

SECTOR ASSESSMENT (SUMMARY): INDUSTRY AND TRADE¹

Sector Road Map

1. Sector Performance, Problems, and Opportunities

1. The Central Asia Regional Economic Cooperation (CAREC) program pursues a shared vision of good neighbors, good partners, and good prospects. CAREC 2020, the new strategic framework of the Asian Development Bank (ADB) for CAREC focuses on two distinct but complementary strategic objectives: expanding trade and improving competitiveness. These will be achieved through transport connectivity, trade facilitation, energy sector cooperation, and development of economic corridors.

2. Economies of the CAREC countries, including the Kyrgyz Republic and Tajikistan participating in the CAREC Regional Improvement of Border Services Project, are heavily dependent on trade. After overcoming difficulties associated with transition of the 1990s, CAREC as a whole has demonstrated good economic growth, for which trade has served as an important engine. The countries share several important common trends in trade. First, primary products dominate the structure of exports of most CAREC countries. Second, trade is not balanced in any of the countries, which typically have either a large surplus or deficit. And third, trade is concentrated in a small number of external markets; the top three trading partners for CAREC countries are the European Union, Russia, and the People's Republic of China (PRC). CAREC trade with the PRC has increased particularly fast. Most CAREC countries, however, are landlocked and remote from most global economic centers, and as such, trade between countries of the region is important. Major impediments for trade in the region are insufficient infrastructure and poor trade facilitation.

3. Trade facilitation is at the core of CAREC 2020. The joint CAREC Transport and Trade Facilitation Strategy (TTFS) guides the work of the CAREC program in transport and trade facilitation. The TTFS aims to improve the region's competitiveness and expand trade among CAREC economies and with the rest of the world. The trade facilitation component of the TTFS comprises two elements aimed at reducing trade costs: promoting concerted customs reform and modernization, and using an integrated approach to trade facilitation through interagency cooperation and public-private partnership. The goals of the CAREC trade facilitation component are to

- (i) reduce transaction costs and time significantly by improving administrative efficiency and simplifying, standardizing, and harmonizing trade procedures;
- (ii) encourage the free movement of people and goods; and
- (iii) enhance the transparency of laws, regulations, procedures, and forms; and share information on these and other trade issues.

4. The trade facilitation component will be guided by seven objectives:

- (i) strengthen customs cooperation (the core of the trade facilitation strategy);
- (ii) expand the work program scope to address broader issues of trade facilitation;
- (iii) focus on trade facilitation efforts for the CAREC corridors;
- (iv) adopt a results-based approach to monitor time and cost savings as the key

¹ This summary is based on (i) ADB. 2009. *CAREC Transport and Trade Facilitation: Partnership for Prosperity*. Manila; and (ii) ADB. 2012. *CAREC 2020: A Strategic Framework for the Central Asia Regional Economic Cooperation Program 2011–2020*. Manila.

- indicators of the component;
- (v) support logistics assessments and planning focusing on priority corridors;
- (vi) support bilateral initiatives among CAREC countries with sharing of experience through the Customs Cooperation Committee (CCC);² and
- (vii) enhance partnerships between CAREC's participating multilateral institutions and key international agencies supporting customs reform, trade facilitation, and logistics development in the region.

5. For trade facilitation, an important ongoing task is addressing border crossing point (BCP) bottlenecks along CAREC transport corridors. Activities to be implemented during 2011–2015 include (i) improvement of BCP infrastructure, (ii) continued implementation of ongoing and planned customs modernization projects, (iii) implementation of joint customs controls, and (iv) promotion of national single windows (NSWs). During 2016–2020, regional interoperability of NSWs will be pursued, and work on other behind-the-border facilitation measures will be developed. A pilot program for sanitary and phytosanitary cooperation among CAREC countries will be started in 2013 with ADB assistance. Improved BCP infrastructure and stronger trade facilitation measures to be achieved through ADB assistance (the CAREC Regional Improvement of Border Services Project) will help CAREC countries improve performance of the transport corridors, diversify international trade, and enhance economic competitiveness.

6. The CAREC corridor performance measurement and monitoring (CPMM) system, supported by ADB, was used to monitor and evaluate implementation of the TTFS. It identified BCPs as the major bottleneck for transport and trade in the CAREC region. The CPMM reveals that in 2012 a typical 500-kilometer journey by a 20-ton truck required an average of 19.3 hours and cost \$1,068; 39% of the time accounted for various types of delays and stops. The CPMM also indicates that an average of 10.9 hours and cost of \$157 is required to cross a BCP. Overall, the performance of CAREC corridors 3 and 5, where the project BCPs are located, is less than optimal. The CPMM indicates that in 2012, the average time and cost to cross a BCP was 7.1 hours and \$168 along corridor 3, and 8.3 hours and \$151 along corridor 5. For the project BCPs, the time and cost in 2012 to cross Karamyk at corridors 3 and 5 were 11.8 hours and \$147; and 1.5 hours and \$171 for Guliston. A significant portion of delays is attributable to poor physical infrastructure, low utilization of information and communication technology, and limited supporting trade logistics facilities at the BCPs. To eliminate some of the bottlenecks, BCP infrastructure improvements are needed. NSWs, which enable trade and transport-related information and documents to be submitted through a single entry point and to be reviewed and processed by relevant government agencies prior to the cargo's arrival at the border, can provide significant efficiency gains. The 8th CAREC Ministerial Conference held in October 2009 endorsed a plan to address physical infrastructure needs at BCPs along each of the six priority CAREC corridors, and establish and network NSWs in the region for the development of seamless corridors to support economic competitiveness.

2. Governments' Sector Strategies

7. The Kyrgyz Republic and Tajikistan, which are landlocked countries, need to develop a predictable, transparent trading environment to improve trade facilitation; leverage more transit and international trade; and attract foreign direct investment to boost their competitiveness and sustain inclusive growth. ADB support for regional cooperation intersects closely with the

² The CCC comprises the heads of customs administrations of the 10 countries participating in the CAREC program and provides overall guidance for regional customs cooperation activities.

strategies and priorities of the project countries, particularly those related to promoting sustainable growth and improving governance. The project will help improve the environment for trade, which is an engine for economic growth and development. NSW development is consistent with government priorities to improve governance, reduce corruption by increasing transparency, and ensure effective public administration by improving civil service capacity.

8. **Kyrgyz Republic.** Since joining the World Trade Organization (WTO) in late 1998, the government has made significant progress in creating conditions to support a market economy. Examples include the establishment of the National Council to facilitate trade and transport in January 2008 and the introduction of changes to legislation aimed at improving import–export procedures in March 2008. The country is also an active participant in the CAREC CCC and has entered into several bilateral agreements on mutual assistance and cooperation in customs matters. The Kyrgyz Republic maintains that it is planning to join the International Convention on Simplification and Harmonization of Customs Procedures (Revised Kyoto Convention). It is currently considering accession to the Russia–Belarus–Kazakhstan Customs Union. Under ADB technical assistance, the Kyrgyz Republic and Tajikistan signed the Cross-Border Transport Agreement in December 2010, to which other CAREC countries may accede.

9. **Tajikistan.** Tajikistan has been an active participant in regional cooperation, particularly the CAREC program. Its National Poverty Reduction Strategy highlights regional cooperation as the “defining feature of Tajikistan’s foreign economic policy.” To support trade facilitation, the government has taken a series of initiatives, including introducing a government resolution on Improving Trade Operations (December 2010), which requires implementation of a single window system for export–import and transit operations, and reduces the number of required documents and procedures for foreign trade. It established a national coordination committee and several working groups for single window development. From January 2010, a new unified form of customs commodity declaration was introduced that complies with the single administrative document used within the unified automated information system (UAIS). The new system improved the efficiency and transparency of customs services and reinforces ongoing regulatory reforms to simplify customs procedures. Other reform measures for trade facilitation include removing the compulsory certification requirement of the commodity exchange for certain exports, and computerization and modernization of customs service with the possibility of implementing electronic customs declarations.

3. ADB Sector Experience and Assistance Program

10. In 2002, the Kyrgyz Republic and Tajikistan started to pursue regional trade facilitation and customs cooperation with ADB assistance. In 2004, ADB approved the CAREC Customs Modernization and Infrastructure Development Project to support the development of customs UAIS and renovation and/or construction of BCPs in the Kyrgyz Republic and Tajikistan.³ The UAIS helped to modernize and improve customs service administration, and will prepare for national single window development. The ADB Investment Climate Improvement Program, approved in 2008, supported initial investment in a foreign trade single window facility for the Kyrgyz Republic.⁴

³ ADB. 2004. *Report and Recommendation of the President to the Board of Directors: Proposed Loans and Technical Assistance Grants to the Kyrgyz Republic and the Republic of Tajikistan for the Regional Customs Modernization and Infrastructure Development Project*. Manila.

⁴ ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster, Grant for Subprogram 1, and Grant Assistance to the Kyrgyz Republic for the Investment Climate Improvement Program*. Manila.

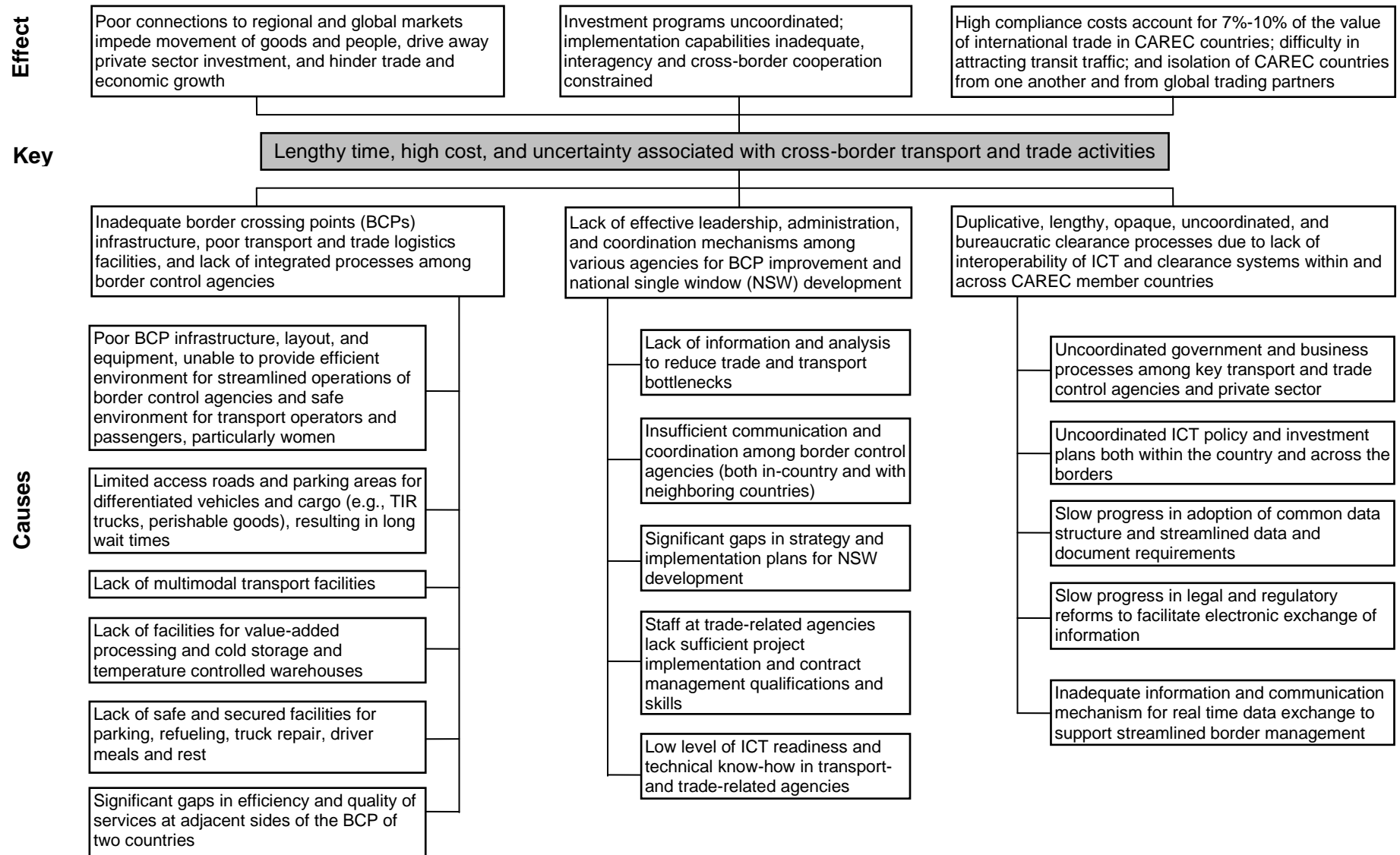
11. ADB has invested heavily in upgrading CAREC corridors. ADB's CAREC Regional Road Corridor Improvement Project⁵ has undertaken road construction on both sides of the border leading to the Karamyk BCP.⁶

12. Lessons indicate that weak institutional capacity is a key constraint to timely and efficient execution of projects, and to long-term sustainability of the assets developed. Completing BCP improvements and NSW development more or less simultaneously by the two participating CAREC countries will be important (i.e., Kyrgyz Republic, and Tajikistan). The varying capacity and capability of project implementation of CAREC countries may pose a risk on more or less simultaneous completion of the BCP and single window components. Also, the conventional approach of procuring separate contracts requires several stages of implementation activities, leading to a longer implementation period and risk of delayed project implementation. These risks may be reduced by adopting a design-and-build modality for procurement to attract better-qualified contractors, and by combining individual project activities into larger contract packages to generate economies of scale and minimize the administrative burden placed on overstretched agencies. Further, the proposed project will (i) provide funding to engage project management consultants for the project implementation unit of each project country to provide oversight and supervision during implementation; and (ii) include institutional and technical support as part of the NSW component to conduct focused capacity building program, particularly for information technology staff, and enhance stakeholder engagement and public awareness to generate demand for and ensure the acceptance of the NSW.

⁵ ADB. 2007. *Report and Recommendation of the President to the Board of Directors: Proposed Loan, Asian Development Fund Grants, and Technical Assistance Grant for the CAREC Regional Road Corridor Improvement Project (Kyrgyz Republic and Tajikistan)*. Manila.

⁶ CAREC Corridors 3 and 5 crosscut at Karamyk.

Problem Tree for CAREC Trade Facilitation



BCP = border crossing point, CAREC = Central Asia Regional Economic Cooperation, ICT = information and communication technology, NSW = national single window, TIR = Transports Internationaux Routiers.
Source: Asian Development Bank.

Sector Results Framework (Industry and Trade, 2013–2017)

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Sector Outcomes		Sector Outputs		ADB Sector Operations	
Outcomes with ADB Contribution	Indicators with Targets and Baselines	Outputs with ADB Contribution	Indicators with Incremental Targets	Planned and Ongoing ADB Interventions	Main Outputs Expected from ADB Interventions
Transit and intraregional trade increased through improved access to external markets	Transit trade volume via CAREC corridors increased to 5% of trade between Europe and East Asia by 2017, from less than 1% in 2005	BCPs on CAREC corridors renovated and improved	10 key BCPs along CAREC corridors improved by 2017	Planned key activity areas Trade facilitation Information and communication technology for improving efficiency in trade	Improved and modernized key BCPs along the CAREC priority corridors
Time taken to clear BCPs reduced	Intraregional trade volume in 2017 increased by 50% from 2005 Time for border clearance along CAREC corridors reduced by 30% by 2017 compared with 8.7 hours in 2010	NSW facilities established to support regional data sharing and information exchange	Common international standards adopted in all CAREC NSW development programs to ensure regional interoperability An alliance of NSW operators established by 2017	Ongoing projects with approved amounts Regional Customs Modernization and Infrastructure Development (Kyrgyz Republic and Tajikistan) (\$18.2 million)	NSW facilities installed in key BCPs and regional platform for interconnectivity designed Improved harmonization in trade and border procedures Deeper involvement of private sector in trade facilitation efforts
Cost incurred at BCPs reduced	Cost reduced by 30% by 2017 compared with \$186 in 2010				
Speed to travel 500 kilometers on CAREC corridor section increased	Speed increased by 30% by 2017 compared with 23.5 kilometers per hour in 2010				

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Source: Asian Development Bank.