



**CENTRAL ASIA REGIONAL ECONOMIC COOPERATION**  
**Summary of Proceedings**  
**Senior Officials' Meeting**  
**September 2007**

**A. Introduction**

1. A Senior Officials' Meeting (SOM) of the Central Asia Regional Economic Cooperation (CAREC) Program was convened in Manila, Philippines, on 8-9 September 2007.<sup>1</sup> The SOM was characterized by open and detailed discussion focused on (i) draft sector strategies for transport and trade facilitation; (ii) sector updates for energy and trade policy; (iii) a draft prospectus for the CAREC Institute; and (iv) preparations for the 6<sup>th</sup> Ministerial Conference (MC) planned for November 2007 in Dushanbe, Tajikistan. The SOM also heard special presentations by Dr. Asad Ali Shah, Member (Infrastructure) of the Planning Commission, Government of Pakistan, on development of "Pakistan's National Trade Corridor Program"; and by Dr. Johannes Linn, CAREC Special Advisor, on "Regional Cooperation Experiences Elsewhere—Lessons for CAREC". Comments on and suggested revisions to this Summary of Proceedings will be accepted until 21 September 2007, after which a final Summary of Proceedings will be sent to country delegations.

2. The SOM was chaired by Negmatjon Buriev, Senior Advisor to the President on Economic Policy, Tajikistan, and co-chaired by Xianbin Yao, Deputy Director General, Central and West Asia Department, Asian Development Bank (ADB).

**B. Discussions**

**1. Transport**

3. A draft Transport Sector Strategy (TSS) was presented to the SOM. The TSS aims to support CAREC's long-term vision of "Good Neighbors, Good Partners, and Good Prospects" through the development of dependable, efficient, competitive and fully integrated transport operations and infrastructure to support the social and economic development of the CAREC region. The TSS is built on three pillars—infrastructure, management, and technology—to ensure balanced transport performance across the CAREC region. The TSS has three overarching goals: (i) to establish competitive transport corridors across the region; (ii) to facilitate efficient movement of people and goods across borders; and (iii) to develop safe, people-friendly transport systems. Six main transport corridors are identified in the Strategy.<sup>2</sup>

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<sup>1</sup> Delegations were present from the eight CAREC participating countries: Afghanistan, Azerbaijan, People's Republic of China (PRC), Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan. A representative of Turkmenistan attended as an observer. Representatives from the six partner multilateral institutions (MIs)—Asian Development Bank, European Bank for Reconstruction and Development, International Monetary Fund, Islamic Development Bank, United Nations Development Programme, and World Bank—contributed to the proceedings.

<sup>2</sup> Corridor selection was based on the principle of inclusion of at least two CAREC countries. The following criteria were used in assessing possible corridors: (i) current traffic volume; (ii) prospect of economic and traffic growth; (iii) ability to increase connectivity between regional economic and population centers; (iv) prospect of mitigating delays and other hindrances at cross borders such as the number of cross-border points and number of gauge changes, and; (v) economic and financial sustainability of infrastructure, management, and technology improvements.

- CAREC 1: Europe–East Asia
- CAREC 2: Mediterranean–East Asia
- CAREC 3: Russian Federation–Middle East and South Asia
- CAREC 4: Russian Federation–Xinjiang Uygur Autonomous Region, PRC
- CAREC 5: East Asia–Middle East and South Asia
- CAREC 6: Europe–Middle East and South Asia.

4. In addition to comments received<sup>3</sup> on the TSS during a meeting of the CAREC Transport Sector Coordinating Committee on 6 September 2007 (see Attachment 1), a number of suggestions were made for consideration in finalization of the TSS: (i) a request to consider inclusion of the north–south corridor in Tajikistan; (ii) a request to consider inclusion of the north–south corridor through Ulaanbaatar, Mongolia; (iii) a request for technical assistance support for the PRC–Kyrgyz Republic–Republic of Uzbekistan railway project; (iv) a suggestion to ensure due consideration of the importance of major ports in Pakistan and Iran for the CAREC transport corridors; (v) a recommendation to improve coordination between the TSS and the Trade Facilitation Strategy; (vi) and the need to pursue public–private partnership opportunities in the transport sector. The SOM expressed in principle its support for the draft TSS and agreed an updated draft will be shared with CAREC countries prior to submission to the 6<sup>th</sup> MC for endorsement.

## **2. Trade Facilitation**

5. A draft Trade Facilitation Strategy (TFS) was presented to the SOM. The vision of the TFS is sustained economic growth and improved living standards through the expansion of interregional and intraregional trade. This will be supported by achieving a significant reduction in transaction costs and time by improving administrative efficiency and simplifying, standardizing and improving trade procedures; by encouraging the free movement of goods and business people; and by promoting the transparency of laws, regulations and procedures. The TFS is comprised of three components aimed at reducing trade costs: (i) promoting concerted customs reform and modernization; (ii) supporting an integrated trade facilitation approach through interagency cooperation and public-private partnerships; and (iii) promoting efficient regional logistics development.

6. A key feature of the TFS is to concentrate trade facilitation reforms along the designated CAREC transport corridors (see para. 3). The TFS also proposes a results-based approach to monitor travel time and costs along the priority corridors, and envisages strengthening interaction with both international technical agencies and regional organizations.

7. The draft TFS was considered at the Sixth Meeting of the Customs Coordinating Committee (CCC) on 6-7 September 2007 (see Attachment 2). The CCC broadly endorsed the key elements of the TFS and recommended that a time-bound action plan be prepared for implementation of the TFS. The SOM endorsed the draft TFS and requested the secretariat to include a time-bound action plan and to incorporate the range of views expressed by delegations. Guidance from the SOM included placing emphasis on the role of trade facilitation in improving the competitiveness of CAREC countries' goods and services; the need to take account of the different level of development of CAREC countries; the desirability of coordinating with non-CAREC neighboring countries and subregional organizations; assuring integrity issues more explicitly; supporting bilateral agreements and accession to multinational

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<sup>3</sup> (i) CAREC 3: Herat-Delaram-Zaranji in Afghanistan; (ii) CAREC 1: link to Issyk-Kul Lake; (iii) CAREC 3: Dushanbe-Nizhni Pianj-Kabul; (iv) CAREC 5: PRC-Khorog-Dushanbe-Nizhni Pianj; and (v) CAREC 6: the Tashguzar-Baisun-Kumkurgan railway, through Tashkent and Havast, to the Tajikistan border.

agreements; improved coordination among CAREC sector committees; the importance of supporting logistics development; and the importance of improving national coordination of the range of agencies involved in trade facilitation.

8. The SOM welcomed the PRC's offer of organizing customs training in cooperation with ADB, and PRC's intention to move forward on its accession to the TIR convention. The SOM also welcomed the initiative by Kazakhstan on the development of a "safe packet" system to simplify and accelerate the movement of goods across borders with neighboring countries, and the plans of Kyrgyz Republic to develop a single electronic window. UNDP confirmed it stands ready to actively support implementation of the strategies.

### **3. Energy**

9. The SOM reviewed and recognized the progress of energy sector activities since the March 2007 SOM (Attachment 3). The SOM looked forward to the discussions of the draft CAREC Energy Sector Strategy at the meetings of the Energy Sector Coordinating Committee (ESCC) and CAREC Members' Electricity Regulators Forum in Ulaanbaatar on 10-14 September 2007 and to receiving an updated strategy for the next SOM in Dushanbe.

10. The PRC and Kazakhstan delegations committed to ensure, upon their return to their countries, that their respective contributions of their national-cum-regional strategies to the formulation of the CAREC Energy Sector Strategy would be made as soon as possible.

11. The Uzbekistan delegation expressed its concern that several new hydropower projects that could have an impact on downstream riparians (Kazakhstan and Uzbekistan) were being considered by the upstream countries (Kyrgyz Republic and Tajikistan), and requested that the development of such facilities be carried out with full consultations of those countries in accordance with applicable international conventions, recognizing the transboundary nature of the water bodies on which the proposed projects are being considered.

12. The Tajikistan delegation informed the SOM that Tajikistan has decided to pursue the development of the Rogun hydro power project with its own resources. Tajikistan has requested the World Bank to take the lead in helping the conduct of a feasibility study for such projects and the country is committed to observing international standards and norms as required by the World Bank and other international financial institutions (IFIs). Tajikistan also invites neighboring countries to join the international consortium to be established to complete the construction of the Rogun hydro power project.

13. Annette Dixon, Country Director for Central Asia, World Bank, responded that the development of new hydro projects is indeed sensitive and therefore should be handled very carefully. Recent discussions with the leaderships in the countries confirmed that the countries are looking for the World Bank to play an independent technical and economic expert role in the development of these projects, which the World Bank is willing to do together with the other IFIs. In addition to consultations with riparians as early as possible in the process of developing these projects, World Bank would require compliance with its Safeguards Policies (including environmental and riparian policies) before a project can be approved for financing.

14. The SOM gave the following guidance to the upcoming discussions on the CAREC Energy Sector Strategy: Complementarity (in terms of resources, sequencing, timing of trade etc) and consultations should be the watchwords in the formulation of the strategy. In addition, the ESCC meeting in Ulaanbaatar should be seen as the beginning of the discussions of the strategy, which should be followed by bilateral consultations in individual countries. This should

be followed by discussion at the SOM and MC level; and whatever time is needed to form a consensus should be taken.

#### **4. Trade Policy**

15. The SOM was briefed on the training seminar for officials from CAREC countries that was conducted in June 2007 and the outcome of the Seventh Trade Policy Coordination Committee (TPCC) meeting that was held on 6 September 2007. During the TPCC meeting, delegates discussed findings and the policy recommendations of papers on barriers to border trade and on quantitative restrictions (QRs) in CAREC countries; reflected further on the content and the preparation process of the Trade Policy Strategic Action Plan (TPSAP); and gave guidance on priorities to the TPCC's work program.

16. With a view to reforming the border trade regimes in Central Asia, the TPCC made recommendations on operation of border crossing points, on movement of motor vehicles, on movement of people living in contiguous areas, and on movement of goods among contiguous regions. These recommendations are listed in Attachment 1 of the TPCC status report (Attachment 4).

17. With regard to QRs, the TPCC recommended the following measures: (i) continue reducing QRs and replacing them by tariff measures, which will also facilitate World Trade Organization (WTO) accession; (ii) consider QRs only if a total ban is called for, but when banning domestic consumption do not differentiate between imported and domestically produced goods; (iii) publish all existing and newly introduced QR related regulations; and (iv) when abolishing QRs, terminate the bureaucratic arrangements that accompany them.

18. With regard to the TPSAP, the TPCC recommended that: (i) the long-term objective should be trade openness in the region, contributing thereby to development and poverty reduction. WTO accession for all CAREC countries should be a key goal of the TPSAP; (ii) the strategic elements of the TPSAP should be drawn from the recommendations of studies on transit trade, trade taxes, border trade, and QRs; (iii) the TPSAP should include short-term and medium-term objectives; (iv) capacity building should be a major element of the TPSAP; (v) and performance/outcome indicators should form a critical component of the TPSAP and should be specific, monitorable, and limited in number.

19. With regard to the future work program, the TPCC recommended that it should include: (i) preparing the TPSAP with a view to having the first draft ready for discussion at the Spring 2008 meeting of the TPCC; (ii) monitoring of the recommendations related to reform of the trade tax systems and having the first report ready for the Fall 2008 meeting of the TPCC; (iii) contributing to capacity building and information sharing on WTO-related issues; (iv) undertaking a comprehensive assessment of preferential trade agreements in the CAREC region; (v) monitoring implementation of the recommendations related to cross border trade (based on reports from the World Bank); and (vi) monitoring implementation of the recommendations related to QRs.

20. The recommendations of the TPCC's status report were broadly endorsed by the SOM. In view of the concerns expressed by the Uzbekistan delegation with regard to the accuracy of the information regarding QRs in their country and the inclusion of border trade in the TPSAP, the SOM recommended that further consultations be undertaken with Uzbekistan authorities and the implementation of the policy recommendations with regard to border trade be optional. The PRC delegation also expressed its willingness to offer training in cooperation with ADB on

issues of importance to the TPCC, including, but not limited to, WTO accession. The Mongolian delegation expressed an interest to be included in the border trade study.

## **5. CAREC Institute Prospectus**

21. A draft CAREC Institute Prospectus was presented to the SOM. The CAREC Institute's purpose is to build stronger capacities for regional cooperation in Central Asia. Capacity building will be undertaken through the Institute's three main activities: training for government officials and other stakeholders, research on regional cooperation, and outreach. The prospectus recommends a virtual set-up of the CAREC Institute for the initial three years of operations and linking it with the CAREC Unit of ADB for management under the overall umbrella of the CAREC Secretariat. In its virtual form, the Institute would contract out its training and research initiatives to local and international institutions, often with twinning arrangements for greater capacity building and knowledge transfer. The CAREC Institute would retain a small professional and support staff. Financing in the initial period is envisioned from ADB, other multilateral institutions, willing CAREC countries, and others. The first three-year period budget is estimated at \$3.85 million. After three years, the prospectus recommends that an assessment be made of the virtual CAREC Institute to examine how well it has performed, the impact of outputs, current demand for its activities, and the most appropriate future institutional arrangement.

22. All participating countries endorsed the CAREC Institute Prospectus and its envisaged contributions towards greater capacities for regional cooperation in Central Asia. The proposed strategy of making use of existing institutions in the region for implementing the CAREC Institute's activities is seen by the participating countries as an effective way forward. Countries noted they would consider how best they could contribute to the work and financing of the Institute and inform the Secretariat as details of the Institute's work plan are finalized. The participating countries would like to see more details of how much ADB and other multilateral institutions would commit to the projected initial three-year budget of the Institute. The SOM agreed to submit the proposal for the CAREC Institute to the 6<sup>th</sup> MC for endorsement.

## **6. Other Business**

23. The SOM was updated on (i) progress in the five second tier areas (human development, environment, agriculture, tourism, and disaster management and preparedness); (ii) the ongoing small research grants program; (iii) outreach activities; (iv) a proposed CAREC Development Partners' Forum; (v) and a proposed procedure for application for participation in the CAREC Program. Delegations appreciated the second tier activities under way but emphasized the importance of remaining focused on the three CAREC priority areas of transport, energy and trade. The SOM expressed general approval of the proposed Development Partners' Forum and requested further consideration of questions related to its timing and scope of participation. Delegations noted the importance of open participation. Delegations also expressed general approval of the proposed procedure for applications to participate in the Program but noted that participation should be pursued step-by-step and on a consensus basis, and that the MC is the appropriate body to take decisions related to new participants. Delegations reiterated their continued interest in the participation of Turkmenistan and the Russian Federation. Several delegations suggested that PRC participation in CAREC be expanded to include Inner Mongolia Autonomous Region, PRC, and that Pakistan and/or Iran should be invited to participate. The delegation from Turkmenistan noted that it would inform the Government of the invitation.

## 7. Special Presentations

24. Dr. Shah presented a comprehensive introduction to Pakistan's National Trade Corridor Program. The NTC Program aims to evolve a strategic plan to tackle logistics and business development to contribute to economic growth and enhanced regional connectivity. It involves upgrading transport infrastructure and world-class support services such as shipping, freight management, trucking, insurance, banking, customs clearance and border terminals. The NTC also focuses on bringing about substantive and qualitative changes to the industrial and services base by better economic mix to promote value addition, job creation and poverty reduction. A quantum leap in regional trade, particularly with Central Asian Republics (CARs), is planned.

25. The NTC development adopts a holistic and integrated approach to reduce the cost of doing business by improving trade logistics to international standards. The NTC development covers restructuring and modernization related to highways, trucking, railways, trade facilitation, ports, aviation and airports, and cold chain development. The first phase of the NTC Program, covering the next five-year period, is estimated to cost \$6 billion.

26. The challenges and next steps cover developing a strategic framework for business development along the NTC, with action plans and road shows. It is also planned to fully tap the savings resulting from efficiency in private sector logistics by streamlining areas such as warehousing, shipping, inventory control and efficient administration. Cooperation with CARs is being enhanced through strengthened trade, transportation and energy linkages and exchanges.

27. Dr. Linn presented the preliminary findings of a study currently being prepared for the CAREC Secretariat on the experience of regional organizations world-wide. Based on a review of six regional organizations for Central Asia and eight such organizations in Asia, Europe and Latin America, Mr. Linn identified six key lessons: First, it is important to manage the overlap of multiple regional organizations covering the same or similar sets of countries through consolidation, division of labor, coordination or, as a minimum, sharing of information. Second, the frequent experience of weak implementation of regional cooperation initiatives points to the importance of assuring shared interests, effective financing modalities, arbitration of inter-country differences, and effective linkage of national and regional strategies and programs. Third, regional cooperation and integration involve persistent and patient effort as well as incremental, gradual and flexible implementation over the long-term. Fourth, dedicated leadership is essential, with key countries, institutions and individuals playing lead roles in creating a vision, inspiring trust and forging compromise. Fifth, the membership needs to be kept manageable and focused on well-defined, cohesive regional tasks, yet flexible to respond to changing needs and opportunities. Finally, it helps to involve business and other non-governmental networks in strengthening cross-border connections. Mr. Linn concluded by stating that based on the international experience, CAREC has good prospects of becoming a successful regional institution, especially as it currently is in the process of creating many of the conditions required for such an outcome.

28. Christine Roth, Director, Central Asia, UNDP, informed the SOM of a meeting to be convened by UNDP in Istanbul on 4 October 2007 comprising representatives of the secretariats of CAREC, the Eurasian Economic Community, the Shanghai Cooperation Organization, and the Special Program for the Economies of Central Asia (SPECA) to explore opportunities for closer collaboration and information sharing. The Economic Cooperation Organization will be invited to attend the meeting.

## **8. Preparations for 6<sup>th</sup> Ministerial Conference**

29. The SOM was updated on preparations for the 6<sup>th</sup> Ministerial Conference. The 6<sup>th</sup> MC will be held in Dushanbe, Tajikistan, in November 2007. A SOM will be convened on 2 November, and the Ministerial Meeting will be on 3 November. The agenda for the Ministerial Meeting will include consideration of a Joint Ministerial Report and Report of Senior Officials, a draft integrated transport and trade facilitation strategy, a draft CAREC Institute Prospectus, presentation of a joint statement by multilateral institutions, and the 2008 CAREC Program work plan. Delegations and multilateral institutions were requested to ensure high-level participation in the MC.

## **9. Closing Remarks**

30. Participants expressed high appreciation to the Government of Tajikistan for chairing the SOM and for its assistance in preparations and arrangements for the SOM, and to the secretariat for the warm hospitality extended to participants and the excellent meeting arrangements.