

ASIAN DEVELOPMENT BANK

TAR: OTH 38235

**TECHNICAL ASSISTANCE
FOR
CENTRAL ASIA REGIONAL COOPERATION
IN
TRADE, TRANSPORT, AND TRANSIT**

August 2004

ABBREVIATIONS

ADB	–	Asian Development Bank
CAREC	–	Central Asia Regional Economic Cooperation
CAR	–	Central Asian republic
CGE	–	computable general equilibrium
MI	–	multilateral institution
TA	–	technical assistance
UNDP	–	United Nations Development Programme

TA CLASSIFICATION

Poverty Classification	–	Other
Sector	–	Industry and Trade, Transportation and Communication
Subsector	–	Trade, Multimodal Transport and Sector Development
Theme	–	Regional Cooperation

NOTE

In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. The 2nd Ministerial Conference on Central Asia Regional Economic Cooperation (CAREC), which was held in Tashkent, Uzbekistan, in November 2003, called on multilateral institutions (MIs) to support regional economic cooperation through project investment and further analytical work. The participants of the conference stressed the need for analytical work that would display costs and benefits of increased economic cooperation and help build constituencies for regional economic cooperation.

2. In early 2004, the United Nation Development Programme (UNDP) decided to prepare a second Central Asia regional human development report, which would seek to demonstrate the importance of regional cooperation for human development and security in the region. At a workshop organized by UNDP in Tashkent in March 2004, the Asian Development Bank (ADB) agreed, in principle, to contribute to this report. Subsequently, it was agreed that ADB would conduct a study on Central Asia regional cooperation in trade, transport, and transit—three related areas of operational importance to ADB. Findings of the study will be used to provide inputs to the UNDP report and to prepare a companion ADB report on Central Asia regional cooperation in trade, transport, and transit. While the UNDP report will focus on the five Central Asian republics (CARs)—namely, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan—the ADB study would cover the countries that are member of its CAREC program—that is, Azerbaijan, People's Republic of China (PRC), Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan.

3. Regional technical assistance (TA) was proposed to undertake the study.¹ The main features of the TA were agreed on with the governments of the CAREC member countries, including when a joint ADB-UNDP Mission visited Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan in June–July 2004. The TA framework is given in Appendix 1.

II. ISSUES

4. It is widely recognized that the CARs will greatly benefit from increased economic cooperation with each other and neighboring countries. Most notably, greater regional economic cooperation will enable them to use and adapt the highly integrated physical infrastructure they inherited from the former Soviet Union and the region's shared ecosystems more efficiently, overcome the disadvantages of their landlocked location and relatively small domestic markets, gain greater access to markets in neighboring countries, attract more foreign investment, and tackle regional environmental problems more effectively. Ultimately, increased regional economic cooperation can contribute to greater competitiveness, sustainable economic growth, employment generation, and poverty reduction in the CARs and will also enhance security and stability in the region.

5. Not surprisingly, there have been numerous initiatives aiming to promote economic cooperation among CARs and between CARs and neighboring countries. Among them are ADB's CAREC program, Central Asia Cooperation Organization, Economic Cooperation Organization, Euroasia Economic Community, and Special Programme for the Economies of Central Asia. Several other initiatives seek to foster cooperation among CARs and neighboring countries not only in economics, but also in politics, security, and other spheres.²

¹ The TA first appeared in *ADB Business Opportunities* (Internet edition) on 10 June 2004.

² For a complete list of the regional organizations involving the CARs, their membership, and objectives, see ADB. 2003. *An Assessment of Regional Organizations in Central Asia*. Manila.

6. In addition, a considerable amount of analytical work has been done on the subject. While preparing its first Regional Cooperation Strategy and Program (2005–2007) for CAREC Member Countries, ADB commissioned a number of studies pertaining to regional economic cooperation in Central Asia, including assessments of regional organizations and the regional cooperation experience, a reassessment of the regional transport sector strategy, a study of the water and energy nexus, and reviews of trade and trade facilitation in Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan. The International Monetary Fund prepared a paper on trade and trade potential in the CIS-7 countries (Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Tajikistan, and Uzbekistan). The World Bank prepared a transport and trade audit for each of the CARs and a paper on transport and trade facilitation issues in the CIS-7 countries, Kazakhstan, and Turkmenistan.

7. Nonetheless, overall progress on regional economic cooperation has so far been modest. In particular, there remain significant barriers to trade, including the marked divergence of trade policies pursued by individual CARs, inadequacies of the region's transport network, and deficiencies of the existing transit arrangements. In several instances, CARs have opted for the construction of a new road bypassing a neighboring country to overcome difficulties with transit through that country, while the region's transport links with South and East Asia remain underdeveloped and many existing roads need rehabilitation and upgrading. Lack of regional economic cooperation, especially in the areas of trade, transport, and transit, has hampered the integration of the CARs into the world economy and the full realization of the region's significant economic potential.

8. A number of factors have been cited as constraints on regional economic cooperation among the CARs.³ They include lack of political will and mutual trust, antipathy to supra-national institutions and arrangements, pursuit of national self-reliance and self-sufficiency in strategic goods and services, growing divergence in economic policies and prospects, weak institutional and management capacities, uncertainty about the magnitude and distribution of costs and benefits of cooperation, and the relative weakness of constituencies supporting regional economic cooperation. Overcoming these formidable constraints requires, among others, further analytical work.

9. Existing studies on regional economic cooperation in Central Asia focus largely on reviewing the status of, and identifying priorities for increasing, cooperation in specific areas. While the potential benefits of regional economic cooperation for the CARs have been ascertained, little has been done to quantify these benefits and the associated costs. Likewise, a comprehensive and in-depth analysis of constraints on regional economic cooperation is yet to be done, although the more important of these constraints have been identified. The impact of regional economic cooperation or noncooperation on competitiveness, economic growth, governance, employment, and poverty in the CARs has not adequately been displayed. Most existing studies have been conducted by international experts with limited participation of local experts. Consequently, they lack local ownership.

10. Further analytical work can contribute to increased regional economic cooperation in several ways. First, quantitative assessments of gains and losses from increased regional economic cooperation for individual CARs and key stakeholders in them—combined with

³ See for example, ADB. 2003. *An Assessment of Regional Cooperation Experience in Central Asia*. Manila; ADB. 2004. *Regional Cooperation Strategy and Program (2005-2007) for the CAREC Member Countries*. Manila; and World Bank. 2003. *Central Asia Regional Framework*. Washington, DC.

compelling demonstration of its potential positive impact on competitiveness, economic growth, governance, employment, and poverty—will reduce the uncertainty about costs and benefits of regional cooperation, strengthen constituencies for cooperation, enhance the CARs' willingness to cooperate, and help them work out mutually beneficial arrangements for cooperation. Similarly, disentangling a complex web of political, geopolitical, institutional, and other constraints will help the international community develop feasible and effective approaches to, and strategies for, moving regional economic cooperation forward. If this analytical work is done in a participatory manner, involving consultations with key stakeholders and close collaboration with local institutions and experts, it will not only benefit from local insights and have broad ownership, but also promote public dialogue on the subject and help build a network of local institutions and experts supporting regional economic cooperation.

III. THE TECHNICAL ASSISTANCE

A. Purpose and Output

11. The overall goal of the TA is to promote regional economic cooperation in Central Asia. Its purpose is to enhance the analytical underpinnings of regional cooperation in Central Asia in the areas of trade, transport, and transit.

12. The expected TA outputs are

- (i) an ADB report on Central Asia regional cooperation in trade, transport and transit (the annotated outline of the report is given in Appendix 2); and
- (ii) a chapter on trade, transport, and transit for the UNDP report on regional cooperation for human development and security in Central Asia.

13. The TA will build on and complement the analytical work on regional economic cooperation in Central Asia already done by ADB and other MIs. The report to be prepared under the TA will draw extensively from recent ADB studies on economic cooperation among CAREC member countries, particularly with respect to the status of and priorities for regional cooperation in the areas of trade, transport, and transit. It will also provide

- (i) qualitative and quantitative assessments of potential gains and losses, resulting from increased regional cooperation in trade, transport, and transit, for individual CAREC member countries and key stakeholders in them; and
- (ii) a comprehensive and in-depth analysis of the constraints on and options for fostering regional cooperation in those areas among the CAREC member countries.

14. The report will consider regional cooperation in trade among CAREC member countries as a way to achieve closer economic integration not only with each other, but also with the rest of the world. Regional cooperation in transport and transit will be considered as essential means of facilitating both intra- and inter-regional trade. Opportunities for increased cooperation in trade, transport, and transit between CAREC member countries and their neighbors, including Afghanistan, Iran, Russian Federation, and Turkmenistan, will be explored. The impact of regional cooperation in the three areas or the lack thereof on competitiveness, economic growth, governance, employment, and poverty will be emphasized.

B. Methodology and Key Activities

15. The goal and purpose of the TA will be pursued by undertaking the following activities:

- (i) Prepare background sector notes on regional cooperation in trade, transport, and transit, among CAREC member countries, in part drawing from recent ADB studies on regional economic cooperation in Central Asia.
- (ii) Estimate the intra- and inter-regional trade potential of CAREC member countries with and without barriers to trade regimes, transport, and transit.
- (iii) Develop a computable general equilibrium (CGE) model for two CAREC member countries (for which this model will be deemed relatively easy to develop) and estimate the potential impact of increased regional cooperation in trade, transport, and transit on their economies, using the CGE models.
- (iv) Analyze how individual CAREC member countries and key stakeholders in them will be affected by increased regional cooperation in trade, transport, and transit, using case studies demonstrating costs and benefits of cooperation or noncooperation for some of these stakeholders.
- (v) Analyze constraints on, and options for, fostering regional economic cooperation among CAREC member countries, taking into account the difficulties arising from the need for collective action and the influence various stakeholders in CAREC member countries exert on decisions concerning regional economic cooperation.
- (vi) Consolidate the above notes, estimates, and analyses into a coherent and consistent ADB report on regional cooperation in trade, transport, and transit among CAREC member countries.
- (vii) Disseminate the report.
- (viii) Prepare a chapter on trade, transport, and transit for the UNDP report on regional cooperation for human development and security in Central Asia.

16. All these activities will be undertaken in close collaboration with UNDP and local institutions and experts from CAREC member countries. An early draft of the ADB report will be presented to and discussed with governments of CAREC member countries and other stakeholders. It is hoped that the preparation and subsequent dissemination of the report will contribute to

- (i) strengthened local capacity for policy analysis and information management in the area of regional trade, transport, and transit, and building a network of local institutions and experts supporting regional economic cooperation;
- (ii) improved dialogue among various stakeholders on regional economic cooperation; and
- (iii) greater public awareness of the need for increased regional economic cooperation.

C. Cost and Financing

17. The total cost of the TA is estimated at \$350,000. The TA will be financed on a grant basis by ADB's TA funding program. Detailed cost estimates are given in Appendix 3.

D. Implementation Arrangements

18. The Operations Coordination Division, East and Central Asia Department, will be the Executing Agency for the TA. A team comprising ADB staff members and consultants will implement the TA. To ensure full ADB ownership of the TA outputs and leadership in the TA activities, an ADB project officer will serve as team leader, guide and coordinate the work of other team members, and consolidate their inputs into an ADB report on Central Asia regional cooperation in trade, transport, and transit.⁴ The team will collaborate closely with local research institutions from CAREC member countries and the UNDP team in charge of the report on regional cooperation for human development and security in Central Asia. TA implementation will be synchronized with the preparation of the UNDP report. It is expected to start in August 2004 and end in August 2005.

19. The services of four international consultants for a total of 9.0 person-months and of seven domestic consultants for a total of 48 person-months will be required. International experts (person-months are in parentheses) in trade (4.0), transport (1.5), and transit (1.5) will prepare background sector notes on regional cooperation in the three areas among CAREC member countries. The international expert in trade will also assist the team leader in consolidating inputs provided by team members into the ADB report and will draft a chapter on trade, transport, and transit for the UNDP report. An international expert in economic modeling (2.0 person-months) will develop a CGE model for two CAREC member countries. Using these models, the expert will assess the potential impact of increased regional cooperation in trade, transport, and transit on their economies. One domestic consultant (9.0 person-months for countries for which a CGE model will be developed and 6.0 for the others) will be engaged in each of the CAREC member countries to provide country-specific inputs to the ADB report and the chapter for the UNDP report. One of these domestic consultants will act as deputy team leader. The consultants will be engaged by ADB as individuals in accordance with the *Guidelines on the Use of Consultants by Asian Development Bank and Its Borrowers* and other arrangements satisfactory to ADB for the engagement of domestic consultants. The outline terms of reference for the consultants are given in Appendix 4.

20. Outputs of the TA will be widely disseminated. In particular, the ADB report on Central Asia regional cooperation in trade, transport, and transit will be printed and distributed worldwide. It will also be featured in ADB's web site.

IV. THE PRESIDENT'S DECISION

21. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$350,000 on a grant basis for Central Asia Regional Cooperation in Trade, Transport, and Transit, and hereby reports this action to the Board.

⁴ Travel and related expenses incurred by ADB in connection with its staff providing analytical inputs to the TA will be charged to the TA budget.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Goal</p> <p>Increased regional economic cooperation in Central Asia</p>	<p>An increase in total trade turnover among Central Asia Regional Economic Cooperation (CAREC) member countries</p>	<p>Direction of trade statistics published by International Monetary Fund (IMF)</p>	
<p>Purpose</p> <p>Enhanced analytical underpinnings of regional cooperation in Central Asia in the areas of trade, transport, and transit</p>	<p>Qualitative and quantitative assessments of potential gains and losses, resulting from increased regional cooperation in trade, transport, and transit, for individual CAREC member countries and key stakeholders within them</p> <p>A comprehensive and in-depth analysis of constraints on and options for fostering regional cooperation in trade, transport, and transit among CAREC member countries</p>	<p>The Asian Development Bank (ADB) report on Central Asia regional cooperation in trade, transport, and transit</p>	<p>Enhanced analytical underpinning of regional cooperation in Central Asia in the areas of trade, transport, and transit will serve to increase regional economic cooperation.</p>
<p>Outputs</p> <p>An ADB report on Central Asia regional cooperation in trade, transport, and transit</p> <p>A chapter on regional cooperation in trade, transport, and transit for the UNDP report on regional cooperation for human development and security in Central Asia</p>	<p>The report assessed positively by peer reviewers</p> <p>The chapter assessed positively by UNDP and peer reviewers of its report</p>	<p>Comments on the report provided by peer reviewers</p> <p>Feedback from United Nations Development Programme (UNDP)</p> <p>Comments on the draft UNDP report provided by its peer reviewers</p>	<p>ADB report and the chapter for the UNDP report will be of good quality</p>
<p>Activities</p> <p>Prepare background sector notes on regional cooperation in trade, transport, and transit among the CAREC member countries.</p> <p>Estimate the intra- and inter-regional trade potential of the CAREC member countries with and without trade barriers pertaining to trade regimes, transport, and transit.</p>	<p>Background notes prepared by end-November 2004</p> <p>Estimates made by end-November 2004</p>	<p>Dates when international experts in trade, transport, transit will submit their sector notes to ADB</p> <p>The sector note by the international expert in trade</p>	<p>The background sector notes will be of good quality.</p> <p>The governments of the CAREC member countries will provide the data needed for the estimation.</p>

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TECHNICAL ASSISTANCE FRAMEWORK—Continued

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Develop a computable general equilibrium (CGE) model for two CAREC member countries and estimate the potential impact of increased regional cooperation in trade, transport, and transit on their economies, using the CGE models.</p> <p>Analyze how individual CAREC member countries and key stakeholders in them will be affected by increased regional cooperation in trade, transport and transit, including case studies demonstrating costs and benefits of cooperation or noncooperation for some of these stakeholders.</p> <p>Analyze constraints on and options for fostering regional economic cooperation among CAREC member countries, taking into account the difficulties arising from the need for collective action and the influence various stakeholders within the CAREC member countries exert on decisions concerning regional economic cooperation.</p> <p>Consolidate the above notes, estimates, and analyses into a coherent and consistent ADB report on regional cooperation among the CAREC member countries in trade, transport, and transit.</p>	<p>The initial version of the models completed and preliminary assessments made by end-November 2004</p> <p>Final version of the models completed and final assessments made by end-January 2005</p> <p>The analysis made separately for trade, transport, and transit and for each of the CAREC member countries by end-November 2004</p> <p>The analysis made by international experts from the sector perspective and local experts from the country perspective by end-November 2004</p> <p>Draft framework chapter of the report discussed at the First Regional Consultation Meeting to be organized by UNDP in end-October 2004</p> <p>First draft of the report presented to and discussed with key stakeholders at the Second Regional Consultation Meeting to be organized by UNDP in end-January 2005</p> <p>Report finalized by August 2005</p>	<p>The CGE models and assessments provided by the international expert in economic modeling</p> <p>The ADB report on Central Asia regional cooperation in trade, transport, and transit</p> <p>Inputs to the ADB report provided by international and domestic consultants</p> <p>Meeting materials</p> <p>The first draft of the ADB report on Central Asia regional cooperation in trade, transport and transit</p> <p>Meeting materials</p> <p>The final draft of the ADB report on Central Asia regional cooperation in trade, transport and transit</p>	<p>Data needed for the development of the models will largely be collected by end-October 2004.</p> <p>The analyses will be of good quality.</p> <p>The draft framework chapter of the ADB report will be ready by end-October 2004.</p> <p>The first draft of the report will be ready by end-January 2005.</p> <p>Key stakeholders will participate in the meeting and broadly endorse the first draft of the report.</p> <p>The report will be finalized within 6 months after the first draft is prepared.</p>

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TECHNICAL ASSISTANCE FRAMEWORK—Continued

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Disseminate the report.</p> <p>Prepare a chapter on trade, transport, and transit for the UNDP report on regional cooperation for human development and security in Central Asia.</p>	<p>Report featured in ADB's web site, also printed and distributed worldwide</p> <p>First draft of the chapter submitted to UNDP by end-2004</p>	<p>ADB's web site featuring the report</p> <p>Printed report</p> <p>The chapter on trade, transport, and transit for the UNDP report on regional cooperation for human development and security in Central Asia</p>	<p>There will be sufficient public interest in the report.</p> <p>The first draft of the chapter will be prepared within a month after sector and country inputs will be received.</p>
<p>Inputs</p> <p>ADB staff resources</p> <p>International consultancy provided by ADB</p> <p>Domestic consultancy provided by ADB</p> <p>Recent ADB reports on regional economic cooperation in Central Asia</p> <p>A data set of macroeconomic indicators for CAREC member countries to be provided by ADB</p> <p>A data set of social indicators for Central Asian republics provided by UNDP</p>	<p>1.5 person-months for TA administration and 3.0 person-months for providing inputs to the ADB and UNDP reports</p> <p>9.0 person-months, including 4.0 person-months of field office services</p> <p>A total of 48.0 person-months (9.0 person-months for each of the two countries for which a CGE model will be developed and 6.0 person-months for each of the other CAREC member countries)</p> <p>Recent ADB reports on the subject collected in a joint ADB-UNDP electronic library within the first month of TA implementation</p> <p>Data set compiled by ADB and shared with UNDP within the first 3 months of TA implementation</p> <p>Data set compiled by UNDP and shared with ADB within the first 3 months of TA implementation</p>	<p>Performance evaluation reviews of the ADB staff members involved in TA implementation</p> <p>Reports by international consultants</p> <p>Reports by domestic consultants</p> <p>A joint ADB-UNDP electronic library on Central Asia regional economic cooperation</p> <p>A joint ADB-UNDP Central Asia economic database</p> <p>A joint ADB-UNDP Central Asia economic database</p>	<p>The ADB staff will administer the TA effectively and provide quality inputs to the ADB and UNDP reports.</p> <p>Inputs provided by consultants will be of good quality.</p> <p>The library and the data sets will be used effectively in preparing the ADB and UNDP reports.</p>

ADB = Asian Development Bank, CAREC = Central Asian Regional Economic Cooperation, CGE = computable general equilibrium, IMF = International Monetary Fund, UNDP = United Nations Development Programme.

ANNOTATED OUTLINE OF THE ASIAN DEVELOPMENT BANK REPORT ON CENTRAL ASIA REGIONAL COOPERATION IN TRADE, TRANSPORT, AND TRANSIT¹

A. Introduction

1. The Introduction will give an overview of the report, including its purpose and scope. It will also introduce the chapters of the report.

B. Chapter 1. Analytical Framework

2. This chapter will define and describe regional cooperation among the Central Asia Regional Economic Cooperation (CAREC) member countries in the areas of trade, transport, and transit. It will also underscore the importance of regional cooperation among the CAREC member countries in these areas for closer economic integration with each other and the rest of the world and, ultimately, for competitiveness, economic growth, employment generation, and poverty reduction in the region. The chapter will explore and stress the linkages and synergies between trade, transport, and transit in helping achieve these development goals for the region. In this context, the chapter will provide some background information about the CAREC member countries and assess the impact of the disintegration of the former Soviet Union on trade and production in Central Asia.

C. Chapter 2. Regional Cooperation in Trade

3. **Recent Trade Patterns and Current Trade Regimes.** This section will analyze recent trade patterns (including geographical direction and commodity composition of trade) and existing trade regimes in the CAREC member countries, with focus on intraregional trade. It will also examine key determinants of the trade patterns.

4. **Trade Barriers and Trade Potential.** This section will identify the main barriers to intra- and inter-regional trade (including those pertaining to trade regimes currently in place in the CAREC member countries, weaknesses of the transport sector, deficiencies of the existing transit arrangements in the region, and access to markets outside the region) and assess their impact on competitiveness, economic growth, governance, employment, and poverty in individual CAREC member countries (by including case studies and quantitative assessments). The section will also present estimates of the intra- and inter-regional trade potential of the CAREC member countries, with and without those barriers, based on the gravity model.

5. **Options for Regional Cooperation.** This section will discuss options for regional cooperation in trade among the CAREC member countries (including harmonization of trade policies, joint efforts to gain greater access to markets outside the region, coordinated multilateral trade liberalization, regional trade arrangements possibly involving other countries, and pros and cons of alternative arrangements). In this context, the section will review the existing regional trade arrangements involving CAREC member countries. It will also examine recent proposals pertaining to regional trade cooperation and implications of prospective accession of CAREC member countries and their neighbors to the World Trade Organization.

6. **Potential Cost and Benefits of Increased Regional Cooperation.** This section will provide qualitative and quantitative assessments of potential gains and losses, resulting from increased regional cooperation in the area of trade, for individual CAREC member countries and

¹ The outline is subject to minor changes in the course of the preparation of the report.

key stakeholders within them under alternative scenarios for cooperation. It will also present estimates of the potential impact of increased regional cooperation in trade on the economies of those CAREC member countries for which a computable general equilibrium (CGE) model will be developed.

D. Chapter 3. Regional Cooperation in Transport

7. **Current State of the Transport Sector.** This section will give an overview of the current state of the transport sector in the CAREC member countries, focusing on its impact on intra- and inter-regional trade. It will also discuss recent developments in the sector (including bilateral and multilateral initiatives aimed at improving CAREC member countries' transport links with each other and the rest of the world, and the progress made to date in implementing these initiatives), identify key issues, and assess their impact on intra- and inter-regional trade as well as competitiveness, economic growth, governance, employment, and poverty in the CAREC member countries (by including case studies and quantitative assessments). A map of the existing transport networks will be provided.

8. **Priorities for Regional Cooperation.** This section will identify priorities for regional cooperation among the CAREC member countries and their neighbors in developing the transport sector as a means of facilitating intra- and inter-regional trade (including the possible creation of inland container depots, harmonization of the legal and regulatory frameworks, enhancement of transportation security, and priority investment projects). It will also provide qualitative and quantitative assessments of potential gains for individual CAREC member countries that would result from their improved transport links with each other and with neighboring countries. The section will focus on major transport corridors that are intended to link CAREC member countries with the rest of the world and on the implications of transport sector development for intra- and inter-regional trade as well as economic growth and poverty reduction in CAREC member countries.

E. Chapter 4. Regional Cooperation in Transit

9. **Existing Transit Arrangements.** This section will give an overview of the transit arrangements currently in place in CAREC member countries. It will also discuss major issues in the existing formal and informal transit arrangements and assess their impact on intra- and inter-regional trade as well as competitiveness, economic growth, governance, employment, and poverty in the CAREC member countries (by including relevant case studies and quantitative assessments).

10. **Development of a Unified Regional Transit System.** This section will provide qualitative and quantitative estimates of potential gains—in terms of intra- and inter-regional trade, economic growth, and poverty reduction—that would result from the creation of a relatively simple, unified, and effectively administered regional transit system. Potential negative consequences of creating such a transit system (including possible increase in smuggling and drug trafficking) will be examined. The section will discuss legal, regulatory, institutional, and other reforms the CAREC member countries will need to implement to create a transit system conducive to intra- and inter-regional trade, while minimizing its possible negative consequences.

F. Chapter 5. Constraints on Regional Cooperation and the Way Forward

11. This chapter will analyze main constraints on regional cooperation among the CAREC member countries in trade, transport, and transit (including political and geopolitical constraints; institutional weaknesses; poor governance; and difficulties arising from the need for collective action and strategic interaction among various stakeholders). In this context, the chapter will identify main winners and losers from increased regional cooperation in the three areas. On the basis of this analysis, the chapter will discuss what would be the feasible and most effective options for fostering regional cooperation in trade, transport, and transit with reference to the current arrangements and proposals under consideration.

G. Conclusions and Recommendations

12. The last section will summarize the findings of the report and recommend how to increase regional cooperation among the CAREC member countries in the areas of trade, transport, and transit. It will also present baselines and benchmarks against which future progress on regional cooperation in these areas can be measured.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Total Cost^a
1. Consultants	
a. Remuneration and Per Diem	
i. International Consultants	185.4
ii. Domestic Consultants	72.0
b. International and Local Travel	25.0
c. Reports and Communications	5.0
2. Conferences	20.0
3. Miscellaneous Administration and Support Costs	7.6
4. Contingencies	35.0
Total	350.0

^a Financed by the Asian Development Bank's technical assistance funding program.
Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. International Expert in Trade (4.0 person-months)

1. An international expert in trade will be engaged for a total of 4.0 person-months, 2.0 of which will be for field services. Under the guidance of the team leader and in collaboration with other team members, the expert will carry out the following tasks:

- (i) Draft the chapter on the analytical framework of the Asian Development Bank's (ADB) report on Central Asia regional cooperation in trade, transport, and transit.
- (ii) Develop a framework for analyzing recent trade patterns and current trade regimes in individual Central Asia Regional Economic Cooperation (CAREC) member countries.
- (iii) Using country-specific analyses done by domestic consultants, analyze recent trade patterns and existing trade regimes in CAREC member countries, with focus on intraregional trade.
- (iv) Develop a framework for analyzing existing barriers to intra- and inter-regional trade and assessing their impact on competitiveness, economic growth, governance, employment, and poverty in individual CAREC member countries.
- (v) Using country-specific analyses and case studies prepared by domestic consultants, identify the main barriers to intra- and inter-regional trade and assess their impact on competitiveness, economic growth, governance, employment, and poverty in the region.
- (vi) Using the gravity model, estimate the intra- and inter-regional trade potential of CAREC member countries with and without trade barriers.
- (vii) Using information provided by domestic consultants, review the existing regional trade arrangements involving CAREC member countries.
- (viii) Analyze options for regional cooperation in trade among CAREC member countries.
- (ix) Examine recent proposals pertaining to regional trade cooperation and implications of prospective accession of CAREC member countries and their neighbors to the World Trade Organization.
- (x) Develop a framework for analyzing how individual CAREC member countries and key stakeholders in them will be affected by increased regional cooperation in trade under alternative cooperation scenarios.
- (xi) Using country-specific analyses done by domestic consultants and relevant evidence from other regions, make qualitative and quantitative assessments of potential gains and losses resulting from increased regional cooperation in trade for individual CAREC member countries and key stakeholders in them under alternative scenarios for cooperation.

- (xii) Using country-specific analyses done by domestic consultants, examine the main constraints on regional cooperation in trade among the CAREC member countries and recommend what CAREC member countries and the international community can do to overcome these constraints.
- (xiii) Make a table of baselines and benchmarks against which future progress on regional cooperation in trade among CAREC member countries can be measured.
- (xiv) Assist the team leader in consolidating inputs of team members into a coherent and consistent ADB report on Central Asia regional cooperation in trade, transport, and transit covering CAREC member countries.
- (xv) Draft a chapter on trade, transport, and transit for the United Nations Development Programme (UNDP) report on regional cooperation for human development and security in Central Asia.

2. The expert will have a demonstrated ability to perform tasks similar to those in (i)-(xv), especially (v), (xi) and (xii). The expert will complete tasks (ii), (iv) and (x) within 8 working days after the start of services; task (i) by mid-October 2004; tasks (iii), (v)-(ix), (xi)-(xiii) by end-November 2004; task (xv) by end-December 2004; and task (xiv) by end-January 2005.

B. International Expert in Transport (1.5 person-months)

3. An international expert in transport will be engaged for a total of 1.5 person-months, 1.0 of which will be for field services. Under the guidance of the team leader and in collaboration with other team members, the expert will carry out the following tasks:

- (i) Develop a framework for analyzing the transport sector in CAREC member countries as a means for facilitating intra- and inter-regional trade.
- (ii) Using country-specific analyses done by domestic consultants and recent ADB studies on the subject, give an overview of the current state of the region's transport sector and of recent developments in the sector.
- (iii) Identify key issues in the transport sector and assess their impact on intra- and inter-regional trade as well as competitiveness, economic growth, governance, employment, and poverty in CAREC member countries.
- (iv) Identify priorities for regional cooperation among CAREC member countries and their neighbors in developing the transport sector as a means of facilitating intra- and inter-regional trade.
- (v) Using inputs provided by domestic consultants, make qualitative and quantitative assessments of potential gains for CAREC member countries that will result from their improved transport links with each other and neighboring countries.
- (vi) Using analyses done by domestic consultants, examine the main constraints on regional cooperation among CAREC member countries in the transport sector and recommend what those countries and the international community can do to overcome these constraints.

- (vii) Make a table of baselines and benchmarks against which future progress on regional cooperation in the transport sector among CAREC member countries can be measured.

4. The expert will have a demonstrated ability to perform tasks similar to (i)-(vii), especially (iii), (v), and (vi). The expert will complete task (i) within 3 working days after the start of services and tasks (ii)-(vii) by end-November 2004.

C. International Expert in Transit (1.5 person-months)

5. An international expert in transit will be engaged for 1.5 person-months, 1.0 of which will be for field services. Under the guidance of the team leader and in collaboration with other team members, he/she will carry out the following tasks:

- (i) Develop a framework for analyzing the formal and informal transit arrangements currently in place in CAREC member countries and their impact on intra- and inter-regional trade, competitiveness, economic growth, governance, employment, and poverty.
- (ii) Using country-specific analyses and cases studies prepared by domestic consultants and recent ADB studies on the subject, give an overview of the formal and informal transit arrangements currently in place in CAREC member countries, identify major issues, and assess their impact on intra- and inter-regional trade as well as on competitiveness, economic growth, governance, employment, and poverty in those countries.
- (iii) Using inputs provided by domestic consultants, make qualitative and quantitative assessments of potential gains for CAREC member countries that will result from the creation of a relatively simple, unified, and effectively administered regional transit system and assess potential negative consequences of creating such a transit system.
- (iv) Identify key legal, regulatory, institutional, and other reforms that CAREC member countries will need to implement to create a transit system more conducive to intra- and inter-regional trade, while minimizing its possible negative consequences.
- (v) Examine the main constraints on regional cooperation in the area of transit among CAREC member countries and recommend what those countries and the international community can do to overcome the constraints.
- (vi) Give a brief overview of major international transit systems.
- (vii) Prepare a table of baselines and benchmarks against which future progress on regional cooperation in the area of transit among CAREC member countries can be measured.

6. The expert will have a demonstrated ability to perform tasks similar to those in (i)-(vii), especially (ii), (iii), and (v). The expert will complete task (i) within 3 working days after the start of services and tasks (ii)-(vii) by end-November 2004.

D. International Expert in Economic Modeling (2.0 person-months)

7. An international expert in economic modeling will be engaged for a total of 2.0 person-months. Under the guidance of the team leader and in collaboration with other team members, the expert will carry out the following tasks:

- (i) Develop a framework for a computable general equilibrium (CGE) model of a CAREC member country that can be used in assessing the potential impact of increased regional cooperation in trade, transport, and transit on its economy.
- (ii) Using assessments of data quality and availability made by domestic consultants, identify two CAREC member countries for which developing the CGE model will be relatively easy.
- (iii) After obtaining ADB's concurrence with the choice of countries and receiving data for the two countries from domestic consultants, develop CGE models for the two countries.
- (iv) Using the models, assess the potential impact of increased regional cooperation in trade, transport, and transit on the economies of these two countries.

8. The expert will have strong technical expertise and extensive experience in CGE modeling, preferably for trade policy analysis. The expert will complete tasks (i) and (ii) within 2 weeks after the start of services and tasks (iii) and (iv) by end-December 2004. Preliminary assessments will be available by end-November 2004.

E. Domestic Consultants (48 person-months)

9. Domestic consultants will be engaged, possibly through a local research institution, in each of the CAREC member countries: 9.0 person-months for each of the two countries for which a CGE model will be developed and 6.0 person-months for each of the five others. Under the guidance of the team leader and in collaboration with other team members, the consultants will carry out the following tasks:

- (i) Analyze recent trade patterns and the current trade regime in the country concerned, with the focus on intraregional trade.
- (ii) Analyze barriers to intra- and inter-regional trade existing in the country concerned and assess their impact on competitiveness, economic growth, governance, employment, and living standards in that country.
- (iii) Review the regional trade arrangements involving the country concerned.
- (iv) Analyze how the country concerned and key stakeholders in it will be affected by increased regional cooperation in trade among CAREC member countries under alternative cooperation scenarios.
- (v) Give an overview of the current state of the transport sector in the country concerned and of recent developments in the sector.

- (vi) Make qualitative and quantitative assessments of potential gains for the country concerned that will result from its improved transport links with other CAREC member countries and neighboring countries.
- (vii) Using a framework provided by ADB, analyze the formal and informal transit arrangements currently in place in the country concerned and their impact on intra- and inter-regional trade, competitiveness, economic growth, governance, employment, and poverty.
- (viii) Make qualitative and quantitative assessments of potential gains for the country concerned that will result from the creation of a relatively simple, unified, and effectively administered regional transit system and assess potential negative consequences of creating such a transit system.
- (ix) Prepare case studies showing the impact of existing trade barriers, weaknesses of the transport sector, and deficiencies of transit arrangements on intra- and inter-regional trade as well as on competitiveness, economic growth, governance, employment, and living standards in the country concerned.
- (x) Analyze the main constraints on regional cooperation in trade, transport, and transit among CAREC member countries from the perspective of the country concerned, and recommend what the country concerned, other CAREC member countries, and the rest of the international community can do to overcome these constraints.
- (xi) Assess the availability and the quality of the data needed to develop a CGE model for the country concerned, using a framework provided by ADB.
- (xii) Provide other inputs to the ADB report on Central Asia regional cooperation in trade, transport, and transit and to the chapter on trade, transport, and transit for the UNDP report on regional cooperation for human development and security in Central Asia, as needed.
- (xiii) Review and comment on early drafts of the ADB report on Central Asia regional cooperation in trade, transport, and transit, and on the chapter on trade, transport, and transit for the UNDP report on regional cooperation for human development and security in Central Asia.

10. The consultant will complete task (xi) within 1 week after receiving the framework from ADB, tasks (i)-(x) by end-October 2004, and tasks (xii) and (xiii) by August 2005.

11. In the countries for which a CGE model will be developed, the domestic consultant will also carry out the following tasks by end-December 2004:

- (i) Collect data needed for the development of the CGE model.
- (ii) Help the international expert in economic modeling assess the potential impact of increased regional cooperation in trade, transport, and transit on the economy concerned.