

CENTRAL ASIA REGIONAL ECONOMIC COOPERATION

Summary of Proceedings Senior Officials' Meeting April 2005

1. The Senior Officials' Meeting (SOM) on Central Asia Economic Cooperation was convened at the Asian Development Bank, Manila, Philippines, on 26-27 April 2005. The SOM reviewed the progress made since the 3rd Ministerial Conference held in Astana, Kazakhstan in November 2004 and the work plans for the four priority sectors: transport, trade facilitation, trade policy and energy. Further, the SOM discussed a number of vitally important strategic questions and issues, including the geographic, program and policy scope of the CAREC Program, as well as greater private sector participation and the relationship to other regional cooperation initiatives. Other agenda items were preparation of a comprehensive action plan and performance indicators, capacity building for strengthening regional cooperation, plans for a Regional Business Roundtable, the UNDP human development report for Central Asia, the Silk Road Regional Program, and arrangements for the next SOM and 4th Ministerial Conference.

2. Distinguished delegations were present from the seven CAREC Member Countries: Azerbaijan, the People's Republic of China, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan. Representatives from the European Bank for Reconstruction and Development, the International Monetary Fund, the United Nations Development Programme, and the World Bank also participated.

3. Mr. H. Satish Rao, Director General, ADB, chaired the SOM. In his welcoming/introductory remarks, Mr. Rao noted that the directives of the country delegations regarding the strategic questions and issues could greatly influence the character and strengthen of the Program. He commended the extensive consultation and joint coordination in addressing all agenda items, which follow from the 3rd Ministerial Conference. Ministers challenged all CAREC participants to do their utmost to accelerate regional cooperation and to achieve greater results. In this regard, Mr. Rao reviewed areas where the Program needs to make more progress, and where there appears to be good prospects for doing so. He also cautioned that the Program must remain focused and results-oriented. Through building on the base already established, the CAREC Program will be able to demonstrate the benefits of regional cooperation through real progress in developing and sharing resources and in facilitating transport and trade.

I. Session 1: Update on Work Plans and Activities of Priority Sectors

A. Energy Sector

4. Mr. Simon Kenny, Regional Program Coordinator, World Bank, informed the meeting that modest progress has been made on the four Central Asia regional power transmission projects. The ADB and EBRD funded Regional Power Transmission and Modernization Project remains on hold as the Power Trade Relations Agreement between Uzbekistan and Tajikistan has not yet been signed by Uzbekistan. This is pending the outcome of an environmental impact assessment. An overview of the World Bank's study on Regional Electricity Export Potential was welcomed by the senior officials but with the request that comments by delegates are incorporated in the final report, and future studies be broadened to include other CAREC countries. It was agreed to circulate the full report amongst the country delegations. A draft

agreement on the establishment of a Central Asia Water and Energy Consortium has now been prepared and submitted to the CACO member states for consideration. This is due to be discussed at the next meeting of the CACO experts working group. The Tajik delegation informed the meeting that construction of the hydropower plant at Sangtuda will commence very soon, with co-financing from Russia and Iran. And finally, a draft memorandum of understanding has been prepared by ADB for the formation of a CAREC Members Electricity Regulators Forum. A meeting of the CMERF is planned for July 2005, to be hosted by the PRC.

5. To date, the CAREC Energy Coordination Committee has operated on an informal basis, the main forum for discussion being the CACO. Delegates were asked to consider whether there would be any added value in having a separate CAREC Energy Sector Coordinating Committee similar to those established for other sectors. Most delegates agreed such a committee would be useful but issues related to its operations need to be clarified by the Secretariat before presentation to the next SOM.

B. Trade Facilitation

6. Ms. Avonechith Siackhachanh, Director, Governance, Finance and Trade Division, ECRD, ADB presented an overview of the progress and highlighted major proposals by the member countries. Much of the progress was attributed to strong ownership that the member countries attach to the Trade Facilitation Coordinating Committee and the leadership of the country chairs in charge of specific bilateral and regional initiatives such as regional transit development, customs data exchange, and joint border control.

7. The country delegations endorsed the Progress Report. They underscored the importance of taking a pragmatic and result-oriented approach through integrating country-specific efforts with regional and bilateral initiatives. Country-specific initiatives with strong regional orientation demonstrate member countries' commitment to customs modernization and provide the knowledge base and infrastructure for regional forums and bilateral initiatives. In this regard, delegates welcomed the PRC's intention to accelerate the process of acceding to the TIR (Transit) Convention. Several member country delegates highlighted achievements in the bilateral initiatives and emphasized their "demonstration effect." The head of the Tajikistan delegation emphasized the need to document the experiences and lessons-learned from these bilateral initiatives so as to help other member countries introduce the same initiatives.

8. Besides the activities presented in the Progress Report, the following initiatives and proposals were reiterated and introduced by the member country delegates:

- (i) Establishment of a regional website for trade facilitation and customs cooperation (AZE). (The website is being developed by the Secretariat and will be presented in the next regional meeting.)
- (ii) Emphasis on the need to promote logistics development to transform PRC inland provinces and land-locked member countries into "land-bridges" for transit trade (PRC);
- (iii) Support for the member countries' adoption of the risk management system as an effective tool for simplification and harmonization of customs procedures; emphasis on the importance of PRC accession to the TIR Convention to enhance Central Asia's transit role between Asia and Europe; a regional conferences on joint border control tentatively in July (KAZ);

- (iv) Importance of knowledge-sharing for the successful implementation of the Regional Customs Modernization and Infrastructure Project supported by the ADB; initiation of a pilot project for joint-border control between KGZ and KAZ in July for possible application of lessons learned in other CAREC member countries (KGZ); and
- (v) Revision of the Customs Code in line with the WTO and WCO Conventions and Agreements as a key modernization effort by UZB Customs; need to harmonize and unify statistic methodologies for trade and customs data among the CAREC member countries (UZB).

C. Trade Policy

9. Mr. John Wakeman-Linn, Middle East and Central Asia Department, IMF, reported on the Trade Policy Coordinating Committee's second meeting, as well as the work done by the committee since the 3rd Ministerial Conference (MC). In line with the instructions from the 3rd Ministerial Conference, the MIs have prepared papers on barriers to trade in Central Asia (ADB), regional trade agreements and WSTO accession (IMF) and potential comparative advantage in trade for Central Asia. The TPCC had extensive discussions on these papers, and their policy implications.

10. Based on these discussions, the SOM endorsed two recommendations made by the TPCC. First, it was agreed that there is a need to reduce delays in and financial costs of entrance and transit. To support this objective, the TPCC will analyze all factors leading to delays in or costs of entrance or transit, and present recommendations to the next SOM on measures to reduce these delays and costs. Second, the TPCC will review existing barriers to border trade, and make proposals to the next SOM for possible improvements in these policies and procedures.

11. The SOM agreed with the report on the work of the TPCC, and endorsed the objectives and proposed work program for the TPCC. In addition, some delegates noted that there was a need for the TPCC, at some point, to focus on the problems of differential excise duties on domestic and imported goods. It was noted that the analysis and intensive discussions in the TPCC were a useful first step in addressing the important regional trade policy issues. The challenge now is to build on these discussions, to produce concrete policy reforms in CAREC members.

D. Transport

12. Mr. Nigel Rayner, Director, Transport and Communications Division, ECRD, ADB reviewed the progress since the 3rd Ministerial Conference in Astana in November 2004, and proposed the next steps to be taken in promoting regional transport cooperation. Significant progress was made in investment and other activities for regional transport cooperation. Major investments approved or processed since January 2004 included (i) AZE: East-West Road Corridor Improvement Project, cofinanced by ADB and IDB; (ii) AZE: Silk Road Project financed by EBRD; (iii) AZE: Baku-Russian Border Road Reconstruction Project, to be financed by EBRD; (iv) KGZ: Southern Transport Corridor Road Rehabilitation Project, cofinanced by ADB and the PRC; (v) MON: Regional Road Development Project, cofinanced by ADB, the PRC, and the Republic of Korea; and (vi) TAJ: Dushanbe-Kyrgyz Border Road Rehabilitation Project (phase II), to be funded by ADB.

13. With regard to other activities, the 3rd Transport Sector Coordinating Committee (TSCC) Meeting was held on 1–2 March 2005 in Bishkek. The Meeting reviewed the TSCC 2005 Work Program and a medium-term Regional Transport Sector Roadmap. It also reviewed the proposal to harmonize and simplify cross-border transport procedures and documentation among CAREC countries, and the proposal to harmonize transport regulations among CAREC countries. The World Bank completed a study on Trade and Transport Facilitation in Central Asia and held the workshop on 3–4 March in Bishkek. Preparatory work for establishing the Transport Consortium of CACO is underway. The SCO member states have been negotiating a draft Intergovernmental Agreement on Facilitation of International Road Transport. In this connection, ADB approved a TA grant to support the negotiations. In addition, the 2nd Ministerial Conference on Transport and Trade in Central and South Asia was held at ADB headquarters in March 2005.

14. The country delegates appreciated the progress made since the 3rd Ministerial Conference and the important role that TSCC had played in coordinating activities of regional cooperation among CAREC countries. They reaffirmed the importance of regional cooperation in the transport sector, and agreed to continue working together to develop an integrated, efficient transport system so as to facilitate the movement of passengers and freight in the region and beyond. The SOM approved (i) the TSCC 2005 Work Program, (ii) the Regional Transport Sector Roadmap, (iii) the proposal to harmonize cross-border transport procedures and documentation, and (iv) the proposal to harmonize transport regulations. TAJ delegation informed that drafting of a Charter for CACO's Transport Consortium would get underway soon with support from the ADB. KGZ delegation thanked the PRC for grant assistance allocated to the southern transport corridor and requested that additional support be considered to develop this corridor. MON delegation requested ADB to (i) accelerate implementation of the Regional Road Development Project, (ii) include the PRC and Russian Federation in the proposed Altai transport corridor development project, and (iii) provide TA to CAREC countries to promote transit transport. ADB responded that an inception mission for the Regional Road Development Project would be fielded in early May and a TA fact-finding mission for the Altai Transport Corridor Pre-feasibility Study would be fielded soon to consider inclusion of the PRC and Russia in the project. ADB would also positively consider MON's proposal for the TA on transit transport. The World Bank indicated that air transport should be included in the program of regional cooperation in accordance with the statement of the 3rd MC. In this connection, the World Bank is undertaking a study on air transport in Kazakhstan, Kyrgyz Republic, Tajikistan and Uzbekistan and would endeavor to share the report with CAREC countries by the next meeting of the Transport Sector Coordinating Committee.

II. Session 2: Strategic Issues

A. MI Coordination

15. Ms. Rika Ishii, Principal Economist, Office of the Chief Economist, EBRD reported on the results of the Multilateral Institutions Working Group Retreat (14-15 October 2004, London, United Kingdom). The Retreat addressed 5 general issues, including: stocktaking on MI cooperation, e.g. achievements and remaining challenges; CAREC purpose and objectives; performance indicators, including short- and medium-term; expansion of the CAREC mechanism, e.g. sector and thematic focus, country membership, and involvement of other donors; and improvement of the CAREC process. It was stressed both in the presentation and by the Chair (ADB) that the results of the Retreat represented the views of the MIs in the spirit of supporting CAREC, but that CAREC is a cooperation program of the participating countries who determine its focus and scope.

B. Consultations on Key Strategic Questions facing CAREC

16. The strategic questions addressed have been raised by the participating countries over the course of the past year or more. Mr. Craig Steffensen, Head CAREC Unit, visited each of the participating countries in January-February 2005, to seek their views and guidance on these questions. Mr. Steffensen summarized the results of these consultations, as reflected in the background note included in the SOM documentation.

1. Geographic Scope/Participation of Russia and Afghanistan

17. There was general agreement that the participation of Russia and Afghanistan in the CAREC Program is important to its long-term effectiveness in promoting regional cooperation and development. It was agreed that a simultaneous 2-track approach would be pursued: (i) the delegates will consult their respective governments on Russia's and Afghanistan's participation in CAREC, and convey to the Secretariat the position of their governments by 31 May 2005; and (ii) simultaneously, the Secretariat would consult informally with Russia and Afghanistan on their interest in participating in the CAREC program.

2. Program Scope

18. There was a consensus among the delegates that the priority at this stage of the CAREC program should be on strengthening the effectiveness of activities in the priority sectors. It was suggested that new sectors may be considered, but many of the delegates stressed that adding new sectors should be contingent on the availability of resources to support activities in such sectors. Among the suggestions was consideration of adding tourism, telecommunications, environment, SMEs; initiatives related to these areas could also be undertaken within the existing framework of CAREC, e.g. tourism under trade; telecommunications under transport. In this context, it was agreed that the Secretariat will continue to consult and explore further possible expansions of Program scope, and will report back to the SOM on any related new developments.

3. Treatment of Policy Agenda

19. There was a consensus among the delegates that the CAREC program should continue to emphasize a project-based approach, but an approach which also increasingly incorporates a focus on related policy issues, e.g. related to investment projects. At the same time, carefully selected policy issues should also be addressed when deemed appropriate by the participating countries, strengthening the role of CAREC as a 'forum' for policy dialogue.

4. Positioning CAREC

20. It was agreed by the delegates that the CAREC program should monitor, informally coordinate, and share information and experience with other regional programs, while avoiding overlap and duplication of activities to the extent possible. It was stressed by the delegates that in approaching such coordination, CAREC should retain its flexibility and its unique identity vis-à-vis other regional programs and institutions and, therefore, no formal agreement such as MOUs is necessary for establishing such coordination. In this context, it was pointed out by some delegates that other regional cooperation programs were initially established with a security and political agenda; where as CAREC is unique with its focus on economic cooperation.

5. Strengthening Effectiveness and Results-Based Orientation

21. Delegates stressed the importance of performance indicators as guides in the planning and monitoring of CAREC activities to support a results-orientation. It was suggested by some of the delegates that care should be taken in the formulation of such indicators.

6. Promoting Private Sector Participation

22. There was consensus on requesting the Secretariat to prepare a strategy note by the 4th MC identifying options for engaging the private sector with the CAREC program, including how private sector participation might be accommodated within the CAREC framework.

III. Session 3: Strengthening Regional Cooperation through Development of a Comprehensive Action Plan, Performance Indicators, and Capacity Building

A. Development of a Comprehensive Action Plan and Performance Indicators for the CAREC Program

23. Mr. Craig Steffensen, Head CARECU noted the Ministerial request that the CAREC Program prepare a comprehensive action plan to 2007, in full consultation with CAREC participating countries and supporting development partners. Two approaches to such a Plan were outlined. First, an action plan based on CAREC support activities, as illustrated by the transport sector action plan for 2005-06. The second approach outlined was an action plan based on medium to long-term goals, and the national plans and regional aspirations of the member countries. Both approaches should include performance indicators. It was emphasized that such indicators need to be developed in consultation with the member countries and other stakeholders. Further, they should be highly practical and limited in number and complexity. Immediate steps in preparing a comprehensive action plan should include sector "roadmaps" to 2007, for review during the next SOM. Medium-term steps could include preparation by member countries of short outlines of their goals/objectives to 2010/2015, supported by country and regional workshops.

24. Member countries expressed strong support for preparation of a comprehensive action plan, and urged that it be practical and results oriented. Medium to long-term goals should draw from the national strategies of member countries, while short to medium-term actions should coincide with the public investment programs of the countries and supporting donor agencies. Delegates cautioned that performance indicators must be carefully selected in close consultation with the countries, so as to be constructive in guiding and facilitating results from regional cooperation. The World Bank referred to the presentation of the MI Retreat, which underlined the importance of simple, process indicators reflecting ownership and participation by the CAREC member countries. EBRD noted that the two approaches outlined for preparation of the comprehensive action plan are complementary and could be combined.

B. Capacity Building for Regional Cooperation in Central Asia

25. Mr. David Husband and Mr. George Abonyi, Senior Advisors to the CAREC Program, addressed capacity building for regional cooperation. The presentation outlined the provisions of the ADB TA and reported on the results of the country consultations. Examples of common priorities include: strengthening interest/commitment to cooperation; improved information/analysis; strengthening national focal points; sharing of experience and international best

practices; inter-sector coordination and trade-offs; and training in skills critical to regional cooperation. Four themes were outlined in response to these common priorities, as foundations for a longer-term program of capacity building. In this connection, reference was made to possible additional sources of financing. To strengthen the NFPs, next steps proposed include appointment of domestic consultants to their offices, national coordination workshops, study tours, training programs, equipment purchases, and improved information/analysis support. It was further proposed that a comprehensive review of the OIF be undertaken to improve its effectiveness.

26. The consultative process in formulating capacity building initiatives was widely appreciated and the approach and recommendations generally accepted. Delegates encouraged the Secretariat to formulate proposals for the mobilization of additional resources to support capacity building. The proposal to assess the OIF with a view to improving its effectiveness was accepted.

C. Status Report on Regional Business Roundtable for Central and South Asia

27. Mr. Peter Brimble, Private Sector Specialist, consultant to CAREC, briefed the SOM on the preparation for the Regional Business Roundtable – an initiative designed to enhance the role of the business community in CAREC and other regional initiatives. The RBR is proposed to include the members of CAREC as well as three countries to the south – Afghanistan, India and Pakistan. The business communities of Iran and Russia may be included as observers. The RBR will focus on regional cooperation issues, with an initial focus on energy, transport and trade facilitation. Extensive fact-finding missions found substantial interest in the RBR, both among the public and private sectors. There was general agreement with the proposed areas of focus and the strong need for improved dissemination of information to the business sector on activities and projects under CAREC and other regional cooperation initiatives.

28. The SOM was provided with a Status Report that included sections on the expected benefits and proposed objectives of the RBR, on the proposed issues for consideration at the RBR Preparatory Meeting, on the structure of the RBR Preparatory Meeting, and on the subsequent follow up activities. In particular, it was proposed that the RBR Preparatory Meeting be held immediately prior to the next CAREC SOM, to enable RBR participants to network with the senior officials and to permit a report on the RBR Preparatory Meeting to be presented to the SOM. Subsequently, it is proposed that a report on the RBR be presented to the CAREC Ministerial Conference, possibly following a smaller meeting of selected RBR members.

29. In an active discussion, delegates stressed the importance of the RBR as a two-way channel of information – providing the business communities information on relevant regional cooperation activities and providing policymakers feedback on the programs and projects implemented. Several participants highlighted the need to undertake activities of value to the business community, to provide high-level networking opportunities, and to coordinate RBR activities carefully with those of other related organizations. The possible need to undertake activities to strengthen the business associations in the member economies was raised as a key element of strengthening the business communities. Several commentators emphasized the benefits of involving the foreign business communities in the RBR process.

IV. Session 4: Other Issues

A. Update on the Central Asia Human Development Report and Silk Road Regional Program

30. Mr. Wojciech Hubner, Chief Technical Advisor, UNDP, informed that the Silk Road Regional Programme (SRRP) and the Human Development Report (HDR) for Central Asia are the two regional, UNDP led initiatives implemented under the CAREC program together with ADB and inputs from the World Bank. SRRP aims at capacity building for regional cooperation and development and is attempting to launch/strengthen important long-term processes in three areas: trade development, investment promotion and tourism. One of the central events will be the Silk Road Investment Forum planned for mid-2006, which will be implemented in close cooperation with the CAREC Regional Business Roundtable, and could create a regional tradition with ownership passed over time to governments and business communities of the CAREC countries.

31. Another example of cooperation under CAREC mechanism is the Human Development Report for Central Asia: "Regional Cooperation for Human Development and Security" (to be published in September 2005). The report will analyze the impact of regional integration in Central Asia and explore how regional cooperation will support economic development, improve social welfare, and lower risks of regional instability. It will also inform policymakers in the region and promote dialogue among stakeholders. It will be supplemented by a video documentary, which will make the case for regional cooperation in Central Asia, as well as risks of not cooperating. The video documentary will tell the story through the real life experiences of ordinary people (e.g. a shuttle trader, an HIV/AIDS sufferer, and farmers and villagers of Ferghana Valley).

32. In the discussion, the need to coordinate the Silk Road Investment Forum with the CAREC Regional Business Roundtable was pointed out as well as the necessity of providing efficient coordination mechanism for the program in each country.

B. Arrangements for the September SOM and the 4th Ministerial Conference

33. The Kyrgyz delegation noted that the events of 24 March 2005 in the Kyrgyz Republic have transformed the country. He assured the participants that his government intended to continue honoring obligations to its international partners, including:

- obligations to implement qualitative and quantitative parameters of the state economic programs (CDF, NPRS) including those programs that enjoy MIF support (PRGF);
- obligations pertaining to the completion of structural reforms with the programs sponsored by the World Bank, European Commission, ADB and others;
- obligations related to the completion of projects envisage in the State Investment Program and technical assistance extended by the international community;
- obligations within the Paris Club Agreement on debt restructuring dated March 11.

34. He also assured CAREC partners that the Kyrgyz Republic supports the strengthening of regional cooperation for purposes of achieving sustainable economic growth, improvement of living standards, and reduction of poverty incidence in Central Asia, and would do its utmost to continue fulfilling its obligations in this regard.

35. Delegates agreed that the next SOM and the 4th Ministerial Conference would be convened in end-September and end-October/early-November 2005, respectively, in Bishkek, Kyrgyz Republic.