

**12th CAREC Ministerial Meeting  
Astana, the Republic of Kazakhstan  
24 October 2013**

**Keynote Address by  
Mr. Takehiko Nakao  
President  
Asian Development Bank**

**I. Introduction**

Your Excellency Serik Akhmetov, Prime Minister of the Government of Kazakhstan, Ministers from the CAREC countries, distinguished guests, ladies and gentlemen:

It is a privilege for me to join you for the first time at this 12<sup>th</sup> CAREC Ministerial Conference. It is an honor for us to have His Excellency, Prime Minister Akhmetov, join us today. On behalf of all of us, I would like to express our sincere appreciation to the Government of Kazakhstan for hosting this Ministerial Conference, and to the people of Kazakhstan for their gracious hospitality.

Taking this opportunity, I also would like to mention that ADB is grateful to Kazakhstan for hosting the ADB Annual Meeting in May next year in this dynamic and beautiful city of Astana.

**II. From BRICS to RICE**

The global economy has been uncertain and volatile over the past 5 years. But the overall outlook for advanced economies—Europe, Japan, and the US—is looking better than a year ago. The US economy shows signs of picking up in the coming months. The eurozone appears to be turning the corner, and Japan is beginning to show the benefits of what they call “Abenomics”.

Developing Asia has experienced some market turbulence after the remarks of chairman Bernanke about tapering off of quantitative easing. But in our judgment, emerging countries in Asia are much better situated than in the late 1990s in terms of sound macroeconomic policies, stronger financial systems, buffers in foreign reserves, and preparedness including regional safety net arrangements such as swap arrangements.

Given slowing domestic demand in the People's Republic of China and India, among other factors, ADB's latest forecast for developing Asia shows economic growth declining marginally from 6.1% last year to 6.0% this year, and moderately picking up to 6.2% in 2014. These figures are slightly lower than our April forecasts, but I want to stress that developing Asia, including CAREC member countries, are continuing to enjoy robust and high growth.

Looking beyond the short-term, I believe the global economy is witnessing transformative structural changes, particularly reflected in the growing role of emerging economies. Between 1990 and 2012, emerging economies grew much faster than the global average. During this period, their share of world GDP nearly doubled – from 20% to 38%, according to IMF data. More importantly, the emerging market share of annual world GDP growth has increased from about 20% in the early 1990s to more than two-thirds today.

The growing economic importance of emerging market economies is highly relevant to Central Asia. Traditionally, we have recognized the BRICS economies – Brazil, Russia, India, China and South Africa. Now, in the context of today's meeting, we should look at RICE – Russia, India, China and emerging Europe. Central Asia is right in the middle, the connecting link of RICE. Other large regional economies in the neighborhood, such as Turkey, increase the dynamic “growth potential” of Central Asia as well.

### **III. Approaches to further development in Asia**

I say the words “growth potential” intentionally, since the region's dynamism will not automatically translate into growth. It will require deliberate yet strategic approaches, as it has in the rest of Asia.

I believe there are three mutually reinforcing mechanisms that can propel growth in Asian economies, many of which are already middle-income countries. I call them the “three Is”—Innovation, Inclusion, and Integration. Let me explain a bit about each.

First, innovation. Studies show that innovation is essential for avoiding the so-called “middle income trap” by helping raise productivity. The private sector is the cornerstone of innovation. Thus, economies in this region need to build an enabling environment for private sector investment, skills development, and research and development.

Second, the need for inclusion. For economic growth to be socially and politically sustainable, growth must be inclusive. Rapid growth in recent years has brought with it increased inequality in many parts of Asia. Developing Asia's aggregate Gini coefficient rose from 39 in the 1990s to 46 according to the most recent data. Promoting inclusive growth includes addressing the jobs challenge for young and unskilled people entering the workforce.

Developing Asia also needs to address high levels of informal employment through enhancing productivity and facilitating integration of the under-employed into the formal economy. Fiscally responsible social protection schemes and increased financial inclusion, based on experiences in other emerging markets and OECD countries, could also be useful.

The third element is integration. Regional integration can help provide new and diversified external market opportunities on both the supply and demand side, through expanded production networks and consumption choices. This is particularly relevant for Central Asia with its strategic location in the middle of the Eurasian continent and the dynamic RICE economies. Since we are here at the 12<sup>th</sup> CAREC Ministerial Conference, let me share a few thoughts on regional cooperation, CAREC, and ADB's approach.

#### **IV. Regional Cooperation and CAREC**

ADB has a great deal of experience with regional cooperation in Asia and the Pacific. For more than two decades, we have been supporting regional cooperation initiatives like the CAREC Program. ADB's success in building regional cooperation and integration has been based on investment-led initiatives that bring countries together through infrastructure connectivity. Going forward, we should build momentum for further cooperation in more complex areas, such as institutional and policy reforms.

Since its inception, the CAREC Program has undertaken investment projects in excess of \$22 billion. Your hard work and commitment, along with that of development partners present here today, has helped the CAREC Program quickly break down barriers and reap benefits of cooperation and integration, particularly in infrastructure and trade facilitation.

The CAREC Program continues to make steady progress in priority sectors. Road construction in the CAREC corridors exceeded targets by 2012. Trade openness continues to improve and trade regimes have been simplified, supported by knowledge sharing and capacity building initiatives.

But there are also areas that require further attention and focus. The theme of this Ministerial Conference is Integrated Transport and Trade. The roads that we build will need to be made seamless for the passage of goods. Doing so will require improved automation and risk management, joint customs control, and integrated border management. Regional initiatives in customs modernization are already underway, including accession by some countries to the Revised Kyoto Convention.

But at the same time, logistics facilities such as inland container depots and service facilities could significantly reduce the time to clear at the borders. To increase trade outside the region, CAREC will need to align its corridors to new routes, and develop long distance multimodal transport services combining road and rail.

The path ahead will not be easy. Governance and institutions will be key to overcoming the challenges. High quality national institutions capable of making policy choices, delivering public service, and fostering entrepreneurship and innovation are needed. Knowledge sharing and capacity building, supported by the CAREC Institute, will play a crucial role in this respect.

In the years to come, the ADB looks forward to deepening its engagement with the CAREC countries in the journey towards *CAREC 2020* and beyond. Our commitment remains strong, inspired by the continued strong commitment and resolve of the CAREC countries themselves.

Each one of us has a unique role in contributing to CAREC 2020's vision, but we will be even stronger if we work together in the spirit of solidarity. Regional cooperation can be an important means for reaping the globalization dividend, resulting not only in growth, but also in higher and more equitably shared well-being of the peoples in our region.

Thank you.