

Keynote Address by

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at the 11th CAREC Ministerial Meeting

"Regional Cooperation as a Means to Inclusive Growth"

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I. Introduction

Excellencies, distinguished guests, ladies and gentlemen:

It is an honor to join you for CAREC's 11th Ministerial Conference. On behalf of the Asian Development Bank, I would like to thank the Government of the People's Republic of China for hosting and organizing this important gathering in the vibrant city of Wuhan.

II. CAREC in 2011

2011 was a landmark year. As the CAREC Program embarked on its second decade, aspirations were high that it could do even better in the years ahead. Commitments were renewed and reinforced. And all agreed that focus, action, and results would underpin implementation of the 10-year strategic framework, CAREC 2020.

The goals and strategy laid out in CAREC 2020—trade expansion and improved competitiveness—are seen as the region's main drivers of growth and prosperity.

During the first year of implementation, CAREC 2020 has seen steady progress in the four priority sectors. Transport infrastructure projects delivered excellent results in 2011 and are on track. A new energy sector work plan has been formulated, and systems and capacities to enable energy trade are being developed. Improvements in border services are helping to further facilitate trade. And the private sector continues to provide trade-related services, such as measuring corridor-based transportation and trade facilitation activities. Individual countries continue to pursue reforms toward trade openness. And a systematic analysis of gaps in economic corridor development has also been initiated.

III. Challenges Ahead

Looking at the global economy, the main risks are the unresolved eurozone crisis and the threatening US fiscal cliff. While the impact on the CAREC region has generally been benign so far, we cannot predict the full impact of any major euro crisis. It is clear that the region is not entirely immune and must be prepared. Economic resilience needs to be reinforced through prudent macroeconomic policies and structural reforms.

One of the most important objectives of the reform agenda is to make economic growth more inclusive. Most countries in Asia are now pursuing an inclusive growth agenda by implementing measures to address inequalities that could dampen efforts to reduce

poverty. In the CAREC region, the benefits of macroeconomic growth have yet to be translated into improved quality of life for the people. Half the population of the combined CAREC territory still lives on less than \$2 a day. The labor force participation rate has improved only minimally.

Inclusive growth is broad-based and multifaceted, spanning economic, social and institutional dimensions.

The economic dimension ensures that poor and low-income households have the ability and opportunity to participate in and benefit from the growth process. Approaches to economically inclusive growth include targeting poor and vulnerable groups for employment and livelihood, helping small enterprises access opportunities in the value chain, improving farm productivity, and providing access to markets through infrastructure development.

The social dimension captures investments in health, education, human resources development, and social protection. These are needed to reduce social inequalities, promote gender equality and women's empowerment, and bring more people into the growth process.

The institutional dimension involves removing constraints to economic growth, and building social inclusion by empowering people and strengthening institutional capacities.

In the context of globalization, the imperatives of inclusive growth are even more pronounced. Globalization creates opportunities for larger markets, new technologies, and greater foreign direct investments. However, the ability of individual countries to capitalize on these opportunities varies widely. Successful inclusive growth will largely depend on supportive domestic policies, institutions, and adequate infrastructure.

A better *quality* of economic growth must consider not only inclusiveness, but also environmental sustainability. Vast opportunities exist in the CAREC region to invest in renewable energy. China, for example, has become one of the world's top producers of wind turbines and solar photovoltaic systems. And there is scope for developing sustainable transport corridors through climate change adaptation and mitigation measures.

Regional cooperation is essential to promote inclusive and environmentally sustainable growth. Poor connectivity arising from inadequate transport and communications infrastructure can impede trade expansion and investment attraction. Studies show that households lacking access to basic infrastructure services are more likely to be poor. Regional cooperation in energy supply will enhance efficiency and lessen energy consumption.

IV. CAREC's Contribution

Under the CAREC Program, ADB is working closely with your governments to improve the quality of transport and energy infrastructure. These improvements will help modernize agriculture and regenerate the rural economy, catalyze domestic and foreign investments, and raise productivity.

As economic corridors are built, growth poles are being developed to generate more growth for lagging areas. Transport and economic corridors facilitate travel and link production units to markets, thereby helping business enterprises expand trade and improve competitiveness. For example, the Southern Transport Corridor Road Rehabilitation Project in the Kyrgyz Republic reduced villagers' travel time by 25%, allowing them to travel more and faster. Vehicle operating costs decreased, and bus fares declined. New jobs were created, with economic growth in the project area increasing by 15% over the period 2004-2008. Azerbaijan's East West Highway Improvement Project has also brought substantial benefits to local communities in terms of easier access to markets, social services, and job opportunities.

It has helped Azerbaijan expand trade with neighboring countries and diversify its export base.

CAREC is supporting trade facilitation measures to enable business and investment to run efficiently. With our combined efforts, the time taken to clear a border crossing has now been reduced to an average of just under 8 hours from almost 9 hours in 2010. The average cost incurred at border crossing clearance has been reduced by over 16%.

Cooperation in energy is providing efficient and reliable sources of electricity that could ultimately help households increase their productivity for income generation. A total of 1,150 kilometers of power transmission lines has been completed during 2011, boosting national production and reviving energy trade in Central Asia.

V. CAREC—Next Step

CAREC's journey over the next decade is full of great promise, as well as risk.

While the benefits of past achievements are indeed encouraging, we must remain constantly aware that the drivers of economic growth—technological change, globalization, and market-oriented reforms—can also have profound distributional consequences. Technology can create a bias towards capital and skilled workers. Spatial concentration of economic activity can lead to a concentration of incomes in select areas, while other areas remain behind. As it unfolds, CAREC 2020 must be mindful and vigilant of these unintended consequences.

We need to consolidate the capacities of institutions in the CAREC countries to deliver on complex regional and multisectoral projects. CAREC 2020 calls upon the CAREC Institute to provide the required analytical work and strengthen capacities of various stakeholders to support the achievement of CAREC's strategic goals.

To perform its expanded role more effectively, the CAREC Institute will need a solid institutional base in the region. It will need to be transformed into a full-fledged regional body. In this form, it will be able to better harness the region's knowledge resources and develop the long-term capacity to deliver on knowledge products. ADB is prepared to play a role in the transition process and beyond. We will continue our support to the CAREC Institute as it takes on a physical base in the region.

In the years to come, ADB will engage with the CAREC Program even more vigorously as the Program moves to its next phase of implementation. We are confident that member countries working together as good neighbors and good partners can realize good prospects that abound in the region. And it is this spirit that will sustain the region in good as well as difficult times.

Sustaining this momentum will require focus on concrete actions that generate timely results. A list of priority projects in transport and trade facilitation—an integral part of CAREC 2020—will be submitted to you at this Conference, together with priority actions for the next phase of energy sector implementation.

VI. Conclusion

Excellencies, ladies and gentlemen:

As we tackle CAREC 2020's formidable agenda, we must remain mindful that the growth and prosperity to which we all aspire should also be inclusive and sustainable. Each

one of us has a unique role in contributing to these goals. Collectively, we can do more—and we can do better. Regional cooperation within CAREC will become significantly more important in this second decade as the CAREC countries become more open and engaged in global transformation. I urge each and every one of us to work together as never before to ensure that the journey we take is a harmonious and fruitful one, and will result in higher and more equitably shared well-being of the peoples in our region.

Thank you.