



A Quarterly Newsletter of the Central Asia Regional Economic Cooperation  
Azerbaijan • People's Republic of China • Kazakhstan • Kyrgyz Republic • Mongolia • Tajikistan • Uzbekistan

# 3<sup>rd</sup> Ministerial Conference: Toward Greater Economic Cooperation Among CAREC Countries

**M**inisters of member countries of the Central Asia Regional Economic Cooperation (CAREC) Program reaffirmed their commitment to work together to realize their shared vision of a region where people live in harmony and prosperity, with free movement of goods, people, and ideas.

This was expressed during the conclusion of the Third Ministerial Conference (MC) on CAREC which was convened in Astana, Kazakhstan on 31 October–1 November 2004 to discuss ways to expand cooperation and deepen economic ties in the region.

In the keynote address, then Asian Development Bank (ADB) President Tadao Chino stressed that regional cooperation

offers the fastest route to expanded opportunities and improved living standards for the people of Central Asia. Mr. Chino said “regional cooperation is not an option for Central Asia; it is a necessity.”

In a joint statement issued at the close of the conference, the ministers also expressed confidence that the region’s improved economic performance in recent years will be sustained, and highlighted the importance of economic integration and of strengthened links with regional and global markets.

The ministers agreed that regional cooperation must be accelerated to promote sustained economic growth and

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*In this publication, \$ refers to US dollars.*

**HEADS OF DELEGATIONS** Former ADB President T. Chino (front row, fifth from left) joins participants at the Third Ministerial Conference on Central Asia Regional Economic Cooperation in Astana in November 2004. They are (front row, from left) Executive Director S. Veliyev (Azerbaijan), Vice Minister L. Yong (PRC), Minister B. Abildaev (Kyrgyz Republic), Minister A. Dunayev (Kazakhstan), ADB President, State Secretary D. Surenhor (Mongolia), Deputy Prime Minister A. Gulomov (Tajikistan), and Department Head U. Rozukulov (Uzbekistan); (back row, from left) ADB Vice-President J. Eichenberger, EBRD Chief Economist W. Buiters, IMF Deputy Director J. Berengaut, IDB Regional Director N. Z. Abidin, UNDP Deputy Assistant Administrator M. Ruedas, and World Bank Vice-President S. Katsu



### 3<sup>rd</sup> Ministerial Conference

(continued from page 1)

poverty reduction in the region. They welcomed the adoption of a more comprehensive approach in priority areas (transport, trade facilitation, trade policy, and energy/water), including the preparation of sector road maps and time-bound action plans. The ministers also instructed senior officials to develop a comprehensive action plan to 2007 for presentation at the Fourth MC.

High-level government delegations, including ministers and senior officials representing the CAREC member countries (Azerbaijan, People's Republic of China, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan) attended the conference. Representatives from multilateral institutions (MIs)—ADB, European Bank for Reconstruction and Development, International Monetary Fund, Islamic Development Bank, United Nations Development Programme (UNDP), and World Bank—also attended. Representatives from neighboring countries and other multilateral and bilateral organizations participated as observers.

The Third MC comprised three sessions: (i) a senior officials' meeting (SOM), (ii) a special session and development partners' meeting, and (iii) a ministerial meeting with a joint ministerial statement issued upon the conclusion of the MC. The MC was hosted by the Government of Kazakhstan and organized by ADB in close collaboration with participating countries and the other MIs.

At the SOM, the ministers finalized the progress report, which reviewed the development in four priority sectors (transport, energy, trade facilitation, and trade policy) and the implementation of key regional projects, and recommended ways to guide the work of sector committees.

The special session provided a forum for ADB representatives to present ADB



**“Regional cooperation is not an option for Central Asia; it is a necessity.”**

**Tadao Chino**  
**Former ADB President**

support for the Central-South Asia Trade and Transport Forum to develop road corridors that connect Central Asia with South Asia through Afghanistan, providing crucial access for landlocked countries in the region to seaports in Iran and Pakistan, and to world markets. The UNDP representative updated the participants on the status of a Central Asia Regional Human Development Report being prepared by UNDP in collaboration with ADB.

At the development partners' meeting, representatives from MIs and other development partners, together with CAREC senior officials and representatives of other countries, exchanged information on other regional cooperation initiatives, and identified areas where joint collaboration might provide value added for enhanced regional cooperation. MI representatives also discussed ways of strengthening the CAREC mechanism.

Participants further agreed that CAREC should move toward greater country ownership of the regional cooperation agenda under CAREC, and reaffirmed their commitment to work with and through CAREC on regional cooperation.

Senior officials will develop a comprehensive action plan to 2007 for presentation at the Fourth MC. Participating

countries will be consulted to (i) identify the main impediments to growth shared by CAREC countries; (ii) reassess planned regional initiatives in light of needs to enhance pro-poor benefits; (iii) recommend practical, results-oriented initiatives, including those for private sector growth; and (iv) develop performance indicators for CAREC, focusing on output and reflecting interests of member countries.

Ministers agreed that duplication of efforts in regional cooperation should be minimized and that efficiency and effectiveness of resources be maximized. They sought a review of the interrelationship of CAREC with other regional initiatives to ensure greater complementarities and coordination. In particular, ministers agreed that CAREC should assist in establishing the transport and water-energy consortia, the concepts of which were recently approved by the Central Asia Cooperation Organization.

Ministers saw the need for enhancing cooperation with neighboring countries, particularly Afghanistan, and welcomed initiatives for increasing trade opportunities between Central Asia and neighboring countries.

As endorsed by the ministers, the Fourth MC on CAREC will be held in the Kyrgyz Republic in 2005. ■

# Third CCC Meeting: Trade Facilitation Among CAREC Countries Needed

The members of the Customs Cooperation Committee (CCC) cited the importance of trade facilitation in accelerating economic transition and promoting shared prosperity among the member countries in Central Asia.

At the Third CCC Meeting, held on 1–3 December 2004 in Baku, Azerbaijan, the CCC members stressed that trade facilitation must be advanced through (i) customs cooperation, and (ii) reforms and modernization of customs services by the individual member countries.

The meeting was held to set priorities and future direction of the Regional Trade Facilitation and Customs Cooperation Program (RTFCCP), and review the work programs prepared by the CCC working groups. The CCC meeting brought together the heads/deputy heads of customs administrations of the member countries of the Central Asia Regional Economic Cooperation (CAREC) Program—Azerbaijan, People's Republic of China (PRC), Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan—and Turkmenistan.

The CCC provides overall guidance and supervision to the RTFCCP, launched by ADB in 2002 to support customs reforms and modernization in its developing member countries in East and Central Asia. The

CCC is the decision-making body of the RTFCCP.

## Statement of the CCC

Simplification and harmonization of customs procedures is seen as an effective means for trade facilitation. The CCC members agreed that reforming and modernizing customs procedures could be accelerated by leveraging financial and technical assistance from international development institutions.

They expressed satisfaction over the concerted launch of comprehensive customs automation and border-post infrastructure development by the Kyrgyz Republic and Tajikistan, supported by the Asian Development Bank (ADB). They noted the support provided by Kazakhstan in designing unified automated information systems (UAIS) by sharing information and experiences. The members of the CCC recommended that other countries do likewise to contribute to the openness and compatibility of UAIS among member countries.

## Review of progress

The CCC members reviewed the progress achieved since the Second CCC Meeting in October 2003 in Tashkent. They noted accomplishments in promoting bilateral

customs cooperation, and training and knowledge sharing. Bilateral cooperation was achieved in several important areas such as joint customs control, data sharing, transit development, and provision of a legal foundation through entering agreements on mutual administrative assistance in customs services.

The CCC members noted efforts of member countries to leverage the strength of the private sector for customs modernization, and improve consultations with the private sector to enhance “informed-compliance” of the trade community and to promote client orientation of customs services.

## Future work plans

The members of the CCC endorsed the work plans proposed by the two working groups under the respective chairpersonships of the PRC and Uzbekistan.

Major initiatives proposed by the Working Group under the PRC Chairperson include (i) mutual recognition of customs documentation; (ii) development of simplified border documentation requirements; (iii) training to promote accession to the revised Kyoto Convention and *Transport Internationaux Routiers* (International Road Transport) Convention; and (iv) a forum on joint customs control, involving all border agencies to resolve outstanding problems and to introduce integrated border management.

The working group under the leadership of Uzbekistan underscored the importance of an information and communication technology system for data exchanges. The following measures were recommended: (i) review legal agreements to cover data exchanges; (ii) develop a standard list of information fields and a uniform format for data exchanges; (iii) develop harmonized information systems; and (iv) set technical measures for the bilateral exchange of the agreed list of data fields.

The members of the CCC welcomed the offer of the Customs General Administration of Mongolia to host the Fourth CCC Meeting, tentatively set for the first week of September 2005. ■



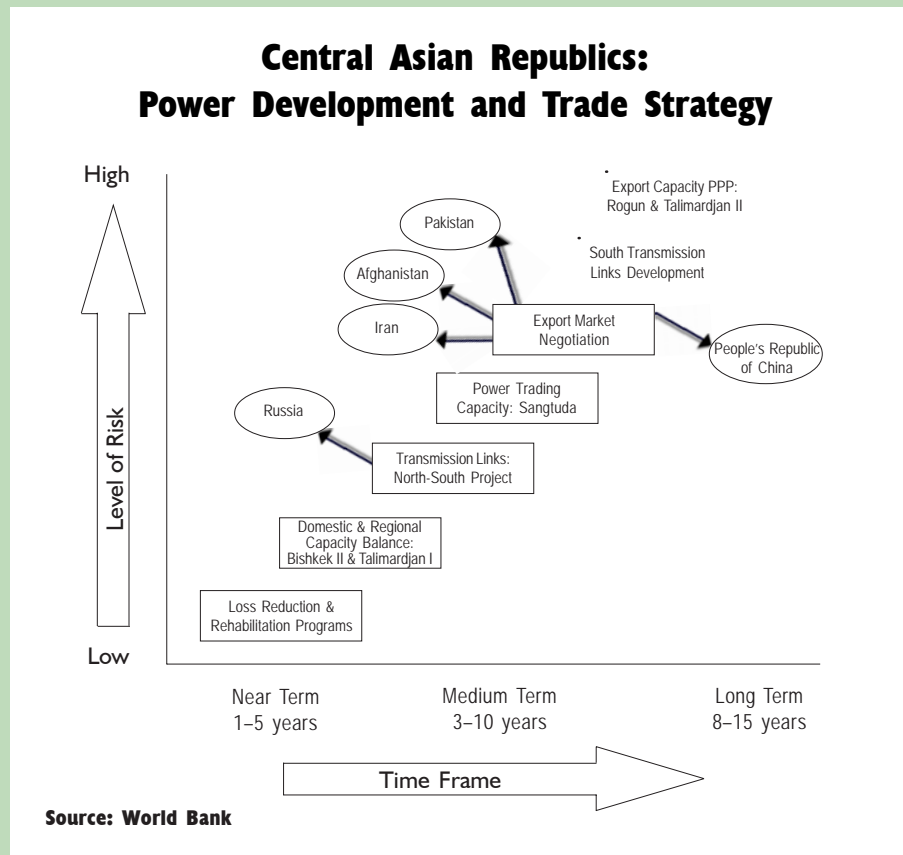
**JOINT EFFORT** (from left) Azerbaijan delegates A. Aliyev, Chairman of the State Customs Committee; and K. Heydarov, First Deputy Chairman of the State Customs Committee, with ADB representatives A. Siackhachanh, Director of the Governance, Finance and Trade Division, East and Central Asia Department; and J. Liang, Senior Trade Economist, during the Third Customs Cooperation Committee Meeting in Baku in December 2004

# Export Potential of Electricity Across Central Asia Assessed

The World Bank recently finalized its report entitled *Central Asia: Regional Electricity Export Potential Study (REEPS)*, which identifies strategic options for the development of individual countries' electricity sectors, assesses regional least-cost generation options, and looks at the potential to access export markets within and beyond the region. This study was undertaken in response to the Central Asia Cooperation Organization (CACO) request to the World Bank to assist with the establishment of a water-energy consortium (WEC).

The key conclusions of the study are the following.

- Annual domestic demand in the Central Asian republics can be met most cost effectively by implementing loss-reduction measures, rehabilitating existing generation capacity, and promoting inter-regional trade at the margin. However, seasonal supply shortages will persist in winter, for which some new generation capacity will be needed. In addition, some transmission facilities will be upgraded to facilitate intra-regional trade, providing significant economic benefits; but appropriate agreements will be required among the countries for this purpose.
- Major new generation projects in Central Asia will likely be feasible only if access to export markets outside the region is assured. The region has substantial power export potential, but faces significant risks and uncertainties. Some uncertainties relate to demand conditions in target markets (Afghanistan, People's Republic of China, Iran,



Pakistan, and Russia), outside the control of the Central Asian governments, while some risks relate to the cooperation needed among countries to attract financing for most economic new generation projects. To help overcome these institutional issues, the REEPS presents some preliminary proposals on the creation of the WEC, while recognizing the need for strong political will within and beyond the region.

- A possible scenario for the development of electricity generation and trading activity in Central Asia is shown schematically in the figure. This shows the phased introduction of measures to make capacity available with loss-reduction

programs, to be followed by construction of new capacity needed to meet winter demand within the region (Talimardjan and Bishkek II) and the completion of the transmission link to Russia through Kazakhstan.

- The REEPS has recently been submitted to the Central Asian governments and it is hoped that it will contribute to the discussions on the development of appropriate national and regional power sector strategies. The World Bank proposes to facilitate an in-depth exchange of views on this subject with the CACO members and international financial institutions between February and April 2005. ■

# Silk Road Regional Program

The second phase of the Silk Road Regional Program (SRRP), an initiative sponsored by the United Nations Development Programme (UNDP), will begin activities in February 2005. The program aims to revive the Silk Road tradition of economic cooperation between the People's Republic of China (PRC) and Central Asia—historically a dynamic and vibrant center of economic activity in the world. Countries participating in the SRRP today—PRC, Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan—are natural partners in trade, investment, and tourism, with deep-rooted traditions of cooperation.

The SRRP will support regional efforts for long-term economic cooperation in three inter-related areas by (i) increasing levels of trade and transit in the region; (ii) establishing a mechanism for facilitating investment in the Silk Road area; and (iii) developing a regional plan for sustainable development of tourism, including the promotion of Silk Road arts and crafts.

The SRRP will establish a strong working partnership with the Shanghai Cooperation Organization (SCO) and will build on the political convening mechanism of the SCO to achieve project objectives. The SRRP also complements the multilateral donors' activities coordinated under the Central Asia Regional Economic Cooperation (CAREC) Program, led by the Asian Development Bank (ADB).

## Trade and transit component

The project will seek to promote a favorable policy-making and legal environment for trade and transit issues in the Silk Road

area. Through SCO's institutional mechanism, the project will promote dialogue on trade and transit. Policy analysis and regulatory environment assessments will be provided, including training, workshops, and roundtables for policy-makers on trade and transit issues.

The project will also seek to encourage greater participation of the private sector, especially small and medium enterprises, in trade and transit promotion in the region. A fruitful dialogue between private sector representatives and policy-makers will help define the needs of the market.

The project will provide assistance to build capacity of the newly established SCO Business Council. ADB, International Trade Centre United Nations Conference on Trade and Development/World Trade Organization (WTO), and United States Agency for International Development will be partners in implementing this component.

## Investment component

The project will seek to encourage public-private partnerships in selected fields such as infrastructure, tourism, and hotel development by organizing a Silk Road Investment Forum. This Forum is expected to become an annual or biannual event to attract international investment in Central Asia. The Investment Forum will be held on a rotating basis in different Silk Road cities. Local government and provincial officials will be invited to put forward strategies and concrete projects.

Activities to further enhance the region's attractiveness as a destination for foreign direct investment will be carried out at the national and regional levels. Close



**LIVELIHOOD** Traditional carpet weaving in Central Asia

cooperation is planned with the Regional Business Roundtable to be organized by ADB for 2005 under CAREC activities.

## Tourism component

Historic cities and traditional arts and crafts offer a rich tourism product. The Silk Road area also has great potential as a region for ecotourism. Small businesses represent the core of the ecotourism sector.

Well-preserved ancient architecture and arts and crafts can generate foreign currency and employment as well as reinvigorate and preserve traditional skills. Particular focus will be on the development and promotion of Silk Road arts and crafts.

In collaboration with the WTO, eight to ten cities along the Silk Road, willing to meet requirements for sustainable tourism, will be identified. The title of UN Silk Road City would be awarded to those that consider long-term planning for protecting cultural assets, keeping standards of tourist accommodation in keeping with the locality, paying attention to the service industry, and promoting private sector participation. The project will aim toward a composite Silk Road/multiple-entry visa for multi-destination touring along the Silk Road. ■

**Well-preserved ancient architecture and arts and crafts can generate foreign currency and employment as well as reinvigorate and preserve traditional skills**

# Project Profiles and Updates

## Regional Customs Modernization and Infrastructure Development Project



**IMPROVED ACCESS** The development of transport infrastructure will enhance regional cooperation

**T**o help improve the regional trading environment and customs infrastructure in the Kyrgyz Republic and Tajikistan, the Asian Development Bank (ADB) approved a loan package on 26 November 2004 amounting to \$22.75 million to further support customs reform, modernization, and regional customs cooperation. ADB will provide financing of \$7.5 million for the Kyrgyz Republic and \$10.7 million for Tajikistan. The governments will contribute the rest.

The new project will reinforce customs, legal, and institutional reforms supported by program loans approved in December 2002 for the Regional Trade Facilitation and Customs Cooperation Program (RTFCCP) in the two countries. The RTFCCP is pro-

moting simplification and harmonization of customs procedures among ADB developing member countries in East and Central Asia as part of the broad Central Asia Regional Economic Cooperation Program supported by major multilateral institutions.

The project comprises two major components. The first component will help develop core elements of the unified automated information system and associated operations-support systems; develop communications infrastructure to support automated systems; and train staff and formulate a public awareness campaign to ensure sustainability and broad-based support for customs modernization.

The second component will improve customs border posts and facilities, pro-

vide customs operations and anti-smuggling equipment, and strengthen and promote border interagency cooperation.

Accompanying technical assistance grants will be provided to the Kyrgyz Republic and Tajikistan in the amount of \$500,000 each from the Japan Special Fund, financed by the Government of Japan. The grants will help manage the changes and ensure that customs modernization is supported by the institutional structure and business processes in the customs services departments of the two countries.

The Ministry of Finance of the Kyrgyz Republic and the Ministry of State Revenues and Duties of Tajikistan are the executing agencies for the project, expected to be completed by end-2009. ■

# Project Profiles and Updates

## Southern Transport Corridor Road Rehabilitation Project

**T**he Asian Development Bank (ADB) will help boost economic growth and reduce poverty in the Kyrgyz Republic through the Southern Transport Corridor Road Rehabilitation Project, for which a \$32.8 million loan was approved on 23 November 2004. The project will foster regional trade and cooperation by rehabilitating a key transport corridor linking the country with the People's Republic of China (PRC) and Uzbekistan. The project will seek to reduce the cost of road transport and improve access to (i) markets for agricultural goods, (ii) employment opportunities, and (iii) social services.

The project will improve the 124-kilometer Osh-Gulcha-Sopu Korgon section of the Osh-Sary Tash-Irkeshtam road and procure maintenance equipment for the entire road. The road comprises part of the transport corridor linking the Kyrgyz



**BUILDING ROADS** The Southern transport corridor linking the Kyrgyz Republic to the People's Republic of China and Uzbekistan



Republic with the PRC and Uzbekistan. It connects to the Bishkek-Osh road, a vital national transport corridor, and to the road to Tajikistan and on to Afghanistan, both of which are also being rehabilitated with ADB support.

An \$800,000 technical assistance (TA) grant supplements the loan to improve road maintenance and help the Ministry of Transport and Communications establish and operate a transport corridor management department for the Osh-Sary Tash-Irkeshtam road. Another \$500,000 TA grant will fund activities to prevent the spread of HIV/AIDS, sexually transmitted diseases, and human trafficking. Both TA grants will be financed from the Japan Special Fund, financed by the Government of Japan.

The Ministry of Transport and Communications is the executing agency for the project, due for completion in September 2008. ■

# CACO Summit: Enhancing Regional Security and Economic Integration

A meeting of heads of member states of the Central Asia Cooperation Organization (CACO) was held in Dushanbe on 18 October 2004, attended by Kazakhstan President Nursultan Nazarbayev, Kyrgyz

President Askar Akayev, Russian President Vladimir Putin, Tajikistan President Emomali Rakhmonov, and Uzbekistan President Islam Karimov. Minister Hedayat Amin Arsala of the Islamic Republic of Afghanistan, attended the summit as guest.

The meeting started with the signing of a protocol on Russia's accession to CACO. According to the Protocol's Article 1, "Russia joins the treaty and assumes all ensuring rights and responsibilities." Central Asian leaders welcomed Russia's full membership in the organization, which now comprises Kazakhstan, Kyrgyz Republic, Russia, Tajikistan, and Uzbekistan.

The CACO summit concluded with a joint statement on the establishment and development of mutually beneficial political and economic cooperation in the region.

The heads of state stressed "the importance of joint efforts in fighting international terrorism, religious extremism, drug trafficking, and other threats to security." The presidents of five member countries have instructed their respective law enforcement agencies to prepare a list of terrorist and religious extremist organizations whose activities will be prohibited in the CACO member states.

The heads of states of Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan decided to approve regulations (*Polozhenie*) on security services, law

enforcement bodies, and structures that protect frontiers of CACO member states.

The agenda also included border cooperation of CACO member countries and formal approval of consortium concepts. The presidents approved the concept of creating water-energy, food, and transport consortiums; and agreed to prepare corresponding draft agreements.

The water-energy consortium working group (WG) seeks to establish an international legal entity with equal shareholding among member countries to optimize management and use of regional water and energy resources and to further develop water/hydropower facilities.

The food consortium WG aims to establish favorable legal and economic conditions for the development of the agro-industrial, food, and related sectors on a regional basis.

The transport consortium WG seeks to form an international association of transport and transit issues in Central Asia.

The leaders also welcomed efforts of Afghanistan's leadership on rehabilitating the country and agreed to assist in implementing a long-term program of socioeconomic rehabilitation and coordinate actions involving Afghanistan in the integration process in the region. Afghanistan was accepted as an observer in the CACO. They agreed to promote Central Asia as a zone of peace and stability. ■

## Regional Events, January–April 2005

- Forum on Trade Facilitation and Customs Modernization, 26–28 January, Singapore
- Transport Sector Coordinating Committee Meeting, 1–2 March, Bishkek, Kyrgyz Republic
- Workshop on Trade and Transport Facilitation in Central Asia, 3–4 March, Bishkek, Kyrgyz Republic
- Seminar on Customs Modernization and Logistics Development, 7–11 March, Seoul/Daejeon, Republic of Korea
- Trade Policy Coordinating Committee Meeting, 13 April, Bishkek, Kyrgyz Republic
- Senior Officials' Meeting on Central Asia Regional Economic Cooperation, 14–15 April, Bishkek, Kyrgyz Republic

## NEWS FROM

# CAREC

The quarterly newsletter of CAREC is a joint effort of multilateral institutions (MIs)—ADB, EBRD, IMF, IDB, UNDP, and WB—aimed at enhancing communications among MIs and CAREC participating countries. *News from CAREC* disseminates information on CAREC activities and provides a forum on development issues in the CARs. Articles in the newsletter, however, do not necessarily reflect the official views of the MIs and participating governments. We welcome readers' comments and suggestions.

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