



CENTRAL ASIA REGIONAL ECONOMIC COOPERATION

Summary of Proceedings Senior Officials' Meeting April 2006

1. A Senior Officials' Meeting (SOM) on Central Asia Regional Economic Cooperation was convened in Urumqi, Xinjiang Uygur Autonomous Region, PRC on 10-11 April 2006. The SOM reviewed the progress made since the 4th Ministerial Conference (MC) held in Bishkek, Kyrgyz Republic in November 2005 as well as sector updates and work plans for the four priority areas: transport, trade policy, trade facilitation, and energy. The SOM discussed ways to accelerate the momentum of regional cooperation including plans for possible program expansion, completion of a comprehensive action plan (CAP), and country ownership. In addition, the SOM discussed proposals to hold a CAREC Business Development Forum, conduct studies on transport and economic corridors, and convene an avian influenza regional roundtable, as well as arrangements for the next SOM and the 5th MC.

2. Delegations were present from the eight CAREC participating countries: Afghanistan, Azerbaijan, People's Republic of China, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan. Representatives from the six Multilateral Institutions (MIs) including the European Bank for Reconstruction and Development, International Monetary Fund, Islamic Development Bank, United Nations Development Programme, and World Bank contributed to the proceedings.

3. Mr. Ju Kuilin (Deputy Director General, International Department, Ministry of Finance, PRC) chaired the SOM. In his welcoming remarks, Mr. Ju noted that Xinjiang UAR is the PRC's gateway to Central Asia, South Asia, and Europe. In reviewing CAREC's accomplishments since the previous MC, Mr. Ju complimented the many projects underway and the principles of partnership and consensus and the pragmatic and results-oriented focus which have served this still young program so well. He suggested two important results of the SOM: (i) a clear process for completing the CAP for endorsement at the next SOM and approval by the 5th MC, and (ii) guidance on proposed inclusion of agriculture, environment, human development and tourism as new program areas. Mr. Ju reaffirmed his Government's strong commitment to cooperation with Central Asian countries and its firm support for CAREC.

4. Mr. Yao Xianbin (Deputy Director General, East and Central Asia Department, ADB) co-chaired the meeting. Mr. Yao expressed high appreciation to the PRC Government and the Xinjiang UAR authorities for hosting the SOM and other CAREC meetings on trade policy, trade logistics, and energy in Urumqi over the past week. He reviewed the challenges and decisions before the SOM as reflected in the agenda, emphasizing that the program must remain focused and results-oriented. By building on the base already established, Mr. Yao said CAREC will broaden and deepen the scope for regional cooperation.

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

5. Mr. Craig Steffensen (Head, CARECU, ADB) provided an overview of the CAREC Program. Mr. Steffensen emphasized that CAREC represents a true, robust development partnership; a concrete example of countries and institutions cooperating to achieve ownership, harmonization, alignment, results and mutual accountability. Mr. Steffensen

explained the recent expansion of the CAREC Unit and thanked the MI Working Group for their excellent teamwork.

6. Mr. Zhang Yuebin (Director, International Department, Ministry of Finance, PRC) was invited by the co-chairs to provide on their behalf an update on CAREC activities in priority areas since the 4th MC, drawing attention in each case to the ministerial instructions, the main focus initiatives, the resource commitments for 2006-2008, and questions and issues for consideration of the SOM.

7. **With regards to the transport sector**, Mr. Zhang noted the Ministers' endorsement of the Transport Sector Roadmap (2005-2010), with the goal of developing an integrated and efficient multi-modal transport system for the region. He reported on the 5th Transport Sector Coordinating Committee (TSCC) Meeting held 15-16 March 2006, which agreed to undertake the following activities for presentation at the 6th TSCC: (i) update the Central Asia Regional Transport Sector Roadmap (2005-2010) by including the civil aviation subsector, (ii) revise the action plan for harmonizing regional transport regulations and cross-border agreements, and finalize the action plan at the 6th TSCC, (iii) ADB will prepare and present the findings of the prefeasibility study on improving selected regional road corridors for presentation at the 6th TSCC, (iv) update the MI assistance program for regional transport infrastructure investments and technical assistance for 2006-2007, and extend the program to cover 2008-2009, (v) finalize the technical assistance proposal and, subject to ADB management approval, start implementing ADB's TA for regional road funding and management, and (vi) initiate discussion on study on restructuring and modernizing the railway subsector in CAREC countries. Mr. Zhang noted an updated MI assistance pipeline for regional transport projects for 2005-2007 with loan assistance totaling \$1.7 billion.

8. Mr. Zhang raised a number of transport-related questions and issues for consideration of the SOM, including whether more resources should be directed to railway and air modes of transport, and possible integration of country transport strategy studies, and economic and transport corridor studies, to formulate a strategic framework for the transport sector to 2010. He also noted the need for "bold strokes" and for performance indicators to help monitor progress and accelerate actual outputs and outcomes. CAREC countries and the MIs need to mainstream regional cooperation considerations into transport programming.

9. **With regards to the energy sector**, Mr. Zhang referred to the Ministers' request at the 4th MC that the terms of reference for the Energy Sector Coordinating Committee (ESCC) be finalized and to broaden the scope of activity to include oil and gas, energy efficiency, and opportunities afforded by the Clean Development Mechanism of the Kyoto Protocol. He summarized the 4th meeting of the ESCC, held 9 April 2006 in Urumqi, which included a comprehensive progress report by the World Bank on energy sector activities and the status of regional projects in CAREC countries. The ESCC finalized and adopted its terms of reference. The ESCC's work program for 2006-2007 includes a study on available options for the movement of primary energy commodities from Central Asia, outreach seminars on opportunities available under the Clean Development Mechanism of the Kyoto Protocol, and preparations for recommendations regarding an advisory strategic framework for the energy sector.

10. Mr. Zhang emphasized the importance of the ESCC's activities with regards to energy efficiency, which directly relates to the need of all CAREC countries for continued institutional strengthening and regulatory reforms. He noted the advisory strategic framework for the energy sector as an input to the CAREC Comprehensive Action Plan, and possible inputs by the ESCC to the CAREC Business Development Forum. Mr. Zhang reported that the MIs have approved or plan 10 loans for regional energy projects for 2006-2008, totaling about \$950 million.

11. **With regards to trade policy**, Mr. Zhang cited Ministers' support at the 4th MC for outreach seminars by the Trade Policy Coordinating Committee (TPCC) and the request to monitor implementation of the six recommendations of Senior Officials aimed at reducing the barriers to transit trade in Central Asia. He also cited the Ministers' recommendation for further analytical work on removing barriers to cross border trade, and new work on trade taxes and quantitative restrictions.

12. Mr. Zhang reported on the meeting of the TPCC held 8 April 2006 in Urumqi, which included review of progress to date in implementing the recommended measures for reducing the barriers to transit trade. Despite the short time that has passed since the 4th MC, each of the CAREC countries reported a variety of measures designed to liberalize and facilitate trade. The TPCC also discussed an EBRD report on intra and inter-country price differentials in Central Asia, a presentation by Kazakhstan on barriers to border trade, and outreach seminars by the IMF and ADB. The TPCC work program for 2006 includes: continued monitoring of measures to reduce barriers to transit trade; continued study of barriers to border trade (led by Kazakhstan and supported by ADB); a study quantitative restrictions to trade (led by ADB with input of CAREC countries); a study on trade taxes (led by IMF); and continued outreach activities. As a result of its deliberations, the TPCC made three recommendations for consideration of the SOM: (i) greater predictability and more transparency of trade policies through more information and closer monitoring of changes in policies; (ii) more interaction between the TPCC and TFC and closer cooperation among officials dealing with these issues in each country; and (iii) more involvement and participation of the private sector in CAREC activities. Mr. Zhang concluded his review of trade policy by emphasizing the need to accelerate reductions in barriers to trade and WTO accession for CAREC countries.

13. **With regards to trade facilitation**, Mr. Zhang cited the Ministers' endorsement at the 4th MC of the work plan of the Trade Facilitation/Customs Cooperation Committee (CCC) for 2006, including continued promotion of bilateral cooperation initiatives, training and regional knowledge forums, and broadening the program in partnership with private sector and other stakeholders. Ministers had also noted the need for establishment of national interagency coordinating mechanisms.

14. Mr. Zhang reported on activities of the since the 4th CCC meeting in September 2005: (i) knowledge forums in the Republic of Korea, Singapore, and Urumqi on various aspects of trade facilitation, trade logistics and e-governance; (ii) bilateral and in-country activities for customs modernization and other trade facilitation measures; and (v) several publications (e.g., TIR Customs Transit System). He noted other activities related to trade facilitation, including advisory services and guarantees for trade finance (EBRD) and the Silk Road Programme (UNDP). Upcoming regional activities include seminars in Tokyo and Urumqi. The 5th meeting of the CCC meeting will be held in Astana in September 2006, during which country delegations will discuss their priority areas. A draft Trade Facilitation and Customs Cooperation Strategy paper will also be discussed. For 2006-2008, the MIs have provided for one loan and one grant totaling \$35 million in support of trade facilitation.

15. In his concluding remarks, Mr. Zhang drew attention to the plans of the MIs to commit \$2.2 billion to regional transport, energy and trade initiatives during 2006-2008. To employ these resources effectively will require greater inter-agency and inter-sector coordination regarding trade policy, trade facilitation, and transport. There also needs to be greater coordination with other international development partners and regional organizations. Most importantly, CAREC countries and partner MIs need to accelerate the momentum of regional cooperation, upgrading the CAREC Program from a "four cylinder engine to a six or eight cylinder engine".

16. The SOM Chairman thanked Mr. Zhang for his succinct yet comprehensive update of CAREC activities in priority areas. The SOM endorsed the following: the TSCC's work plan for 2006 and extension of the Transport Road Map to include civil aviation; the ESCC's finalized terms of reference and work plan for 2006-2007 adopted during its April 2006 meeting; the TPCC's work program for 2006 and the three recommendations of the TPCC adopted during its April 2006 meeting; and the activities of the CCC underway or scheduled for 2006, and the agenda for its 5th meeting in September 2006.

II. Session 2: Accelerating the Momentum of Regional Cooperation

17. Mr. Nodir Safaev, Regional Cooperation Advisor, Uzbekistan, presented progress to date in preparing a Comprehensive Action Plan (CAP) for the CAREC Program. He cited the Ministers' request for a strategic framework of expected outputs and outcomes for regional cooperation over the medium term. To this end, top-down and bottom-up approaches to preparation of the CAP are being taken. The top-down approach involves consensus on goals and objectives of the CAREC Program, expected medium-term outputs and outcomes, the priority actions, investments and "bold strokes" to achieve these outcomes, and the performance indicators for driving and monitoring progress. In-country and regional workshops will be conducted within the next 2-3 months to ensure the input and full participation of each CAREC country.

18. Mr. Safaev also outlined the bottom-up approach, the first component of which is a clear appreciation of each country's development plans and major infrastructure investments related to regional cooperation. CAREC countries are requested to provide a 2-3 page summary within the next 2 months, assisted by the regional cooperation specialists. The second component of the bottom-up approach is a comprehensive development matrix detailing the projects/initiatives of CAREC's MI partners for 2006-2008, and a synthesis of other regional cooperation initiatives. The MIs were requested to provide the relevant material to the CAREC Secretariat within the next month. Mr. Safaev noted that the draft CAP should be completed by mid-July 2006, to allow consideration by the SOM scheduled for August.

19. Mr. Simon Kenny, Regional Program Coordinator, Central Asia Regional Office, World Bank, encouraged SOM participants to comment on expected program results, and the performance indicators that would allow monitoring of targeted outputs and outcomes. He also noted that the top-down approach to regional cooperation implies considerable openness in sharing information, and the risk of unrealistic targets. While the bottom-up approach may be seen as more pragmatic, it runs the risk of being country based rather than regionally integrated. A mix of the two approaches is needed. Mr. Kenny encouraged the country delegations to agree on 2-3 "bold strokes" for demonstrating major progress in regional cooperation.

20. Country delegations expressed appreciation for the CAP progress report and undertook to provide inputs on a priority basis. It was recommended that the CAP be medium-term, focusing on the next 3-5 years. The importance of in-country and regional workshops was emphasized. Participants agreed that the principals of consensus, pragmatism and results must guide preparation of the CAP, which should be simple in design and applicable in practice. Performance indicators should be limited in number.

III. Session 3: Possible Areas for CAREC Program Expansion

21. Mr. Chen Huan (Director, International Department, MOF, PRC) was invited by the co-chairs to present on their behalf. Mr. Chen noted that Ministers at the 4th MC had

expressed interest in broadening and deepening the CAREC Program to include new sectors. More recently, PRC officials had proposed that consideration be given to including agriculture, environment, human development and tourism initiatives as new priority areas. Mr. Chen briefed participants on the concept papers prepared for each of these areas, which provide basic information relevant to deciding whether or not one or more of these areas should be included in the program. There was consensus among the delegates that the proposed expansion into possible new program areas would be contingent upon the availability of staff and financial resources to support activities in these sectors, and subject to maintaining the practical, results- and consensus-based approach to regional economic cooperation that characterizes the CAREC Program. It was further agreed that the CAREC Secretariat will survey and consult with the national focal points in CAREC countries on broadening and deepening of the program, and report to the SOM in August 2006 on the way forward. This should include clear advice concerning focus and specialization in possible new program areas.

IV. Session 4: Special Presentation on Developments in Xinjiang UAR

22. Mr. Su Guo (Deputy Director General, Xinjiang UAR Development and Reform Commission) provided an excellent review of recent developments in Xinjiang UAR, highlighting the extraordinary growth in recent years. Xinjiang UAR serves as PRC's gateway to Central Asia and trade between the two areas is growing rapidly. Mr. Su Guo concluded that there are bright prospects for future cooperation between PRC and Central Asia. It was agreed that presentations of developments in the host country should become a regular feature of SOMs, so as to increase understanding among CAREC countries.

V. Session 5: Other Program Activities for 2006

A. CAREC: Proposed Business Development Forum

23. Ms. Rika Ishii (Principal Economist, Office of the Chief Economist, EBRD) briefed the SOM on a proposal to convene a CAREC Business Development Forum – an initiative designed to examine the region's priority investment opportunities and how to overcome the existing obstacles to investment in the energy, transport, finance, and tourism and related services sectors. SOM participants highlighted the need to identify possible investment projects, including private-public sector partnerships, as well as trade issues including identification of trade barriers. Participants stressed the importance of the BDF as a way of deepening awareness and understanding of the region and drawing attention to the wide range of investment opportunities. The need for improved dissemination of information to the business sector on CAREC projects and activities was also recognized. It was proposed that the BDF be held immediately prior to the 5th MC, to allow for high-level networking opportunities and to permit a report on BDF outcomes to be presented to the 5th MC.

B. Proposed Study on Economic Corridors

24. Mr. Nik Zainal Abidin (Director, Regional Office in Almaty, Islamic Development Bank) presented the concept of "economic corridors," 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. Participants encouraged that further study be undertaken on the potential for economic corridors and the possible inclusion of this subject in the CAREC Program. The MIs agreed to pursue a collaborative approach in this regard.

C. Human Development Update and Proposed Avian Influenza Roundtable

25. Mr. Peyvand Khaleghian (Health Specialist, World Bank) reviewed existing regional cooperation activities on human development in Central Asia, both bilateral and multilateral.. Many areas of regional cooperation were outlined including rural health care, health finance, and tertiary education. He suggested that particular attention should be paid to regional public goods, most importantly disease surveillance but also potentially other areas such as labor market standards. With regards to disease surveillance, Mr. Khaleghian noted that the chain of control is only as strong as the weakest link, and that disease surveillance is an area where regional cooperation is essential, not just desirable. Specific areas for action could include improved data exchanges, agreement on common standards, definition and approaches, and sharing of experiences and best practices.

26. Mr. Yon Fleerackers (ADB consultant/infectious disease specialist) introduced the proposed "Central Asia Roundtable Meeting on Avian Influenza Control and Human Influenza Pandemic Preparedness and Response", to be held on 12-13 June in Almaty. This roundtable intends to strengthen collaboration and cooperation at the regional level, in line with global initiatives to streamline and strengthen the control of these diseases. The roundtable is led by governments in the region and coordinated by the ADB in collaboration with many multilateral and bilateral development partners. Participants recognized the threat that avian influenza poses and the need for coordinated control, preparedness and response efforts. Azerbaijan requested that it be invited to participate in the roundtable discussion. The World Bank informed participants that it administers \$500 million on behalf of the international community to assist countries with their response; Kyrgyz Republic, Azerbaijan and Tajikistan are early beneficiaries of these funds.

VI. Session 6: Proposed Theme and Key Messages for the 5th MC and Organizational Arrangements for CAREC Events in 2006

27. Mr. Ju Kuilin proposed that the long-term vision statement for the CAREC Program should be “Good Neighbors, Good Partners, and Good Prospects.” He also proposed that the theme for the 5th MC should be “Partnership for Development.” Further, he proposed key messages to guide discussions at the 5th MC including the need to: (i) accelerate the momentum of regional cooperation, (ii) mobilize more technical and financial resources, (iii) develop strategic frameworks for each priority area, (iv) complete the CAP, (v) identify “bold strokes”, (vi) push the frontiers of economic cooperation (e.g., economic corridors), (vii) expand outreach activities, and (viii) engage the private sector in CAREC. Participants endorsed these suggestions.

VII. Session 7: Summary of MI Working Group Retreat

28. Ms. Christine Roth (Director for Central Asia, UNDP) reported on the results of the MI Working Group Retreat on 9 April in Urumqi. The strong commitment of the MIs within the context of CAREC was noted including the need for a highly coordinated approach to achieve program synergies. The MIs believe it is important that regional cooperation initiatives are at both the project and policy level. They also believe that while regional

cooperation is difficult and costly at times, the costs of non-cooperation are much higher. Ms. Roth underscored the principle of country ownership and the critical need for CAREC countries to assume a strong role in formulating the CAP. Ms. Roth emphasized the importance of outreach activities and the role of CAREC in improving the understanding of the international community regarding the challenges and opportunities for Central Asia. Participants expressed appreciation for the support and guidance of the MIs in strengthening the development process and reducing poverty in the region.

VIII. Closing Session

29. SOM participants agreed that Central Asia is a strategic crossroads for trade, linking the PRC, Russia, Europe, South Asia and the Middle East. Through coordinated action, Central Asian countries can convert their landlocked status to their advantage, becoming once again the land bridge of Silk Road legend. CAREC's consortium of countries and development partners is well designed to help the region overcome the barriers to trade and the impediments to development. Over the past year, the consortium has grown stronger and its objectives clearer. By working together, CAREC is helping Central Asia reach its considerable potential. Step-by-step, trade, transport and energy initiatives are reintegrating the region and interconnecting it to global markets. CAREC stands as a strong example of practical, results-oriented regional economic cooperation.

30. Participants expressed high appreciation to the PRC Government including the Ministry of Finance and the Xinjiang UAR authorities for their very warm hospitality and the excellent meeting arrangements.