



Reference Document
For Session 1 of the Senior Officials' Meeting
June 2017

CAREC 2030: Long–Term Strategic Framework

Proposed Outline

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Senior Officials' Meeting
Central Asia Regional Economic Cooperation
20–21 June 2017
Tbilisi, Georgia

CAREC 2030: Long-Term Strategic Framework Proposed Outline

I. Introduction

Background and purpose of the CAREC 2030: Long-Term Strategic Framework

The CAREC program has recorded impressive achievements in regional economic cooperation, especially in connectivity (transport and energy) and in specific areas of trade facilitation and trade policy cooperation. Investments in member countries under CAREC total nearly \$30 billion since 2001 and six international institutions participate, buttressing a robust program of project investments and knowledge products.

Current CAREC operations are guided by the strategy, *CAREC 2020*.¹ A *Mid-Term Review* (MTR) of CAREC 2020 was completed in 2016. The MTR recognized the need to review (i) CAREC's strategic coherence, and (ii) the program's relevance, and put forward the following recommendations:

- complete the CAREC 2020 agenda;
- revisit CAREC's objectives to ensure that they are strategically coherent;
- broaden the CAREC agenda; and
- prepare a new long-term strategy for CAREC.

Accordingly, the Strategic Framework proposes a carefully calibrated expansion of CAREC's agenda, reflecting country needs and CAREC capabilities.

II. Driving Principles of the Strategic Framework

A. Aligning with national strategies and supporting SDGs and COP21

- The new CAREC strategy will align closely with national strategies to create greater national ownership and support country-level goals and objectives in areas and sectors prioritized under CAREC.
- CAREC will promote regional approaches that complement national actions to best achieve the SDGs and the COP 21 climate targets, where externalities prevail or spill-over effects are strong. This centers on areas of regional and global public goods, including climate change, environment, trade, and energy, food and water security. Notably, CAREC's endeavors will assist countries to meet their nationally determined contributions under COP21. CAREC will also support regional lesson learning and knowledge sharing on promoting economic stability and dealing with the impact of financial and economic crisis.
- Considerations of sustainability and climate resilience will cut across CAREC investments in existing and emerging areas to promote connectivity, energy, trade, and economic cooperation.
- The CAREC platform will also allow knowledge-sharing on promoting common approaches and cross-learning opportunities on the global development agenda.

¹ CAREC 2020: A Strategic Framework for the CAREC Program 2011-2020 (ADB, 2012)

B. Staying focused in selective expansion of operational priorities

- CAREC will continue to build on its comparative advantages and learn from its vast experience as it scales up operations in connectivity, energy, and trade to boost growth.
- CAREC will selectively enter new areas to support the global development agenda, based on decisions of its members and the comparative advantage of its development partners. This entry will be gradual and incremental; it will be tailored to the resources and capabilities made available by all member countries and development partners.

C. Developing knowledge services and policy dialogue as a key pillar of CAREC Support

- CAREC will provide an open platform for all members and development partners to promote dialogue and deliver quality, coordinated knowledge services, with access to state of the art technologies, financing possibilities, project data and plans. The policy dialogue could center on issues of economic stability, common approaches to SDGs, and other development issues and challenges. The CAREC Institute will be central to providing knowledge solutions for policy development.
- The Ministerial Conference is to be transformed into a strategy setting body, deciding key policies, and exercising accountability over delivery of the agreed multi-year program.

D. Integrating the role of the private sector and civil society

- As required investments exceed public sources, CAREC will leverage private sector financing solutions, *inter alia*, by deploying public funds for de-risking and leveraging up private investments.
- CAREC will promote business-to-business and people-to-people investments among member countries for deeper embedding of regional cooperation in national plans and priorities.

E. Maintaining CAREC's honest broker role and informal nature

- CAREC's convening power and role as neutral honest broker lend it credibility as it deepens its existing operational areas and expands into new activities through both reinforced project pipelines and knowledge products.
- CAREC's informal structure facilitates policy dialogue, especially on complex and sensitive development issues.

F. CAREC as an open, inclusive platform

- CAREC's open platform is designed to maximize the resources and expertise of its development partners to support regional cooperation. CAREC will embrace and build synergy with other regional cooperation forums, including the Belt and Road Initiative, New Silk Road, Economic Cooperation Organization, the Shanghai Cooperation Organization, the Eurasian Economic Union; as well as new multilateral banks, such as the AIIB and the NDB. CAREC will also consider how to work with non-CAREC neighboring countries that have important economic ties and relationships with CAREC countries.
- A robust communications strategy will be developed to serve all participants and enhance public awareness of CAREC's role in member countries.

A New Mission

From its current focus on trade and connectivity, CAREC needs a new mission statement that encompasses the proposed broadening of the CAREC agenda and its alignment with the SDGs and COP21.

A proposed mission statement is for CAREC to serve as *"A Regional Cooperation Platform to Connect People, Policies and Projects for Shared and Sustainable Development"*.

III. Renewing the Strategic Framework

The Strategic Framework envisages five clusters, encompassing existing and proposed new operational areas. An emphasis on sustainability and alignment with the SDGs and COP21 climate targets will be mainstreamed throughout the clusters. In addition, the use of information and communication technology (ICT) to promote productivity and efficiency cuts across all clusters and will be explicitly built into all knowledge and investment activities.

A. Macroeconomic and Financial Stability Cluster²

- CAREC countries are affected by external shocks, exchange rate volatility, and spillover effects. Policy dialogue and regional learning will clarify appropriate policy responses. CAREC will focus on its areas of expertise to illustrate macro-policy linkages, e.g., the potential of energy pricing reforms and open trade policies to anchor economic stability. Strengthening financial infrastructure and access to finance are high priorities across the CAREC membership.
- Growing cross-border capital flows strengthen financial integration. CAREC will support national banking and capital market regulators needs to exchange data, intelligence, and develop common practices to international standards (including Basel II and III), especially in banking supervision, corporate governance, risk management, and local bond and stock market development, leading to eventual cross-listing of securities.

B. Trade, Investment, Economic Corridors and Tourism Cluster³

Trade Facilitation and Trade Policy

- CAREC will help assess the shifting landscape of trade agreements and the potential of moving towards regional free trade agreements. A focus on trade in services, particularly in e-commerce, as well on cross-border labor placements, will yield rich opportunities.
- A special task is helping members with obligations on post WTO-accession commitments, such as on non-tariff barriers, including technical barriers to trade (TBT) and sanitary and phytosanitary (SPS) issues. Support on accession process for the CAREC countries not in the WTO will continue to be provided through knowledge sharing. Collective actions on the

² Corresponds to SDGs 1, 8, 10 and 17.

³ Corresponds to SDGs 1, 8, 10 and 17.

implementation of the WTO Trade Facilitation Agreement will complement the national endeavors.

- Deepening current efforts on customs and integrated trade facilitation is vital particularly in (i) establishment of national single windows, (ii) improvement of border crossing points, (iii) customs simplification and harmonization, including alignment with the Revised Kyoto Convention; (iv) establishment of a regional transit regime, and (v) development of logistics centers.

Investment

- CAREC will promote a sound investment climate in the region to attract greater private sector investment, including cross-border investment, by reducing investor transaction costs, redressing incoherent or inaccurate investment policies and regulations, promoting business linkages between multinationals and domestic SMEs, and supporting capital markets development. In order to promote economic diversification, CAREC will support private sector participation and investments in agriculture, agribusiness development, and manufacturing; and in tourism, education and health, and other service sectors.

Economic Corridors

- Economic corridor investments boost competitiveness, through improved logistics and lowered costs of production, and promoting regional and global value chains. Successful corridor development requires improvements in business climate and urban services. The pilot on Almaty-Bishkek Economic Corridor provides useful lesson learning for possible extension of corridor development work under the new strategy.
- As economic corridor development is more efficient in cities because of the concentration of knowledge, skills and technology, policies to support efficient and sustainable urbanization are critical. Adapting and climate-proofing urban infrastructure is critical. CAREC will also provide support through the transmission of knowledge and best practice in urbanization policies.

Tourism

- Sustainable tourism, including community based and urban tourism as well as nature and eco-tourism (often cross-boundary) provide particularly important opportunities in CAREC's regional context and natural endowments.
- CAREC can support the region's large untapped tourism potential through advertising and branding, investing in tourism services and critical infrastructure, jointly developing tourist products and advocating harmonization of visa regimes.

C. Infrastructure and Economic Connectivity Cluster⁴

Transport

- CAREC will support sustainable transportation systems in line with the SDGs and COP21 agreement. An emphasis on multimodality will be insured.

⁴ Corresponds to SDGs 7, 9 and 11.

- Railways investments will be prioritized with a focus on improvement of infrastructure, the creation of robust management and commercial capabilities, and improvements in the regulatory frameworks
- There is a large potential for improving competitiveness throughout CAREC by liberalizing civil aviation, particularly through open-skies agreements.
- Dry/land ports facilitate transport in landlocked contexts, and have great potential in CAREC space.
- A renewed focus will be placed on road safety and road asset management.

Energy

- CAREC will support technology leapfrogging in the use of clean and renewable energy to help curb carbon emissions to support sustainability and reduce carbon footprint in member countries.
- CAREC may promote emission trading systems, in the context of promoting trade and developing unified, single markets in CAREC space.
- CAREC will continue to support existing energy trade initiatives, including TAPI, TUTAP and TAP, whilst reinforcing further integration of energy markets.
- Advancing cooperation on the water-energy nexus is critical to raising efficiency in both sectors and generating exports. CAREC will consider initiatives in this area based on agreement of member countries.

D. Agriculture and Water Cluster⁵

Agriculture

- Agricultural growth is vital for economic diversification, but is threatened by its vulnerability to climate change. Adaptation capacities in farming, crops, technologies are low, as is access of farmers to information and technologies. CAREC will assist in these areas to strengthen climate-resilient agriculture and help build strong regional and global agricultural value chains.
- To promote trade in agriculture, CAREC will support alignment of sanitary and phytosanitary standards with international standards, build capacity on product quality and diversity, and finance agricultural infrastructure.
- Weak regional climate information contributes to CAREC countries' vulnerability to increasingly damaging extreme weather events. CAREC could support investment in hydromet services, and projects to establish, train, and share experiences among national and sub-national hydromet bodies.
- The environmental conservation of bio-resources by adopting cross-country ecosystem approaches could be considered by CAREC.

⁵ Corresponds to SDGs 2, 6, 13, 14 and 15.

Water Management

- Efficient use of water is critical to meeting the SDGs on water, food and energy security. This requires employing international best practice in water management; CAREC will assist in knowledge transfer and implementation.
- CAREC, in its honest broker role, will provide a platform to discuss water scarcity and water productivity issues as well as transboundary water resource management. In these sensitive topics, a careful identification of consensual entry points is the essential first step.
- Irrigation and efficient agriculture development, improved management of river flows to reduce flood risk, and addressing water contamination are some “early harvest” areas. Moreover, support could also be provided in basin water management, particularly in transboundary areas.

E. Social Services Cluster⁶

Education

- Building up quality human resources and promoting greater labor mobility to match employment opportunities in the region are important areas for member countries, and aligned with the SDGs. To support these areas, CAREC can help develop an integrated regional labor market information system focusing on (i) current and future skill needs, (ii) regional job search and placement services, and (iii) cross-border higher education and TVET program offerings.
- Initiatives in promoting regional cooperation could include facilitating student and worker mobility through development of a harmonized credit transfer system, setting up a framework for the mutual recognition of skills and qualifications (including online degrees), and development of quality assurance bodies.

Health

- Addressing pandemic risks and control of communicable diseases are critical regional public goods with significant positive externalities. These objectives are supported by the SDG on health and best achieved in a regional context. Setting up health-related surveillance systems will be important.
- CAREC will facilitate common approaches and cross-learning in prevention and treatment protocols, especially for non-communicable diseases; modernize service delivery and regulations; and develop sustainable financing models.
- CAREC could also facilitate private sector-driven trade in health services and e-medication in the region.

IV. Institutional Arrangements

Enhanced role for the MC and the SOM. The MC would function as a strategy-setting and policy body focusing on key priorities in the context of attaining SDG and COP21 targets. It will exercise accountability over the overall program. The SOM will be empowered to take all decisions at the sector and project levels and will review sector policies, project-related

⁶ Corresponds to SDGs 3 and 4.

activities, knowledge and institution-related initiatives, working closely with the CAREC Secretariat and the sector and cluster level forces. National focal points will continue to play a critical role in program discussions and selections, and in driving the work of the SOM.

Cluster approach. The coordinating committees will need to be adapted to reflect CAREC's enhanced mandate. Cluster groupings by sector could be formed to exploit strong cross-linkages between sectors, and to ensure accountability. Sub-committees and *ad hoc* expert groups will be constituted as needed to address emerging priorities in a flexible and quick-response manner.

New development partners will be invited to join the CAREC platform and contribute their skills and resources to support CAREC projects and activities.

For discussion: Summit meeting. A summit meeting of CAREC heads of states and/or governments may be warranted every three to five years or could be one-off gathering to reinforce high-level political ownership of the program. However, the value-addition and expectations from the summit meeting would have to be carefully identified and evaluated.

V. Results and Resources

A framework for results will be developed as a CAREC program monitoring system to periodically evaluate performance and further feed into program adaptations. A detailed implementation plan would be prepared to operationalize the strategy and plan and sequence concrete actions.

Greater resources will be necessary to implement CAREC-2030. ADB and other development partners will need to scale-up their support for CAREC activities. The CAREC secretariat must be strengthened in staffing and resources for a successful implementation of the strategy.

Member countries will be requested to contribute more to support the activities and operations of the CAREC program.

Consultations with Stakeholders from CAREC Countries on New Long-Term CAREC Strategy

A Summary of Responses

I. Introduction

1. Consultations with all 11 CAREC member countries on the new CAREC strategy have been undertaken or planned during April–June 2017. Key government counterparts in Afghanistan, Azerbaijan, People’s Republic of China, Kazakhstan, Kyrgyz Republic, Mongolia, Pakistan, Tajikistan and Turkmenistan have already been consulted at the time of writing this note.⁷ In addition, consultation workshops with line government agencies, think tanks and private sector representatives in these countries have been organized together with meetings with the main development partners of each country. Detailed mission dates are included in Annex 1. A complete list of key stakeholders consulted in each country is included in Annex 2. Extremely useful feedback, views and perspectives have been collected during these consultations. These are summarized in this note and constitute a critical building block for the preparation of the new CAREC strategy.

II. Main Inputs from Stakeholders

2. All member countries endorsed the need for CAREC to formulate its new long-term strategy in consonance with the 2030 global development agenda. Countries noted that the CAREC strategy should be also aligned with their respective national development plans and strategies. Several member countries themselves are currently mapping their national strategies with the agreed global development goals, including the sustainable development goals (SDGs) and Paris Agreement of 21st Conference of Parties of UN Framework Convention on Climate Change (COP21). Member countries expressed support for CAREC’s role as a platform to help them achieve the SDGs and COP21 commitments.

3. Stakeholders in member countries described the formulation of the new long-term strategy as timely to ensure that CAREC remains relevant and responsive given the changing global and regional landscape, and expressed their support for its proposed directions. Overall, it was agreed that by promoting regional economic cooperation, CAREC can help member countries maintain economic stability, build resilience to economic downturns, and contribute to bring peace and prosperity in the region.

4. Stakeholders suggested that CAREC adopt a realistic approach when developing the new strategy in recognition of the complexity and challenges of the region. In preparing the strategy, CAREC should build upon its existing comparative advantages, including: (i) its apolitical nature and honest broker role, (ii) its convening power, and (iii) its solid track record of concrete project investments and its ability to maintain strong project pipelines going forward.

5. In addition to project investments, member countries agreed that it was important for CAREC to build on its experience and understanding of the region to provide value-adding policy and technical advice on a range of key development issues. Members supported the role of CAREC Ministerial Conference (MC) as a policy platform, including to promote policy dialogue on the achievement of the SDGs, and on maintaining economic stability through pursuing prudent policies and countercyclical programs to address economic downturns.

⁷ Consultations with Uzbekistan and Georgia are planned to take place during 12–19 June.

6. It was recognized that CAREC has been quite successful in fostering and improving infrastructure connectivity across the region, especially in the areas of road transport and energy cooperation. Many member countries expressed the need for CAREC to complement its focus on infrastructure development with a greater emphasis on “soft” issues necessary for strengthening regional cooperation. These include maintaining the focus on promoting trade facilitation and trade policy cooperation; and actively promoting the role of the private sector, and business-to-business and people-to-people exchanges, while recognizing that such networking and trust building efforts are equally vital to create opportunities for sustainable economic growth in the region.

7. The main inputs and recommendations emerging from the consultations are as follows:

a) Deepening existing operational priorities. Member countries agree that the four priority areas under CAREC remain crucial, but that further deepening is required in these areas for more robust and sustained contribution to regional cooperation.

- Transport: CAREC should support the establishment of multi-modal transport network throughout the region, including promoting development of more sustainable transportation systems such as cross-border railway infrastructure and services; and strengthening air connectivity, while also investing in development of ports and dry ports. Coordination with other regional infrastructure initiatives such as the Belt and Road Initiative (BRI) is important in this regard.
- Energy: CAREC can continue to help bridge the gap between energy supply and demand in the region by facilitating cross-border energy trade. There is also a need for promoting energy efficiency and the use of clean energy technologies as well as increasing renewable energy generation to trade in clean energy in the region. A focus on clean and renewable energy is vital for alignment with the 2030 global sustainable development agenda.
- Trade facilitation: CAREC should promote trade liberalization and continue to help member countries develop their transit and export potential. Recommendations put forward include: (i) facilitation of customs information exchange between countries, (ii) establishment of national single windows, (iii) improvement of border crossing points, (iv) customs simplification and harmonization, including alignment with the Revised Kyoto Convention (RKC), (v) establishment of a regional transit regime, (vi) development of logistics centers, and (vii) helping member countries implement their WTO-TFA (trade facilitation agreement) commitments. In addition, a focus on sanitary and phytosanitary (SPS) issues, including food safety, plant health and animal health, is crucial for the region and should be further strengthened, building upon the CAREC SPS common agenda.
- Trade policy: CAREC should support deepening cooperation among countries in reducing non-tariff barriers to trade, including with a focus on SPS and technical barriers to trade (TBT) issues, and trade in services. In addition, e-commerce is a global emerging trend that should be developed in the region to promote digital economy development and SMEs’ engagement in regional value chains. Support to newly acceded WTO members on the implementation of their post-accession commitments as well as support on the WTO accession process for the remaining CAREC countries not

in the WTO could be provided. Finally, CAREC could consider the pros and cons of moving towards regional free trade agreements. Economic Corridors: CAREC's work in developing regional economic corridors is important and should be extended. Both Kazakhstan and the Kyrgyz Republic noted the importance of completing the Almaty-Bishkek Economic Corridor (ABEC) initiative. Tajikistan observed the need to extend ABEC to Dushanbe.

b) Expansion of the CAREC agenda. Member countries supported the expansion of the CAREC agenda. It was recommended that CAREC should pursue selective expansion in areas prioritized by member countries and those in which CAREC's development partners have distinct comparative advantages. The following potential areas were prioritized by member countries during the consultations on the new strategy:

- Agriculture: Agriculture plays a central role in the region and is a key driver of economic diversification. CAREC can help member countries achieve food security and engage more actively in regional and global agricultural value chains. To promote cross-border trade in agriculture, CAREC can provide support in: (i) capacity building on product standardization and technical regulations; and (ii) promotion of innovation and use of new technologies to boost agricultural productivity.
- Water resources management: Given the critical role of water in promoting food and energy security and achieving the SDGs, CAREC, with its apolitical nature and honest broker role, could help foster dialogue and cooperation on water resource management issues. Given that water remains a highly sensitive issue, careful identification of suitable entry points that are agreeable to countries would be necessary for setting the stage for initiating discussions in this regard. Irrigation and efficient agriculture development, flood control systems, and water contamination could constitute some of the "early harvest" areas for regional cooperation on water issues. Further discussions with member countries will be needed to more clearly define a role for CAREC in this area.
- Environment and climate change: CAREC can help member countries devise and implement regional-level climate change adaptation and mitigation measures to support the achievement of their nationally determined contributions (NDCs) under COP21. Support for sustainable transport, clean and renewable energy, and agriculture and water resources already mentioned above will be instrumental for countries to achieve their NDCs. In addition, environmental protection and conservation of bio-resources by adopting ecosystem approaches that cut across countries are important for the sustainable development of the CAREC region.
- Tourism: CAREC can support the region's untapped tourism potential through addressing bottlenecks such as lack of international awareness of this potential, weak ground and air connectivity and lack of economical transportation systems, and absence of harmonization of visa regimes. Nature and eco-tourism provide particularly important opportunities in CAREC's regional context. Promoting sustainable cities will also help development of the tourism sector in the region.
- Financial and fiscal sector cooperation for economic stability: CAREC can provide a platform for policy dialogue and knowledge sharing among member countries on issues of economic stability and countercyclical policies, fiscal consolidation, and public expenditure management, among others. Building on its comparative advantages,

CAREC could focus on a dialogue on macroeconomic policy linkages of its priority sectors of operations, such as, for example, the contribution of energy pricing policies and reforms and open trade policies to strengthening regional and national economic stability. Over time, CAREC could also support regional initiatives in (i) development of regional economic and financial markets surveillance systems; (ii) cross-border listing of securities; (iii) creation of regional tax cooperation mechanisms; and (iv) establishment of a financial regulators' forum for countries to share knowledge and best practice on strengthening regulatory systems.

- Education and health: Building up quality human resources and promoting greater labor mobility to successfully link-up with available employment opportunities in the region are important areas where CAREC can contribute. In this context, CAREC could support: (i) strengthening collaboration among existing universities and institutions of higher learning to strengthen education quality standards, promote student exchange programs, and establish regional centers of excellence; and (ii) mutual recognition of general and technical and vocational education qualification standards, although this is quite complex and will only evolve over time. Regional cooperation in health could focus on control of communicable diseases. Setting up health-related surveillance systems will be important.
 - Information and Communication Technology (ICT): ICT is an essential component of connectivity, which has been placed at the center of national agendas and strategies going forward. ICT is a crosscutting area that can boost productivity and competitiveness across all sectors of the economy. CAREC's approach to ICT under the new strategy should be two-fold: (i) broaden internet access throughout the region, including in rural areas; and (ii) promote application of ICT in various sectors such as for smart agriculture, mobile finance, and online education in the region.
- c) Enhancing the role of the private sector.** Stakeholders agreed with the need for CAREC to better leverage the role of the private sector, given the large development needs of the region which cannot be met by the public sector alone. CAREC can help foster private investments and facilitate dialogue between the public and private sectors by creating joint business councils and others forums that include prominent private sector representatives from CAREC member countries. Resource mobilization from the private sector through modalities such as public-private partnerships (PPP) should be actively explored. Small and medium-sized enterprises (SMEs) from CAREC countries should have adequate access to finance and technology to take part in regional and global value chains.
- d) Knowledge Transfer and the role of the CAREC Institute (CI).** Member countries highlighted the need for CAREC to provide value-adding knowledge solutions that can support national and regional development. The need to establish a multi-disciplinary pool of experts for intra-regional transfer of knowledge was stressed. Members consider CI's role as being important to transfer knowledge and best practice. They observed in this regard that CI needs to develop core areas of knowledge specialization in areas of relevance for countries in the region. In addition, the following measures were proposed to upgrade capacities for analytical work in CAREC member countries: (i) development of linkages between CI and national training centers for joint analytical work and trainings and capacity building; (ii) creation of a common statistical database to improve data collection and statistics harmonization across the region; and (iii) creation of a knowledge network of institutes and research and analyses departments of CAREC's various development partner institutions to build synergy and promote collaborative research.

- e) Collaboration with regional initiatives and role of development partners.** Member countries observed that it is crucial for CAREC to find ways of effectively collaborating with other regional development initiatives. This is in recognition of the fact that CAREC countries are, at the same time, members of several other regional programs, such as the BRI⁸, Economic Cooperation Organization (ECO)⁹, Shanghai Cooperation Organization (SCO)¹⁰, Eurasian Economic Union (EEU)¹¹, and Heart of Asia (HoA)¹², among others. It was suggested that CAREC should undertake an analysis of the various regional groupings to better assess how synergies can be established and cooperation among the various regional fora boosted. Member countries also stressed the need for stronger cooperation among CAREC's development partners themselves. They suggested that CAREC adopts a more open and inclusive partnership model and works closely with all development partners, both existing and new ones. In addition, several member countries raised the issue of considering engagement with non-CAREC countries that have strong economic and trade ties with the CAREC region.
- f) Refinements on CAREC's Institutional Framework.** Member countries expressed their support for updating CAREC's institutional framework for the successful implementation of the new strategy. The idea of elevating the Ministerial Conference (MC) to serve as a high-level forum to engage ministers in discussing economic, strategic and policy issues; while operational issues could be discussed and decided at the Senior Officials' Meeting (SOM) level, was broadly endorsed. On the issue of the possible organization of a CAREC Summit comprising of the leadership of member countries, it was considered important to obtain high-level political ownership of the CAREC program and its activities. However, the view was also expressed that CAREC country leaders already meet under some of the other regional groupings, and that the value-addition and expectations from a CAREC Summit meeting should be carefully identified and evaluated.

III. Conclusion and Next Steps

8. The useful feedback from the consultations summarized above will be carefully considered in the preparation of the new CAREC strategy. Perspectives provided by Uzbekistan and Georgia, where consultations are still to be conducted, will be added to this summary note and taken on board in the new strategy. The upcoming Senior Officials' Meeting on 20–21 June 2017 will provide a further opportunity of gathering additional views and comments from member countries. Based on all these inputs and perspectives, a draft strategy document will be prepared by end-July and shared with the National Focal Points in early August to obtain views and feedback. The draft will then be finalized for discussion at the Ministerial Conference in Dushanbe on 27 October.

⁸ All CAREC countries are included in the BRI.

⁹ Eight CAREC countries are members of ECO: Afghanistan, Azerbaijan, Kazakhstan, Kyrgyz Republic, Pakistan, Tajikistan, Turkmenistan and Uzbekistan.

¹⁰ Six CAREC countries are members of SCO: Kazakhstan, Kyrgyz Republic, Pakistan, PRC, Tajikistan and Uzbekistan. Afghanistan and Mongolia act as observers and Azerbaijan as dialogue partner.

¹¹ Two CAREC countries are EEU members: Kazakhstan and Kyrgyz Republic.

¹² Eight CAREC countries are members of HoA: Afghanistan, Azerbaijan, Kazakhstan, Kyrgyz Republic, Pakistan, PRC, Tajikistan and Turkmenistan.

Annex 1. Country Consultations: Dates and Mission Members

CAREC Country	Mission Dates
Turkmenistan	4–6 April 2017
Pakistan	11–13 April 2017
Afghanistan	15–16 April 2017
Kyrgyz Republic	20–21 April 2017
Kazakhstan	24–25 April 2017
Tajikistan	22–23 May 2017
Azerbaijan	25–26 May 2017
Mongolia	2 June 2017
People's Republic of China	5–6 June 2017
Uzbekistan	12–13 June 2017 (planned)
Georgia	19 June 2017 (planned)

Annex 2. List of Key Stakeholders Consulted

A. TURKMENISTAN

1. Mr. Batyr Bazarov Minister, Ministry of Economy and Development; CAREC National Focal Point
2. Mr. Muhammetgeldy Atayev Director, Institute of Strategic Planning and Economic Development (ISPED), Ministry of Economy and Development; ADB Alternate Governor
3. Mr. Maxat Kutlymuradov Head of Foreign Economic Relations Department, Ministry of Economy and Development
4. Mr. Vepa Gurbanov Deputy Head of Foreign Economic Relations Department, Ministry of Economy and Development
5. Mr. Berdy Byashimov Head of Division, Foreign Economic Relations Department, Ministry of Economy and Development
6. Mr. Durdy Ilamanov Advisor to the CAREC National Focal Point, Ministry of Economy and Development
7. Mr. Jumanazar Rahmankulov Head of Macroeconomic Department, Central Bank of Turkmenistan
8. Ms. Jamilya Yusupova Deputy Head of Macroeconomic Department, Central Bank of Turkmenistan
9. Mr. Halmurad Oraev Head of Banking Supervision Department, Central Bank of Turkmenistan
10. Ms. Govher Nurtaeva Lead Specialist of Protocol Department, Central Bank of Turkmenistan
11. Ms. A. Allanurova Deputy Head of Industry Department, Ministry of Finance
12. Mr. A. Weliatayev Deputy Head of Foreign Economic Relations Department, Ministry of Labor and Social Protection
13. Ms. G. Atayeva Deputy Head of Consolidated Department, State Statistics Committee
14. Mr. G. Gurbannazarov Deputy Head of Finance and Economic Analysis Department, Ministry of Education
15. Mr. B. Ashyrov Deputy Minister, Ministry of Energy
16. Mr. S. Baylyev Chief Specialist of International Relations Department, Ministry of Railways
17. Mr. S. Atagylyjov Head of Foreign Economic Relations Department, Ministry of Trade and Foreign Economic Relations
18. Mr. M. Sopyev Head of Foreign Economic Relations Department, Ministry of Health and Medical Industry
19. Mr. Y. Arazov Deputy Head of State Veterinary Service, Ministry of Agriculture and Water Resources
20. Mr. B. Atagulyyev Head of Control Department, State Customs Service
21. Ms. Elena Panova Resident Coordinator, UN
22. Mr. Vitalie Vremis Deputy Resident Representative, UN
23. Ms. Nurjemal Jalilova Program Manager, UN
24. Mr. Adrian Jolliffe Team Leader, Further Enhancement of Public Financial Management Phase III, EuropeAid
25. Mr. Batyr Hudaynazarov Associate Director, Senior Banker, EBRD

B. PAKISTAN

1. Mr. Tariq Pasha Secretary, Economic Affairs Division, Ministry of Finance, Revenue, Economic Affairs, Statistics and Privatization
2. Mrs. Anjum Assad Amin Additional Secretary, Economic Affairs Division, Ministry of Finance, Revenue, Economic Affairs, Statistics and Privatization; CAREC National Focal Point
3. Mr. Asghar Ali Deputy Secretary, Economic Affairs Division, Ministry of Finance, Revenue, Economic Affairs, Statistics and Privatization
4. Mr. Rahman Shah Section Officer, Economic Affairs Division, Ministry of Finance, Revenue, Economic Affairs, Statistics and Privatization
5. Mr. Irfan Baloch Section Officer, Economic Affairs Division, Ministry of Finance, Revenue, Economic Affairs, Statistics and Privatization
6. Mr. Syed Mujtaba Hussain Joint Secretary, Economic Affairs Division, Ministry of Finance, Revenue, Economic Affairs, Statistics and Privatization
7. Mr. Saeed Chaudhry Section Officer, Economic Affairs Division, Ministry of Finance, Revenue, Economic Affairs, Statistics and Privatization
8. Mr. Muneeza Hamid Section Officer, Economic Affairs Division, Ministry of Finance, Revenue, Economic Affairs, Statistics and Privatization
9. Ms. Saqlian Syedah Director General, West Asia, Economic Cooperation Organization, and Central Asian Countries Cooperation, Ministry of Foreign Affairs
10. Mr. Mian Asad Hayuddin Additional Secretary, Ministry of Commerce
11. Mr. Shafiq Ahmed Shahzad Deputy Secretary, Ministry of Commerce; CAREC Sector Focal Point Trade Policy
12. Mr. Abdul Qadir Consultant, Ministry of Commerce
13. Mr. Assad Rizvi Chief F&T Customs, Federal Board of Revenue
14. Mr. Akhlaq Ahmad Khattak Chief F&C, Federal Board of Revenue; CAREC Sector Focal Point Trade Facilitation
15. Mr. Sohail Nomani Director, Ministry of Ports and Shipping
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Consultation Paper: Considerations for CAREC’s New Strategy “CAREC 2030”

I. Introduction and Purpose

1. The Central Asia Regional Economic Cooperation (CAREC) Secretariat was tasked by the 15th CAREC Ministerial Conference (MC) in Islamabad in October 2016 to develop a new long-term strategy for CAREC. The direction to prepare a new strategy came at the heels of the MC’s endorsement of the Midterm Review (MTR) Report of CAREC Strategy 2020.¹³ The MTR highlighted the changing global and regional landscape, and the urgency for CAREC to adjust its focus to become more effective and relevant to the region’s long-term sustainable and inclusive development.

2. The process to prepare a new CAREC strategy will follow a fully consultative and participatory process involving officials from all eleven CAREC member countries, multilateral and bilateral partners, private sector, think tanks, and civil society. It is critical for the strategy to be informed by the perspectives of a wide range of stakeholders to ensure its relevance, ownership, and implementability for a coordinated response to the multi-dimensional development challenges by CAREC countries.

3. The purpose of this short paper is to identify and highlight key strategic and institutional issues for consultations with the various internal and external stakeholders of CAREC. The paper is being shared in advance of the planned consultations so that participants are prepared to discuss the identified issues and raise any other issues they feel are important in connection with the new strategy. The consultations will focus on both the "what" and the "how" questions pertaining to the new strategy.

II. Background: CAREC Strategy 2020 and the Midterm Review

4. CAREC 2020, the current overall strategy document, was approved at the 10th CAREC MC in 2011, and built upon a stocktaking of achievements and lessons learnt with the objective to guide the CAREC program during the decade of 2011–2020. CAREC 2020 articulated its agenda cascading from a vision (“Good neighbors, good partners, good prospects”) and a goal (“Development through cooperation, leading to accelerated economic growth and shared prosperity”) to two strategic objectives (trade expansion and improved competitiveness). To achieve these objectives, seven operational priority areas were identified: transport, energy, trade facilitation, trade policy, economic corridors, the CAREC Institute, and second-tier areas.¹⁴

5. The MTR, completed in 2016, noted the satisfactory implementation of CAREC 2020. It, however, recognized the need to review (i) CAREC’s strategic coherence, and (ii) the program’s relevance. This was in the backdrop of the unexpected and significant changes in the international economic environment that had had a major impact on several CAREC countries, beginning with the adverse impacts of the 2007–2008 financial crisis that have lingered on in some countries. The subsequent prolonged depression in oil prices damaged the financial

¹³ The Midterm Review Report of CAREC Strategy 2020 is available at <http://www.carecprogram.org/uploads/docs/CAREC-Publications/2016-CAREC-2020-MTR.pdf> (English version); <http://www.carecprogram.org/uploads/docs/CAREC-Publications/2016-CAREC-2020-MTR-ru.pdf> (Russian version).

¹⁴ As exemplified in the CAREC 2020, the second-tier areas could cover communicable disease control, agriculture, disaster risk management, and climate-change adaptation and mitigation, in the context of addressing social impacts of trade expansion and improved competitiveness.

balance sheets of hydrocarbon exporting countries, while the accompanying recession in such countries dampened prospects of migrant labor and reduced the flow of remittances to labor exporting countries. CAREC countries faced urgent economic problems, including fiscal pressures, devaluating currencies, rising current account deficits, and lowered foreign reserves that led to stagnating economic activity, higher unemployment and a rollback of structural and sector reforms. On top of this, an economic slowdown in major trading partner countries led to shrinking markets for exports originating in CAREC countries. As a result, the stated objectives of the CAREC program, i.e., expanded trade and increased competitiveness became harder to achieve, pointing to the need for revisiting CAREC's strategic coherence and relevance in these changed circumstances.

6. It was in the above perspective the MTR recommended to: (i) complete the CAREC 2020 agenda; (ii) revisit CAREC's objectives to ensure that they are strategically coherent; (iii) broaden the CAREC agenda; and (iv) prepare a new long-term strategy for CAREC.

III. Motivations for Preparing a New Strategy

7. In addition to the MC directions and MTR recommendations, there are strong strategic, circumstantial and operational reasons for CAREC to revisit and update its strategy and realign its operations in order to stay relevant and effective. These include the following:

- i. **New development goals.** All CAREC countries are signatories to the 2030 global development agenda, including the sustainable development goals (SDGs) and the Paris agreement reached at the 21st Conference of Parties of UN Framework Convention on Climate Change (COP21). This global development agenda highlights the need for CAREC countries to consider harmonized approaches to achieve the common agreed goals and to learn from the experiences of each other in this respect. Countries also need to assess how regional initiatives can complement national efforts to achieve the new goals. CAREC's new strategic directions need to be informed by the implications of the global agenda on national and regional development policies and programs in member countries going forward.
- ii. **The macroeconomic context in CAREC countries.** As mentioned in para. 5, the dive in commodity prices plummeting to record lows and economic slowdown of the major trading partners have been game-changing factors in the deterioration of economic performance of many CAREC countries. A key issue in this context for CAREC is to think-through how it can play a more active role in promoting policy dialogue on forestalling spillovers of regional and global economic crisis, maintaining macroeconomic stability, and innovating on countercyclical measures to mitigate the impact of crisis. CAREC can provide a platform for establishing responsive, adaptable and harmonized regional approaches to build resilience against economic crisis and revive and maintain growth in member countries.
- iii. **The external trade environment.** The new CAREC strategy will need to take into account the emerging global and regional trade patterns and forecasts. Since 2012, global trade growth is just keeping up with economic growth. Previously, it was growing twice as fast. With the failure to reach new global agreements on trade under the WTO, regional trade agreements should hold more potential going forward. At the same time, trade patterns may be affected by rising protectionist sentiments globally, with a growing discontent that the benefits from globalization are not spread fairly and have not benefited all sections of the population. There are also

challenges to globalization in other areas such as a pushback against movement of people across borders, fear of terrorism, implications of Brexit, and geopolitical tensions in some parts of the world. The new CAREC strategy will need to consider all these developments to reposition itself as a catalyst and agent for trade promotion and growth and development in the region.

- iv. **New regional players.** New regional frameworks such as PRC's One Belt One Road, Japan's Quality Infrastructure Initiative, US's New Silk Road; various multilateral initiatives such as the Eurasian Economic Union, Shanghai Cooperation Organization and the Economic Cooperation Organization; and new regional institutions such as the Asian Infrastructure and Investment Bank and the New Development Bank, require CAREC to carefully assess emerging opportunities of partnership and coordination with these bodies. At the same time, there is a need for CAREC to redefine its strategic positioning and relevance while building on the successes, strengths and comparative advantage of its program over the past 16 years of its existence.

Key questions for consultations:

- Besides the ones mentioned, what are some other important global, regional and national happenings and trends CAREC should take into account in preparing its new strategy?
- How can CAREC meaningfully seek to align itself with the new international development agenda (SDGs, COP21)? How can it play a useful role in promoting the implementation of the global agenda in CAREC countries?
- In what ways can CAREC serve as a platform to promote macroeconomic stability and advance structural and sector reforms in CAREC countries?
- How should CAREC position itself as a catalyst for boosting intra-regional and inter-regional trade for the benefit of member countries?
- How can CAREC best collaborate and cooperate with the new regional frameworks and development institutions?
- How should CAREC engage or interact with important non-CAREC countries in the region which play an influential role on regional development issues across the CAREC region?

IV. New CAREC Mission and Possible Operational Expansion

8. **A new mission statement for CAREC?** The current CAREC vision is anchored on the twin goals of expanded trade and increased competitiveness. This has served CAREC well over the past years, helping ensure focus on increasing connectivity and cross-border trade. However, as explained above, the regional landscape has evolved. Member countries are faced with a complicated set of challenges spanning different sectors and areas. The new international development goals have taken effect. CAREC now requires a new strategic positioning which may effectively broaden its focus beyond its current sectoral emphases and operational priorities. In this regard, a key question is whether CAREC should now work under a larger umbrella and attempt to become a more robust partner in conducting policy dialogue and operationalizing broad-based support both in existing and new sectors and areas. In this context, there is a need to consult member countries on possibly broadening CAREC's mission statement. Among various possibilities, a mission statement for CAREC along the following lines might be considered:

“A Regional Cooperation Platform for Sustainable and Inclusive Economic Development for the CAREC region”

9. **Possible Operational Priorities.** In support of a broader mission, CAREC might need to update and enlarge its operational priorities to be of greater relevance in addressing the development needs of the region. In doing so, CAREC would need to play to its comparative advantage in areas such as regional infrastructure, connectivity and trade. In addition, it might need to incrementally beef-up its support in other selected areas critical for regional development that are demanded by member countries and in which CAREC can provide value-adding support. To begin consultations with member countries on CAREC’s operational priorities under the new strategy, the following areas may be considered. Some of these might be dropped and others added depending on the outcomes of the consultations.

- i. **Regional Infrastructure Development and Trade Facilitation.** Regional infrastructure is a prerequisite for economic diversification and the need for infrastructure development to promote connectivity and trade in the CAREC region remains large. It will thus be important for CAREC to maintain emphasis on transport, energy and related trade facilitation support. Meanwhile, there is emerging interest in expanding regional transportation modes to include railways, aviation and ports/dry ports to maximize connectivity, mobility and accessibility, and increasing project investments in clean and renewable energy to ensure better energy security, more integrated regional energy markets, and better alignment with global commitments to contain climate change.

Trade facilitation and trade policy work continues to be critical to complement infrastructure development to result in holistic support to expand intra-regional and inter-regional trade volumes and lead to greater economic and business opportunities.

- ii. **Regional and global public goods.** Being a regional platform, CAREC can play a meaningful role in mobilizing collective action on regional and global public goods. It can reinforce its existing operations and operate in new areas to, for example, help address climate change and environmental issues in the region. It can also support cross-border health priorities, such as control and surveillance of communicable diseases and pandemic preparedness.
- iii. **Education and skills.** To promote competitiveness, job creation and bolster opportunities for migrant labor, CAREC could consider supporting regional education and skills initiatives such as mutual recognition in member countries of qualification standards, setting common standards on technical and vocational education and training (TVET) and faculty training, and collaboration among universities and other institutions of higher education and learning.
- iv. **Agriculture and water.** Given the centrality of agriculture and agricultural trade in most member countries, CAREC could explore support for regional initiatives in the areas of food safety and agro-food trade, building upon the existing effort to develop a common agenda of sanitary and phytosanitary measures. Water resource management is a key challenge cutting across all CAREC countries. If changing regional dynamics provide more opportunities for cooperation in the water sector,

- CAREC can provide a platform to member countries to discuss possibilities of progress in this complex area.
- v. **Tourism.** CAREC countries enjoy great potential for tourism, which is a major generator of jobs, particularly for workers at the middle to lower end of the income scale and also for women and youth. CAREC could promote joint tourism cooperation while minimizing any adverse environmental, social, and cultural impacts.
 - vi. **Improving fiscal, financial markets and monetary cooperation.** Greater financial and monetary sector coordination and cooperation in the region is essential to prevent spread of financial contagion in the CAREC region. In this regard, CAREC could promote collective actions in the areas of regional surveillance, local currency cross-border financial transactions, international tax cooperation, common regulatory standards, and promoting regional forums of central banks, ministries of finance and financial markets regulators.
10. **Role of the private sector.** The new CAREC strategy provides the opportunity of strengthening the role of the private sector in regional cooperation and integration. If member countries agree, CAREC could support, for example, enhancing small- and medium-sized enterprises (SMEs) involvement in regional value chains, capital markets development and cross-listing of companies, exploring private sector and public-private partnership (PPP) cross-border investments in infrastructure, strengthening the role of CAREC Federation of Carrier and Forwarder Associations (CFCFA), exploring setting up a multilateral trade credit and investment guarantee agency for CAREC, and enhancing cooperation among chambers of commerce and industry of member countries.
11. **Knowledge and analytical work.** CAREC can continue to support member countries through knowledge-based analytical and operational work. The CAREC Institute (CI) in this regard can play a vital role. In addition to supporting research, knowledge and training needs in the prioritized operational areas, CAREC and CI could provide knowledge and research outputs on demand in key areas of regional development when member countries seek support for such work. Targeted efforts to improving regional statistics in CAREC countries for evidence-based policy-making can be undertaken.
12. **Inter-regional cooperation.** Connecting CAREC region with its neighbors and economic centers is crucial to expanding markets and creating new opportunities for economic development. Under the new strategy, CAREC can explore possibilities for cooperation across regions, such as with South Asia Subregional Economic Cooperation (SASEC) and South Asian Association for Regional Cooperation (SAARC), and the Greater Mekong Subregional Economic Cooperation (GMS), among others.
13. **Financing for the CAREC Program.** Expanded operations under CAREC would require availability of greater financing to support existing and new activity areas. ADB will work with other development partners to consider lending and technical assistance commensurate with the strategic and operational reach of the program. Opportunities for greater cofinancing from multilateral and bilateral sources can be explored. Earnest efforts will need to be made to mobilize more financing from the private sector and through PPPs. Member countries may also consider more contributions to support CAREC's program and activities.

Key questions for consultations:

- How can CAREC strengthen its relevance, credibility and attractiveness as a regional cooperation platform for member countries?
- Should CAREC expand its mission statement? If so, what elements should an expanded mission statement emphasize?
- Do the proposed operational agendas offer sufficient alignment with the CAREC country needs in achieving SDGs and COP21 objectives? Are we missing out on any other important operational areas? Should any of the proposed operational areas be dropped?
- What is the potential of the private sector to support regional cooperation and integration in CAREC? What kind of role do member countries envisage for the private sector under the new CAREC strategy?
- How and in what specific areas can CAREC and CI play a more value-adding role in servicing the knowledge and analytical support needs of member countries?
- How can CAREC best finance its program and activities? What other sources of financing should be explored in this regard?

V. CAREC's Institutional Framework

14. If CAREC's mission is to be broadened and its operational priorities expanded, this needs to be backed up with a sound and effective overall institutional framework for CAREC to ensure the effective implementation of the new strategic framework. CAREC's institutional structure has generally worked well by providing member countries and development partners regular forums to discuss and agree on issues of regional significance. However, there are also concerns that the established sector-focused approach hinders CAREC from providing an adequate platform for conducting policy dialogue on major macroeconomic and crosscutting issues. There is the consideration as well that the structure needs to be made more flexible and adaptable given CAREC's evolving operational priorities. In addition, there is a felt need to constitute ad-hoc working groups on short notice to respond swiftly to emerging issues and challenges in different sectors and areas in the region.

15. **Possible Refinements in the CAREC Structure.** In response to these concerns and for better institutional efficacy, CAREC may consider:

- i. Elevating the MC to be a high-level stand-alone policy platform to discuss and debate important actionable policy and strategic issues of relevance to the development of the CAREC region. The MC could discuss issues such as common approaches to achieving the SDGs and climate agreement goals; macroeconomic policy issues and measures to promote regional economic stability, including through countercyclical financing; and discuss ways to strengthen cooperation with new regional institutions and players;
- ii. Empowering the SOM with sector and project-related endorsement authority so that routine matters related to CAREC projects and operations can be discussed and decided at the level of senior officials;
- iii. Streamlining and reforming existing sector committees to ensure results-oriented work stream and cost-effective use of resources;

- iv. Establishing task-based and issue-driven transitory expert groups to deliberate and provide operational and policy advice on key sectors and thematic issues;
- v. Aligning development partners' role and participation in line with the new strategic framework for CAREC; and
- vi. Capitalizing on CI's knowledge support at all levels.

16. **Role of Development Partners.** There are now numerous new regional and financial initiatives that impact the CAREC region. The scope for forging constructive partnerships has increased. So have the needs for coordination and the risks posed by lack of coordination. The new strategy provides an opportunity to find ways of strengthening coordination with existing CAREC development partners particularly from the point of view of maximizing each partner's value addition to the CAREC program. At the same time, the new strategy is an occasion to consider the role of new development partners in the program. Clearly, maximizing financing and creating synergy will be an important task for development partners. At the same time, partners will need to offer innovative knowledge-based solutions to contemporary development challenges of the region.

Key questions for consultations:

- What are the strengths and weaknesses of the current CAREC institutional structure?
- How can its structure be improved and strengthened for the CAREC program to truly become a platform for inclusive and sustainable development?
- How can the MC play a stronger role on policy dialogue on key issues challenging the CAREC region? Is the proposed distinction in the roles of the MC as a policy forum and the SOM as a projects' coordination body a suitable one?
- With its new mission and a broader mandate, should CAREC pursue a Summit meeting of CAREC countries' leaders at a certain point?
- How can CAREC better leverage the role of the other development partner institutions in addition to ADB? What role can existing and new development partners play to promote CAREC's strategic objectives?

VI. Next Steps and Intended Timeline

17. Feedback and inputs received from stakeholder consultations and ongoing analytical work will support the formulation of a zero draft of the strategy by the June SOM. The draft will provide the basis for discussions and SOM's guidance will be sought. A full draft of the strategy will then be prepared and will be ready by the time of the September National Focal Points (NFPs) meeting. The draft will subsequently be revised to take into account feedback received from the NFPs' meeting. The final draft is proposed to be submitted to the 16th MC for approval in early November 2017 in Dushanbe.

18. In summary, the proposed timeline for the preparation of the new strategy is as follows:

- Undertake country consultations during March–May 2017
- Prepare a “zero” draft of the new strategy and present at SOM in June 2017
- Further refine the strategy based on SOM's guidance
- Present at the NFPs' meeting in September 2017

- Further refine the Strategy during September–October 2017
- Present at the 16th MC for endorsement in November 2017