

# Executive Summary

**S**uccessful regional cooperation is a crucial element in the future peace and prosperity of Central Asia. Sharing their rich human and natural resources and establishing efficient transport links within the region and beyond are the keys to achieving sustainable economic growth and to improving living standards.

The Asian Development Bank (ADB) began the Central Asia Regional Economic Cooperation (CAREC) program in 1997. Member countries are the People's Republic of China (PRC), primarily the Xinjiang Uygur Autonomous Region, Mongolia, and five of the six Central Asian republics (CARs) namely Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan. Turkmenistan has not yet joined. CAREC is also an alliance of institutions that support regional cooperation including the European Bank for Reconstruction and Development, the Islamic Development Bank, the International Monetary Fund, the World Bank, and the United Nations Development Programme. This first Regional Cooperation Strategy and Program (RCSP) will focus future ADB assistance on regional cooperation.

## Rationale

Before independence, the CARs were a unified market and were integrated into the production and trading network of the Soviet economic system. All borders were completely porous. Their employment, income, and social indicators were broadly middle income. Poverty was virtually unknown. After independence, national borders and import controls converted these countries into small, segmented market economies with limited growth potential. Intra-regional trade declined by nearly 50% from 1992–2002, export earnings were disrupted, and

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incomes declined precipitously. Nearly a third of the population slipped into poverty, and social indicators deteriorated sharply. Robust recovery began in 1999 with an upturn in the Russian economy reinforced by the continued boom in the PRC and significantly higher international hydrocarbon and commodity prices. Regional economic growth averaged 7.9% annually from 1999–2003, but it was largely confined to extractive sectors and to specific regions. As a result, income inequalities across the region and within countries have increased, and poverty is becoming entrenched in some places.

Poverty can only be reduced through rapid, sustained, broad-based, pro-poor economic growth through expanding exports, developing private enterprise, and increasing investment in areas currently excluded from economic gains. The share of the private sector in the gross domestic product has increased dramatically; however, most of this progress is connected with privatization rather than with private investment. Most of the significant private sector investments have been in the extractive sectors with few if any links to the rest of the economy. The near absence of foreign investor interest outside the natural resource sectors points to fundamental impediments to private sector development.

Regional cooperation is required for the countries to prosper, for poverty to be reduced, and for the Millennium Development Goals to be achieved. Regional cooperation has, however, had a mixed track record. The perception exists that benefits from regional projects do not match the efforts required to prepare them and that rewards are uncertain and unequally distributed. In addition, national sovereignty and self-reliance have taken precedence.

## **The CAREC Program**

Over the past 7 years, ADB's support to the CAREC program has focused on promoting regional cooperation with achieving tangible results that will establish a foundation for future progress. It has been both pragmatic and project oriented. The long-term cooperation framework has four strategic objectives, namely:

- securing access to profitable markets for exports in large neighboring countries;
- reducing transaction costs and facilitating transit and transport across the region;
- improving energy supplies for sustaining growth;
- preventing negative regional outcomes such as degradation of the environment, desertification, human and drug trafficking, and the spread of communicable diseases.


This RCSP comprises two components. The core program will continue to focus on energy, transport, and trade facilitation projects with tangible, equitable, positive results to secure better access to outside markets and to link the region to neighboring economies such as Afghanistan. Maintaining adequate capacity in these sectors is essential for private sector small and medium enterprise growth that will generate employment and reduce poverty. Regional infrastructure developed during the Soviet period is in disrepair; its rehabilitation and expansion is best undertaken regionally to attract foreign direct investment. Without regional infrastructure and streamlined regulatory frameworks for trade and transit, CAREC countries cannot expect to expand trade with larger neighboring economies.

The second component is an expanded program of regional cooperation designed to forge partnerships with other development agencies to take advantage of emerging opportunities. Over the past 10 years, the international community has actively supported initiatives for regional cooperation among the CARs. Donors have recognized the need for effective and sustained coordination and have agreed to join the CAREC program. In future, CAREC will also coordinate more closely with regional organizations such as the Shanghai Cooperation Organization and the Central Asia Cooperation Organization. Technical assistance from ADB will build a regional poverty database and will explore possibilities for intervention in areas such as water resources, land management, and environmental protection.

To date, ADB has funded five investment projects

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amounting to \$224.1 million. Since 2000, a total of \$8.7 million has been provided in 14 technical assistance grants in priority areas: \$3.1 million for regional power and gas transmission, \$3.0 million for trade facilitation and customs reform, and \$2.6 million for regional transportation projects. A series of 7 regional technical assistance projects amounting to \$6.1 million will further support project implementation. The program for 2004–2006 includes 14 projects with loans of \$295.3 million and 33 technical assistance projects worth a total of \$18.5 million. Cofinancing will be sought as needed. The principal risks to the program are lack of government ownership and scarce resources; they are significant but manageable.

An aerial photograph of a vast mountain range in Central Asia. The mountains are rugged and brownish-tan, with deep shadows in the valleys. A large, bright blue reservoir is situated in a valley, surrounded by steep slopes. The sky is clear and blue. A yellow text box is overlaid on the bottom left of the image.

Glaciers atop the Central Asian mountains release water which turns downstream deserts into blossoming oases and offers vast hydroelectric potential.