenda for the CAREC Senior Officials Meeting on 10-11 April 2006 follows-up on the ambitious objectives and work program included in the Joint Ministerial Statement of the Fourth Ministerial Conference in Bishkek on 5-6 November 2005. For each of the core sectors of the CAREC Program, Ministers called for “bold strokes” to accelerate regional cooperation. Ministers also expressed interest in broadening and deepening the Program through the possible inclusion of new sectors. The Ministerial Statement concluded with a call for completion by the 5th Ministerial Conference of a comprehensive strategic framework for the CAREC Program. Ministers also agreed that the processing and implementation of regional initiatives should be accelerated, especially with regards to priority investment projects. Policy and regulatory work should be extended, as a logical complement to infrastructure investment. In-country workshops and other forms of outreach should be emphasized, so as to build broad-based community interest and support for regional cooperation. They directed Senior Officials to assess the adoption of new concepts such as transport and economic corridors and global value chains.

2. These are the core issues that are expected to be discussed during the SOM April 10-11, 2006 in Urumqi. Other interests include a Business Development Forum for Central Asia, and preparations for the first formal meeting of the Regional Business Roundtable for Central and South Asia. We will also take the opportunity of meeting in Urumqi to learn more about Xinjiang Uygur Autonomous Region. Last but not least, we will discuss an appropriate theme for the 5th Ministerial Conference.

3. This briefing note summarizes considerations relevant to each of these agenda items, as a way of facilitating and focusing the discussions. This briefing note may be especially helpful for the new National Focal Points and other first time participants in the SOM.

A. Session 1: CAREC Program Overview; Update of Activities in Priority Sectors

1. Overview

4. The CAREC Program was initiated in 1997 by the ADB and now comprises eight countries: Afghanistan, Azerbaijan, Mongolia, PRC (Xinjiang Uygur Autonomous Region), Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan. The Russian Federation is considering an invitation extended to them in September 2005 to join CAREC as a full participant. The goal of the regional economic cooperation program is to promote economic growth, improve living standards and reduce poverty in Central Asia. Through pragmatic, results-oriented initiatives, the Program promotes and facilitates trade expansion, more efficient transport linkages to regional and world markets, and energy security. The Program is supported by six Multilateral Institutions (MIs): ADB (including the Secretariat role), European Bank for Reconstruction and Development (EBRD), International Monetary Fund (IMF), Islamic Development Bank (IsDB); United Nations Development Programme (UNDP), and the World Bank. During the three-year period from 2006-08, the MIs plan to provide approximately 24 loans totaling more than \$1.5 billion in support of regional transport, energy and trade initiatives. During this same period, the MIs plan to provide some 20 grants/TAs totaling more than \$30 million in support of regional transport, energy and trade initiatives; this excludes project preparatory technical assistance (PPTA) and the umbrella RETA's of ADB in support of the CAREC Secretariat and CAREC Program generally (e.g., Ministerial Conferences, SOMs, and sector workshops).

2. Update of CAREC Activities in Priority Areas

a. Transport Sector Coordinating Committee: ADB Lead Agency

- Fifth TSCC Meeting, 15-16 March 2006, in Urumqi;
 - the TSCC approved the proposed MI infrastructure investments for 2005-2007, amounting to \$1.7 billion; MI technical assistance for the same period amounting to \$13.7 million (including for road funding and management and pre-feasibility studies for improving selected regional road corridors)
 - additional technical assistance requested for feasibility study of the PRC-Kyrgyz-Uzbekistan railway (also linking Tajikistan)
 - action plan for harmonization and simplification of cross-border transport procedures, documents and regulations considered, to be finalized at the next TSCC meeting (August 2006)
 - civil aviation to be included in transport sector road map
 - pilot transport corridor performance measurement study; need to expand and improve methodology
- Comprehensive Action Plan: Transport Sector
 - sector road map (2005-2010): harmonizing and simplifying cross-border transport procedures and documentation; harmonizing transport regulations; developing and improving regional and international transport corridors; restructuring and modernizing railways; and improving sector funding and management
 - "bold strokes": transport sector strategy up to 2015 for the region (requested by PRC); identification of key rail and road corridors; strong performance indicators (e.g., target cuts in economic distances in terms of cost and time of transport)

b. Energy Sector Coordinating Committee: World Bank Lead Agency

- Last met in October 2005
- Meeting scheduled for 9 April 2006 in Urumqi. Agenda items include:
 - terms of reference for the Committee
 - a comprehensive strategic framework for CAREC's energy program
 - performance indicators as drivers for the strategic framework
 - CAREC Members Electricity Regulators Forum (CMERF)
 - energy efficiency and power trade
 - implications of high oil prices for CAREC countries
 - Clean Development Mechanism under the Kyoto Protocol
- Comprehensive Action Plan: Energy Sector
 - MIs plan 10 loans totaling about \$950 million for the energy sector during 2006-2008; 4 of these loans will be for gas transmission lines (\$510 million in KGZ, TAJ, and regional) and the balance for power interconnections, transmission lines and a small hydropower project (TAJ, KAZ, AZE, and KGZ); possible involvement in the financing of the Sangtuda 1 and/or Rogun hydropower projects would considerably increase MI resource mobilization for the energy sector
 - "bold strokes": comprehensive strategic framework for the sector; broadening and deepening to include oil and gas sector, Clean Development Mechanism; and performance indicators as "drivers"

c. Trade Facilitation Program: Customs Cooperation Committee: ADB Lead Agency

- Last met in September 2005, Ulaanbaatar, Mongolia
 - long-term goal of providing “one-stop” or “single-window” services for the business community, hence emphasis on a multi-agency approach
 - bilateral customs agreements and training and knowledge forums as building blocks
- Activities since September 2005 and planned to end of 2006:
 - customs automation: PRC to sponsor training for KAZ and MON customs officials in Shanghai Customs Academy; workshops in July 2006 re master plans for customs automation for KGZ and TAJ, plus a study tour; needs assessment for AZE
 - risk management and post-entry audit: support re WCO’s new framework of standards
 - joint customs control and one-stop services: extension by KGZ and KAZ to send border post; possible MON/PRC initiative
 - regional transit development: PRC accession; ADB publication
 - bilateral initiatives for harmonizing customs procedures: PRC and KAZ to pilot-test transit trade facilitation (cargo manifests, customs seals etc.)
 - knowledge forums: TIR Customs Transit System (October 2005 in Shanghai); customs automation and IT platform for trade and logistics (January 2006 in Singapore); trade facilitation and customs modernization (April 2006 in Tokyo, Japan); WCO’s framework of standards and common data model (July 2006 in Urumqi, PRC)
- Meeting scheduled for September 2006, in Kazakhstan. Agenda items include:
 - priority areas, as proposed by CAREC countries
 - knowledge forums
 - trade facilitation and customs cooperation strategy paper
- Comprehensive Action Plan: Trade Facilitation
 - 1 loan (\$10 million, TAJ) is currently planned for trade facilitation
 - 4 TAs (\$3 million, region) are planned by ADB for trade facilitation; grant assistance by other MIs yet to be specified
 - “bold strokes”: comprehensive strategic framework for trade facilitation; customs fast-track for key transport corridors; performance indicators as drivers

d. Trade Policy Coordinating Committee: IMF Lead Agency

- TPCC Meeting in October 2005, Bishkek
 - review of background studies: barriers to trade and measures to facilitate trade; regional trade agreements and potential conflict with WTO accession; analysis of entrance and transit delays and financial costs, and barriers to cross-border trader
 - six recommendations on reducing the barriers to transit trade, endorsed by SOM in October 2005
- Meeting scheduled for 8 April 2006 in Urumqi. Agenda items include:
 - implementation of measures for reducing barriers to transit trade
 - cross-border price differentials
 - barriers to border trade
 - update on TPCC outreach activities, country-based seminars

- Comprehensive Action Plan: Trade Policy
 - to date, the MIs have not indicated loans or grants planned in support of regional trade policy initiatives, other than provided through ADB's umbrella RETA for the CAREC program; however there is considerable support for trade policy through country programming
 - "bold strokes": WTO accession; a time-bound process for full implementation of measures for reducing barriers to transit trade

5. It would greatly strengthen Session 1 if each delegation comes prepared to discuss how greater results could be achieved in these sectors, and the "bold strokes" which CAREC countries would like to see initiated.

B. Session 2: Accelerating the Momentum of Regional Cooperation

"Ministers agreed that a strategic framework for regional cooperation - including the expected outputs and outcomes over the medium term, the prioritization and sequencing of regional initiatives needed to reach this outputs and outcomes, and strong performance indicators as drivers for progress - is essential for charting the course ahead." —Ministerial Statement 2005

1. Strategic Framework for Comprehensive Action Plan

a. Top-Down Approach

- Agree on broad goals/objectives/outputs/outcomes of regional cooperation
- Agree on sector goals/objectives/outputs/outcomes of regional initiatives
- Identify and sequence the priority investments/actions needed
- Set performance indicators as drivers for implementation

b. Bottom-up Approach

- compilation of the MI programming related to CAREC over 2006-2008
- synthesis of country development plans and public investment programs
- Coordination with other regional organizations (EEC, SCO)
- Capacity-building

6. Guidance is needed on how CAREC countries want to proceed in making their inputs to development of the strategic framework for the comprehensive action plan. For the top-down approach, the inputs of each government are needed concerning the expected outputs and outcomes for each of the core sectors, and the priority investments/actions/bold strokes that are needed to achieve these outputs and outcomes. Further, the inputs of each government are needed to set practical, well-focused performance indicators; these will set the pace for removing trade barriers, realizing transport corridors and achieving energy security for the region. For the bottom-up approach, a synthesis is needed of each government's medium-term development/investment plans, especially in relation to the regional dimensions of transport, energy and trade. Also, each country should identify its main constraints concerning regional cooperation, including organizational and staff constraints. It would greatly facilitate Session 2 of the SOM if country delegations would come prepared to discuss these interests.

C. Session 3: Possible Areas for Expansion of CAREC Program

“Ministers expressed interest in cooperative initiatives in a wide range of areas, including the environment, agriculture, tourism, telecommunications, human resource development, disaster management and avian flu preparedness.” —Ministerial Statement 2005

7. Ministers at the 4th MC urged that the pace of regional cooperation accelerate, and expressed interest in broadening and deepening the Program to include new sectors. More recently, during a mission of the CAREC Secretariat to Beijing and Urumqi in January 2006, PRC officials requested that consideration be given to including agriculture, environment, human development, and tourism initiatives as new priority areas under the CAREC Program. Accordingly, concept papers were prepared for each of these areas, to be discussed at the April SOM. These concept papers, which are included in the information kits for the SOM, provide basic information relevant to deciding whether or not one or more of these sectors should be included in the Program. They also draw attention to questions that should be addressed by the SOM. As will be recalled, “Ministers emphasized that all initiatives must be properly resourced and maintain the practical, results- and consensus-based approach to regional economic cooperation that characterizes the CAREC Program”.

1. Environment

8. The basic rationale for including environment in the CAREC Program is the importance of protecting the natural resource base of the region, which is so fundamental to the livelihoods of the people – including the rural poor. Transboundary and even national or local environmental challenges of shared concern can be addressed through regional cooperation initiatives. The concept paper notes three broad areas for regional cooperation: (i) integrating environmental and social considerations into economic development planning; (ii) institutional strengthening in knowledge management and information sharing; and (iii) cooperation in the management of shared environmental resources.

9. Since there are already many regional initiatives in each of these areas, particularly concerning management of shared resources, a thorough review is needed to determine where CAREC could most usefully contribute. Capacity building for information systems and environmental compliance are areas of immediate need. Before deciding on any environmental initiatives, however, CAREC countries and partner MIs must be assured that there is a lead agency with sufficient expertise and financial resources to accomplish real results. The concept paper recommends the establishment of a small ad hoc working group to develop a draft proposal on regional cooperation on the environment, for consideration during the SOM scheduled for Aug. 2006.

2. Human Development

10. Human development has many dimensions, including education, skills development, labor markets, gender, and public health services. There are several areas where regional cooperation could greatly contribute to strengthening human development in Central Asia. With regards to education and skills development, the forces of globalization (including the growing importance of cross-border value chains) underscore the need for comparable and interchangeable labor and management skills. Investors are increasingly looking at regional labor pools, not just domestic. The rationale for regional initiatives related to health includes the obvious – communicable diseases don't stop at borders.

11. Current regional human development initiatives include ADB's RETA on ICT in basic education, ADB's five-year RETA for nutrition and food fortification, and the World Bank's programs to counter HIV/AIDS and avian flu. Chinese officials have expressed interest in

seeing the GMS Phnom Penh Plan replicated for CAREC countries; the Plan provides short training courses for middle- and senior-level development planners and managers. Other possibilities include mainstreaming training into sector activities, policies and conditions concerning migrant workers, harmonization of skills certification and accreditation, research networks, and a regional forum on communicable diseases (e.g., avian flu, tuberculosis).

12. Again, however, more research and consultation is needed to determine what would be worthwhile, and whether or not an appropriate development partner is willing to work within the CAREC Program to make a substantive contribution. The concept paper recommends a small ad hoc working group to report on possible inclusion of human development in the Program, for consideration of the SOM scheduled for Aug. 2006.

3. Agriculture

13. For three CAREC countries (KGZ, AFG, UZB), agriculture accounts for more than a third of GDP. For all CAREC countries agriculture is a vital determinant of rural livelihoods and poverty reduction. Agricultural production has significant potential to increase, as both crop and livestock productivity levels are well below those in countries with similar agro-ecological conditions. Regional cooperation is needed to address a number of factors fundamental to agriculture productivity and competitiveness, perhaps foremost of which are water management and trade facilitation.

14. Several areas could be considered:

- trade facilitation through the auspices of CAREC's transport and trade coordinating committees; other areas include joint market information; compliance with quality standards, and an MOU to control trans-boundary animal diseases;
- know-how and technology exchange, through policy/research forums, dissemination of agricultural research, agricultural fairs, cooperation in creating a favorable private sector investment climate (contract farming);
- water and land management, through collaboration in improving irrigation practices and setting water user charges, drainage rehabilitation, capacity building.

15. Again, more research and consultation is needed on where regional initiatives would be most helpful, and the capacity of the CAREC Program to make a significant contribution without detracting from focus on the core sectors. Hence the recommendation for a small ad hoc working group to report to the SOM scheduled for Aug. 2006.

4. Tourism

16. Central Asia offers a rich array of tourism attractions, among them natural attractions, the cultural diversity of the region, and the historic cities and towns along the legendary Silk Road linking China to Europe and South Asia. Cultural tourism, adventure tourism, eco-tourism and other forms of tourism should flourish in the region, especially in light of the upward trend in world tourism. Except for PRC, however, tourism in Central Asia is limited – at least relative to the potential.

17. Properly structured, tourism is pro-poor, providing employment and income opportunities for labor force participants who might otherwise be unemployed or underemployed. Further, properly integrated with the economies of the region, it can help generate jobs in associated industries, such as transport, agriculture, and light manufacturing (e.g., textiles and handicrafts).

18. Areas for regional cooperation in tourism include:

- Joint marketing, to promote a single destination (Silk Roads) concept;
- Overcoming constraints to travel, namely through better visa and air services;
- Product development, mainly through facilitating private sector investment;
- Tourism human resource development, including hospitality training.

19. As above, further research and consultation is needed to determine whether or not tourism would be a logical extension of the CAREC Program.

20. PRC has been asked to take the lead in making the case for inclusion of one or more of the above sectors in the CAREC Program. Session 3 would greatly benefit from all country delegations taking an active part in guiding broadening and deepening of the Program. Other sectors could also be discussed, such as the telecommunications sector.

D. Session 4: Special Presentation on Developments in Xinjiang Uygur Autonomous Region

1. Salient Features (source: china.org.cn)

- Population: 19.3 million (2003); population growth rate 1.5 %; 66% rural
- Ethnicity: 41 % Han; 59 % comprised of 47 ethnic minorities, notably Uygurs
- Gross domestic product: 187.5 billion yuan (2003); approximately \$23.4 billion
- Per capita income: 9,686 yuan (2003); approximately \$1,200
- Sector shares: primary, 22%; secondary industry, 43%; tertiary industry, 35%
- Main industries: iron and steel, petroleum, coal, power generation, nonferrous metals, mechanical engineering, chemicals, leather, textiles and sugar
- PRC trade with Central Asia (KAZ, KGZ,TAJ, UZB) in 2004 totaled \$3.2 billion: exports to CA \$2.1 billion, imports \$1.1 billion (source: ADB); trade through Xinjiang accounts for about 90 percent of total trade between the CARs and PRC
- Exports, mainly light industrial products (processed food, shoes, textiles, apparel, home electronic appliances) (source: ADB)
- Transport: major investments in the Lanzhou-Urumqi railroad, the Korla-Dashi section of the Southern Xinjiang railroad, westward extension of the Southern Xinjiang railroad, and the northern section of the Wusu-Ala Pass railway; also major investments in highways, including linking to Central Asia
- Land area: 1.66 million square kilometers; PRC's largest region/province
- Border countries: Mongolia, Russia, Kazakhstan, Kyrgyz Republic, Tajikistan, Afghanistan, Pakistan and India
- Natural resources: 40% of suitable for agriculture, forestry and animal husbandry; rich in mineral and petroleum/natural gas resources; coal, 38% of national total
- Environment: 26 nature reserves occupy 204,200 km²; almost 300,000 tons of SO₂ discharged in 2003, down 1% on year before
- Development prospects: very strong, with high levels of foreign investment; China Development Bank has agreed (March 2006) to lend \$7.5 billion over five years for development projects/infrastructure

E. Session 5: Proposed Major Program Activities for 2006

1. Concept of a Development Forum for Central Asia

21. A preparatory meeting for the establishment of a Regional Business Roundtable¹ (RBR) was held on 3-4 November 2005 prior to the 4th Central Asian Regional Economic Cooperation (CAREC) Senior Officials Meeting (SOM) and Ministerial Conference (MC). The meeting participants fully endorsed the basic principle of involving the business communities more closely in regional cooperation in Central Asia, and the RBR was endorsed as the mechanism to achieve this objective. The Bishkek Action Plan summarized discussions and agreements of the RBR meeting, and it was submitted to and discussed at the CAREC SOM and endorsed by the MC.

22. It was agreed at the preparatory meeting that the RBR would focus initially on channeling the consolidated perspectives and interests from the private sector across the member countries to the various regional cooperation programs, including CAREC and the Central and South Asia Trade and Transport Forum (CSATTF). In addition to the three core areas of CAREC activities comprising Trade Facilitation and Policy; Energy; and Transport, RBR participants proposed that the RBR agenda also include the financial sector and tourism and related service industries.

23. Subsequent to the November 2005 RBR, the People's Republic of China (PRC) suggested that CAREC hold a Business Development Forum (BDF) for Central Asia in 2006 or early 2007. The proposal draws upon experience of the Greater Mekong Subregion (GMS) Program of Economic Cooperation, which has held several such development forums. The forums seek to deepen awareness of the region and to draw attention to the wide range of investment opportunities. A common theme of the forums is public-private sector partnerships in the development and implementation of key infrastructure projects. Typically, though, target participants are senior executives of 60-80 multinational and large private companies in Asia. It is suggested that, given the strong commonalities and potential synergies between the RBR and the proposed BDF, the activities be combined into a meeting of the BDF to be held prior to the CAREC MC in Urumqi, PRC in October 2006.

24. For discussion is whether CAREC should organize a Development Forum and, if so, where and when should it be held and who should be the key participants. In this connection, it should be noted that the UNDP Silk Road Investment Forum will be held in June 2006 in Xi'an, PRC. The Shanghai Cooperation Organization has also announced plans to host meetings of SCO's Business Council and investment forum in Shanghai in June 2006.

2. Study on Transport and Economic Corridors

25. As noted under Session 1, the action plan of the Transport Sector Coordinating Committee includes developing and improving regional and international transport corridors. CAREC's main corridor focus appears to be east-west, linking East Asia with Europe with Central Asia as a land bridge. ADB's South Asia Department is also interested in corridors connecting South Asia with PRC and Russia. Accordingly, ADB's East & Central Asia and South Asia Departments have tentatively agreed to jointly sponsor a study on transport corridors, with the objective of determining the potential benefits to participating countries and the specific actions needed to realize these benefits. The study may also consider

¹ The Regional Business Roundtable was a joint initiative between Central Asia Regional Economic Cooperation (CAREC) and Central and South Asia Transport and Trade Forum (CSATTF). The findings and recommendations of the RBR were reflected in the detailed Conference Proceedings and the Bishkek Action Plan (and all materials were produced in a CD ROM).

segments of these corridors that could become economic corridors and pathways for cross-border value chains.

3. Proposed Avian Flu Regional Roundtable

26. The European Commission (EC) Delegation in Almaty is organizing a regional roundtable on avian flu, which will bring together representatives of the 5 Central Asian republics, plus the PRC and Russian Federation, development partners, and experts on veterinary and public health issues. The World Bank, UNICEF, USAID/Center for Disease Control, and ADB will contribute to and participate in this event. The two-day meeting will provide participants with an overview of their individual country situations and needs, and provide for discussion of coordinated approaches and common solutions to strengthen the anti-epidemic arrangements -- including epidemic surveillance and response preparedness systems and action plans, and training activities.

F. Session 6: Proposed Theme/Key Messages for the Fifth Ministerial Conference

27. The theme for the 4th Ministerial Conference was "Development Through Cooperation." For consideration is the theme for the 5th Ministerial Conference. As PRC is the host country for CAREC in 2006, the PRC should assume a leading role in this discussion.

28. It will be recalled that in preparation for the 4th Ministerial Conference, the April 2005 SOM endorsed eight key messages for Ministers:

- need for better understanding of the benefits of regional cooperation;
- need to reinforce the momentum of regional economic cooperation;
- need to deepen and broaden the CAREC Program;
- need for a strategic framework for the CAREC Program;
- need to engage the private sector more fully in the Program;
- need for development partners to be more proactive in their support;
- need for a comprehensive approach to transport, trade and transit;
- need to rationalize regional cooperation programs.

29. These messages were incorporated in the Ministerial Statement for the Conference, and well served to catalyze discussion among Ministers and in setting out the work agenda for Senior Officials.

30. Session 6 would greatly benefit from the country delegations being prepared to present their recommendations on the theme and key messages for the 5th Ministerial Conference.