



Reference Document
For Session 1 of the NFP Meeting
October 2018

CAREC Integrated Trade Agenda (CITA) 2030 and Rolling Strategic Action Plan (RSAP) 2018–2020

Review Paper

**Consultation Meeting of the National Focal Points
Central Asia Regional Economic Cooperation
9–10 October 2018
Ashgabat, Turkmenistan**

Abbreviations

CAST	–	Common Agenda for Modernization of SPS Measures for Trade
CCC	–	Customs Cooperation Committee
CFCFA	–	CAREC Federation of Carrier and Forwarder Associations
CITA	–	CAREC Integrated Trade Agenda
FTA	–	free trade agreement
NFP	–	National Focal Point
PRC	–	People's Republic of China
RSAP	–	Rolling Strategic Action Plan
RTG	–	Regional Trade Group
SME	–	small and medium-sized enterprise
SOM	–	Senior Officials' Meeting
SPS	–	sanitary and phytosanitary
TBT	–	technical barriers to trade
TFA	–	Trade Facilitation Agreement
WTO	–	World Trade Organization

Table of Contents

Executive Summary

I. Introduction	1
II. Rationale	2
III. Impact, Outcome and Outputs	5
IV. Institutional Structure	9
V. Implementation Approach and Results-Framework	10

List of Appendix

Appendix 1: Problem Tree and Objective Tree Analysis	11
Appendix 2a: Institutional Structure	13
Appendix 2b: Terms of Reference of the RTG	14
Appendix 2c: Terms of Reference of the CCC	17
Appendix 3: RSAP 2018-2020	20
Appendix 4: Results–Framework for CITA 2030	28
Appendix 5: Consultation Process, Timeline and Support	35

Supplementary Issues Papers

- i. Addressing Technical Barriers to Trade
- ii. Expanding Trade in Services
- iii. Engaging in Regional Trade Agreements
- iv. Establishing Special Economic Zones

Executive Summary

Rationale

The long-term strategy for the Central Asia Regional Economic Cooperation (CAREC) Program, *CAREC 2030* aims to reposition itself as a catalyst for trade expansion and economic diversification. It considers the evolving global and regional landscape and changing country circumstances – such as the entry into force of the Trade Facilitation Agreement (TFA) under the World Trade Organization (WTO) and recent economic reforms among CAREC countries – highlighting the pivotal role of trade.

Amid the revival of global trade growth, uncertainties continue to pose risks that could undermine the recent positive trends. CAREC members (including PRC's Xinjiang Uygur Autonomous Region and Inner Mongolia Autonomous Region) are not well-integrated into the global economy. Excluding PRC, CAREC accounts for less than 1% of the global trade. There is therefore a room for CAREC to enhance trade by addressing the main challenges including poor market access, limited economic diversification and weak institutions for trade.

Trade has been defined as a means of achieving the sustainable development goals. Following rounds of stakeholder consultations, CAREC's new trade strategy provides a more synergistic approach to issues of trade policy and trade facilitation and beyond. It leverages on the successes of past CAREC trade work built on mutual trust and collective efforts and will foster deepened regional cooperation and integration (a priority under *Asian Development Bank (ADB)'s Strategy 2030*) and intensify trade's cross-sectoral linkages.

Strategic Framework

The CAREC Integrated Trade Agenda (CITA) 2030 aims to assist CAREC member in integrating further with the global economy. It seeks to enhance the growth potential of CAREC members and improve the living standards of its people. CITA 2030 comprises three pillars:

- (i) **Trade expansion from increased market access.** CITA will promote adoption of more open trade policies and deepening of customs cooperation. This will include measures to liberalize tariffs, eliminate non-tariff barriers to trade, make border and behind-the-border procedures more efficient, improve logistics services, enhance transit systems and limit or avoid resort to trade distorting measures and protectionist tendencies
- (ii) **Greater diversification.** CITA will create enabling environment for economic diversification such as providing adequate financing and linking CAREC countries with the global and regional value chains. This will include measures to improve access to trade finance, adopt consistent and open foreign direct investment policies, develop domestic financial markets, create favorable business environment including support services, promote skills upgrading and embrace innovation;
- (iii) **Stronger institutions for trade.** CITA will promote better coordination of sectoral policies and priorities, evidence-based policy-making and enhanced capacity of government agencies. This will include measures for collaborative policy formulation and implementation, alignment of national and regional planning, and regulatory convergence in the region. It will improve data collection and cross-country analysis, enhance officials' policy analysis and negotiation skills, and increase participation of think tanks and the private sector.

Institutional Structure

CITA's institutional framework is guided by strong country and development partner ownership and effective engagement with the private sector and coordination with other stakeholders.

Under the policy and strategic directions of the Ministerial Conference and oversight of Senior Officials' Meeting (SOM), the Regional Trade Group (RTG) will be the lead coordinative and consultative body for overarching trade issues. The Customs Cooperation Committee (CCC) will continue to be responsible for all customs-related issues. Both RTG and CCC shall closely coordinate and cooperate with each other, supported by expert groups in technical areas as may be established.

To the extent possible, the RTG and CCC will cooperate and coordinate with CAREC Institute, think-tanks and research institutions in CAREC countries, international organizations (e.g., WTO and World Customs Organization), international standard-setting bodies, development partners engaged in trade sector activities in CAREC countries, and regional cooperation mechanisms to share knowledge, create synergies and optimize the use of resources.

Recognizing their integral role, engagements with the private sector – especially with traders, business and industry associations such as the CAREC Federation of Carrier and Forwarder Associations (CFCFA) – will be strengthened. CAREC will also explore the possibility of establishing CAREC Chamber of Commerce and Industries to serve as a regional business-to-business platform.

Implementation and Results-Framework

CITA will be implemented in a phased and pragmatic approach taking into consideration the capacities and varying levels of progress among the countries. There will be flexibility in allowing two or more CAREC members to initiate and implement regional projects and initiatives agreed on by them.

A three-year rolling strategic action plan (RSAP) translates CITA into practical and implementable periodic phases, while being reviewed annually to maintain its relevance. The RSAP will be synchronized with the programming cycle of ADB assistance and will be used to mobilize funds from other development partners. The first three years of RSAP will be RSAP 2018-2020 which will prioritize investment projects, policy dialogue and cooperation, knowledge product and services.

A results-based approach will be used to monitor and evaluate CITA's progress and achievement in delivering results.



CAREC Integrated Trade Agenda (CITA) 2030 and Rolling Strategic Action Plan (RSAP) 2018–2020

I. Introduction

1. In October 2017, the 16th Central Asia Regional Economic Cooperation (CAREC) Ministerial Conference endorsed a new long-term strategy – *CAREC 2030*.¹ Building on the foundations of *CAREC 2020*, the new strategy recognizes that various global² and regional developments may impact CAREC's relevance and effectiveness going forward. As CAREC aims to reposition itself as a catalyst for trade expansion and economic diversification in the region, it is imperative to consider previous iterations of CAREC trade work and forward-looking trade priorities under *CAREC 2030*.

2. In the past, CAREC's trade work is guided by several strategies or action plans – the *Trade Policy Strategic Action Plan 2013-2017*, *Transport and Trade Facilitation Strategy 2020*, and the *Common Agenda for Modernization of Sanitary and Phytosanitary (SPS) Measures for Trade (CAST)*. The *Trade Policy Strategic Action Plan 2013-2017*³ was coordinated by the Trade Policy Coordinating Committee while the Customs Cooperation Committee (CCC)⁴ provided oversight in the customs cooperation and trade facilitation activities of the *Transport and Trade Facilitation Strategy 2020*, and the CAST. Investment and regional technical assistance projects supported the implementation of these strategies or action plans. For example, the Regional Improvement of Border Services Project coordinates infrastructure improvement and simplification of border crossing clearance procedures in select border crossing points in the Kyrgyz Republic, Mongolia, Pakistan and Tajikistan. The Regional Upgrades of Sanitary and Phytosanitary Measures for Trade Project for Mongolia strengthens food safety and animal and plant health standards to realize the country's potential for agri-food exports to neighboring countries.

3. Thus far, CAREC has contributed to building mutual trust and advancing regional cooperation and has recorded successes with both knowledge- and institution- building in the trade sector. Nonetheless, progress across CAREC members has been uneven and remaining challenges include limited outcomes, inadequate investment planning in trade facilitation, lack of flagship projects for knowledge support and actionable policy recommendations in trade policy, lukewarm country ownership, shortcomings in coordination and overlapping issues in trade. These required a comprehensive review of CAREC's institutional approach.⁵

¹ Asian Development Bank (ADB). 2017. *CAREC 2030 Connecting the Region for Shared and Sustainable Development*. Manila. <http://www.carecprogram.org/uploads/docs/CAREC-Publications/2017-CAREC-2030.pdf>

² For instance, the *2030 Agenda for Sustainable Development* defines trade as means of implementation and the integration of developing countries in the global market is a central theme. In addition, the Trade Facilitation Agreement (TFA) under the World Trade Organization (WTO) entered into force in February 2017.

³ Which covers measures to simplify and liberalize trade regimes, address impact of non-tariff measures and promote expansion of trade in services.

⁴ CCC, which comprise of heads of customs authorities of CAREC member countries has worked in five priority areas, namely, simplification and harmonization of customs procedures, risk management, regional transit development, ICT for customs modernization and joint customs control.

⁵ *CAREC 2020 Midterm Review*. <https://www.carecprogram.org/uploads/2016-CAREC-2020-MTR.pdf>

4. Under its scaled up and broadened mandate, CAREC 2030 envisages focus on five operational clusters.⁶ The *trade, tourism and economic cluster* includes support for World Trade Organization (WTO) accession and post-accession, implementation of Trade Facilitation Agreement (TFA), deepened customs cooperation, integrated trade facilitation and identification of new opportunities in the context of the shifting landscape of global and regional trade paradigms such as tourism and trade promotion. Additional trade-related priorities⁷ spread out across all CAREC 2030's operational clusters highlighting the cross-sectoral linkages and nature of trade work.

5. Against this background, there is a need to build consensus among stakeholders, discuss trade issues in a holistic manner and synchronize priorities into a unified platform. The CAREC Integrated Trade Agenda (CITA) 2030 seeks to provide a coherent amalgamation to set the direction for the CAREC trade sector work up to 2030. Taking into consideration the varying levels of capacities and progress among CAREC countries and the need to implement CITA in a phased and incremental approach, a three-year Rolling Strategic Action Plan (RSAP) will be developed and reviewed annually.

6. For purposes of developing CITA, a regional workshop was held in Bangkok in December 2017. Thereafter, a consultation paper with guiding questions was circulated for official comments of CAREC countries in February 2018. Subsequently, a series of stakeholders consultations were attended by trade-related agencies from CAREC members, development partners and international organizations in Almaty and Ulaanbaatar in March 2018, in Tbilisi and Beijing in April 2018 and in Islamabad in August 2018. A high-level consultation for private sector perspective was organized at the Astana Economic Forum in May 2018.

7. This Review Paper reflects the outcomes of the stakeholder consultations and the inputs to the Working Paper considered at the Inaugural Meeting of the Regional Trade Group (RTG) on 25-26 June 2018 in Bangkok. CITA 2030 with its accompanying RSAP 2018–2020 is a key deliverable at the 17th Ministerial Conference in November 2018 in Ashgabat, Turkmenistan.

II. Rationale

8. As the economic center of gravity shifts to Asia and the Pacific, the impacts of globalization, rapid technological advancements and infrastructure deficits, among others require enhanced connectivity and competitiveness of developing countries. It is in this context that fostering regional cooperation and integration – including strengthening subregional initiatives such as the CAREC Program – is one of the key operational priorities under ADB's *Strategy 2030*.⁸

9. Amid the rapidly evolving global and regional trade landscape and changing country circumstances, CAREC's relative performance in achieving outcomes and addressing

⁶ The operational clusters are on (i) economic and financial stability; (ii) trade, tourism, and economic corridors; (iii) infrastructure and economic connectivity; (iv) agriculture and water; and (v) human development. The use of information and communication technology (ICT) is a cross-cutting priority across the spectrum of CAREC operations.

⁷ Such as development of trade finance, modernizing regulatory frameworks and liberalization of freight logistics companies, promotion of cross-border mechanisms such as universal customs guarantee and driver visa facilitation, innovative public-private partnership arrangements to support regional trade and economic cooperation centers, promoting regional trade in agriculture via alignment of SPS measures with international standards and building product capacity, and development of regional labor market information system and regional job search or placement services.

⁸ ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

overlapping issues require a more coherent institutional approach through the development of a regional trade strategy as envisaged in *CAREC 2030*.

10. In 2017, amid the revival of global trade growth, CAREC members also rebounded from tepid performance in 2016. Excluding data from the People's Republic of China (PRC), CAREC's merchandise trade and commercial trade in services expanded by 16.8% and 7.3%, respectively. This is a positive sign taking into consideration the annual average growth of trade in goods and services at 6.4% and 3%, respectively for the last past five years (2012 to 2016). However, uncertainties continue to pose risks due to rising protectionist tendencies and restrictive trade policies could undermine these recent positive trends. Also, the global trade share of CAREC members has plateaued at less than 1% (excluding the People's Republic of China (PRC), which accounts for 11.5%) from 2009 to 2017.⁹ Exports from Central Asian countries show high divergence from the global pattern¹⁰ and remain highly dependent on primary and resource-intensive commodity and traditional markets such as the European Union, the PRC and Russian Federation. Compared with other Asia-Pacific regions, CAREC members are the least regionally integrated in terms of trade, investment, and movement of people.¹¹

11. CAREC members (including PRC's Xinjiang Uygur Autonomous Region and Inner Mongolia Autonomous Region)¹² are not well-integrated with the global economy due to: (a) poor market access, (b) limited economic diversification, and (c) weak institutions for trade. Appendix 1 presents the problem and objective tree analysis.

a. Poor Market Access

12. CAREC recognizes the importance of simplifying and liberalizing national trade regimes including through WTO membership in achieving trade expansion and improving investment climate. On the average, tariff rates imposed by CAREC countries are not excessive, e.g., 6.6%¹³ in 2015 and relatively low compared with other subregions.¹⁴ However, CAREC countries impose high tariff rates in some key products including agriculture and food products.¹⁵ The stockpiling of non-tariff measures including sanitary, phytosanitary and technical regulations that are not compliant with international standards is also costly especially to most developing countries¹⁶ and limits potential for trade expansion. Similarly, rising protectionism with the use of trade remedies and other trade distorting measures, pose challenges and risks of retaliation.

⁹ WTO. 2018. WTO Statistics Database. (Accessed 13 September 2018).

¹⁰ CAREC's average diversification index in 2016 ranges from 0.7-0.8 (except PRC). Computed by measuring the absolute deviation of the trade structure of a country from world structure, a value closer to 1 indicates greater divergence. See UNCTAD Statistics (Accessed 12 March 2018).

¹¹ ADB. 2017. *Asian Economic Integration Report 2017*. Manila.

¹² PRC is a CAREC member country. However, CAREC programs and projects are confined to the Inner Mongolia Autonomous Region and Xinjiang Uygur Autonomous Region and the analysis in this section forward refers to the two autonomous regions in PRC.

¹³ Trade-weighted averages (data excludes PRC, Afghanistan, Uzbekistan and Turkmenistan) in the World Economic Forum (WEF) and Global Alliance for Trade Facilitation (GATF). 2016, *The Global Enabling Trade Report 2016*. PRC had an 11.1% average. Afghanistan's was 7.3% in 2013 (WITS); Turkmenistan applied a customs duty ranging from 5% to 100% in 2008 (www.export.gov); Uzbekistan's average MFN applied rate was 14.5% in 2014 (see UNESCAP 2016. *Asia Pacific Trade and Investment Report 2016*).

¹⁴ CAREC average is almost as low as the average for the Association of Southeast Asian Nations (ASEAN)'s 5.1% and less than a third of South Asia Subregional Economic Cooperation (SASEC)'s 16.7%. It is also less dispersed but there are 665 distinct tariffs, compared to 216 for SASEC and 120 for ASEAN.

¹⁵ Average MFN applied duties are up to 20% for dairy, 19% for cereal, 29% for fruit and vegetables, 43% for beverages and tobacco, 24% for textiles, 31% for clothing, 22% for transport equipment for 8 CAREC countries. WTO Tariff Download Facility (Accessed 13 September 2018).

¹⁶ World Bank and UNCTAD. 2017. *The Unseen Impact of Non-Tariff Measures: Insights from a new database*.

13. Aside from the lack of effective measures to overcome their landlocked nature, the potential to increase trade within CAREC is limited by high trade costs and delays at-the-borders and behind-the-borders. For instance, in 2016, it takes an average of 67.5 hours to comply with documentary requirements which are usually duplicative and another 55.5 hours to cross the border in seven CAREC countries.¹⁷ Support services such as transport¹⁸ and logistics are inadequate. In 2018, eight CAREC countries are in the bottom half in terms of logistics performance index ranking.¹⁹ Implementation of trade facilitation measures, particularly the provisions of the WTO TFA and transit arrangements, could promote trade expansion in the CAREC region.²⁰

b. Limited Economic Diversification

14. Most CAREC countries continue to rely on primary and resource-intensive commodities in their products, which to some extent affects their participation in the value chain. For instance, in Kazakhstan and Mongolia, the ratio of their respective country's value-added going into the production of foreign economies are high because their natural-resource based exports are at the upstream segment of value chains.²¹ Nonetheless, the need to diversify – that is to substantially expand the range of products they produce and export – is well-recognized to fully participate in global and regional value chains.

15. Government interventions to address market distortions and policies to reallocate resources to new activities are crucial for private sector, especially the non-traditional players. However, financing gaps exist such as limited access to trade finance and credit guarantees for small traders. Seven CAREC countries ranked between 59 to 122 out of 136 countries in terms of access to finance.²² Inconsistent and restrictive foreign direct investment policies further make it difficult to realize potential for cross-border investment facilitation. The financial markets in CAREC²³ are relatively underdeveloped, making it difficult to mobilize private capital for infrastructure needs.²⁴

16. Recently, international trade strategies began to put strong emphasis on modern services sectors, particularly in business, educational and tourism services.²⁵ However, in some CAREC countries, services trade is relatively restricted in some sectors across the different modes of supply, with highest restrictiveness index in movement of natural

¹⁷ World Bank 2016. *Doing Business 2016: Measuring Regulatory Quality and Efficiency*. Washington, D.C.

¹⁸ The availability and quality of transport services was rated 3.5 on a scale of 1 to 7 (best). WEF and GATF. 2016. Footnote 12.

¹⁹ Of CAREC members, only PRC and Kazakhstan ranked in the upper half of 160 countries (no data for Azerbaijan). See World Bank 2018. *Logistics Performance Index 2018*. Washington, D.C.

²⁰ For instance, an empirical analysis of data collected in CAREC corridors suggests that a 10% reduction in time at the importers' border raises intra-CAREC trade by 2-3%, or a \$1.4 billion increase in intraregional trade. See ADB and ESCAP 2017. *Trade Facilitation and Better Connectivity for an Inclusive Asia and Pacific*. Manila. <https://www.adb.org/sites/default/files/publication/359786/trade-facilitation-connectivity.pdf>

²¹ ADB 2018. *Key Indicators for Asia and the Pacific 2018*. Manila.

²² PRC ranked 45. Ranking was based on the combination of three indicators derived from the World Economic Forum's Executive Opinion Survey: financial services meeting business needs, affordability of financial services, availability of financial services and ease of access to loans. CAREC averaged rating is 3.7 on a 1-7 scale, 7 being best. See WEF and GATF. 2016. Footnote 12.

²³ The financial market development index averaged 3.5 for 7 CAREC countries in 2015 (on a 1-7 scale, 7 being best). See WEF. 2016. *Global Competitiveness Report 2016*. Geneva.

²⁴ ADB estimates that for CAREC countries (excluding PRC), the infrastructure investments needs are \$1.15 trillion in 2016–2030 or \$76.8 billion per year, necessitating reforms and increases in both public and private infrastructure finance. <http://www.carecprogram.org/uploads/events/2017/35-16th-CAREC-MC/Presentations/03-ADB-Global-Regional-Outlook.pdf>

²⁵ International Trade Centre. 2017. *How strategic are trade strategies? Trends for effective development*. ITC, Geneva.

persons.²⁶ The growing mismatch between the new skills demanded by an increasingly information-driven global economy and the older skill set of many workers²⁷ further constrains potential for cross-border mobility and services trade. As services provide inputs to value chains and services exports outpace the growth of goods exports, efficiency of service sectors has become more critical.²⁸ Addressing the underdeveloped business development support services and existing policy restrictions in CAREC could promote greater diversification. Similarly, innovation measures are needed to take advantage of the opportunities of digital trade²⁹ and technology diffusion.

c. Weak Institutions for Trade

17. Trade is central to most national development strategies of CAREC countries and has motivated comprehensive economic reforms in the region. To date, seven CAREC countries³⁰ have ratified the WTO TFA. Georgia, which became a member of CAREC in October 2016, has a four-pillar reform agenda that includes economic reforms, open governance, infrastructure investment and education reforms. Uzbekistan included currency liberalization as part of its large-scale economic reforms to attract foreign investments. The new customs code of the Eurasian Economic Union, of which Kazakhstan and Kyrgyz Republic are members, took effect in January 2018.

18. Underpinning effective implementation of trade strategies and reforms is the quality of institutions and regulatory governance. However, ineffective institutional mechanism for policy coordination, disconnected national and regional planning, and regulatory fragmentation in the region, result in uncoordinated sectoral policies and priorities. While National Committees on Trade Facilitation or a similar mechanism for non-WTO members have been established in some CAREC countries, they need to be strengthened both at the country and regional levels.

19. In assessing and designing policies that may impact on trade, governments and officials need up-to-date and complete data, appropriate skills, and knowledge of emerging trade issues to arrive at informed decisions. Understanding the impact and benefits of international agreements and improved drafting and negotiating skills are required to amend or replace outdated trade-related legislations. Furthermore, while the number of free trade agreements (FTAs) in the CAREC region continues to rise (currently, 73 FTAs³¹), the scope of such agreements is still limited to tariff reduction. CAREC countries may consider deeper integration in their current trade agreements and improve their capacity to evaluate the trade-offs of multiple and overlapping FTAs before engaging in negotiations.

III. Impact, Outcome and Outputs

20. CITA seeks to enhance the growth potential of CAREC countries and improve the living standards of its people. This conforms with *CAREC 2030's* driving principle to align with national strategies and support international development agenda particularly the *2030 Agenda for Sustainable Development*.

²⁶ See World Bank. 2018. Services Trade Restrictions Database. The database covers PRC, Georgia, Kazakhstan, the Kyrgyz Republic, Mongolia, Pakistan, and Uzbekistan. (Accessed 16 September 2018).

²⁷ WTO. 2017. *World Trade Report 2017*. Geneva.

²⁸ ESCAP 2017. *Services and Global Value Chains: The Asia-Pacific Reality*. Studies in Trade, Investment and Innovation 89. St/ESCAP/2816. Bangkok.

²⁹ Implementing digital trade facilitation could cut trade costs in Asia-Pacific by \$673 billion annually. See ESCAP 2017. *Digital Trade Facilitation in Asia and the Pacific*. Studies in Trade, Investment and Innovation 87. ST/ESCAP/2811.

³⁰ Namely, Afghanistan, the PRC, Georgia, Kazakhstan, the Kyrgyz Republic, Mongolia, and Pakistan.

³¹ This figure includes both WTO notified and non-notified agreements.

21. CITA's outcome is to assist CAREC member in integrating further with the global economy through the following outputs: (a) trade expansion from increased market access; (b) greater diversification; and (c) stronger institutions for trade.

A. Trade Expansion from Increased Market Access

22. The CITA will enhance market access³² through the adoption of more open trade policies and deepening of customs cooperation and integrated trade facilitation.

23. **Freer trade.** The CITA will include measures to liberalize tariffs, eliminate non-tariff barriers to trade, and limit or avoid resort to trade distorting measures and protectionist tendencies. CAREC interventions include:

- Continued support for CAREC countries to comply with their WTO commitments including policy adjustments, transparency measures and trade policy reviews
- Experience-sharing, capacity-building and advisory support on the accession processes for non-WTO members
- Mapping and reduction of non-tariff barriers including additional licensing requirements targeted at foreign activities
- Technical assistance to improve the alignment of national SPS systems and quality infrastructure with international standards or conventions governed by international standard-setting bodies
- In-depth analysis of the impact of multiple FTAs or a potential region-wide FTA in the context of varying levels of openness and commitments of CAREC members in multilateral and bilateral trade agreements
- Addressing uneven tax treatment (or double taxation) between domestically produced and imported products, and promotion of business-friendly tax regimes

24. **Lower trade costs.** The CITA will include measures to make border and behind-the-border procedures more efficient, improve logistics services, and enhance transit systems, particularly within the CAREC corridors.³³ CAREC interventions include:

- Support for the implementation of the *WTO TFA, Agreements on Technical Barriers to Trade (TBT) and on Application of SPS Measures*
- Deepening existing CAREC initiatives such as on customs simplification and harmonization including accession to the *Revised Kyoto Convention and Framework of Standards to Secure and Facilitate Trade* of the World Customs Organization (WCO)
- Streamline multiple documentary requirements among border or regulatory agencies and with other countries through mutual customs assistance, mutual recognition or exchange of information
- Use of technology such as information common exchange (ICE) within and beyond customs agencies, promotion of paperless trade (such as through the *UN Framework Agreement on Facilitation of Cross-border Paperless trade in Asia and the Pacific*) and establishment of national single windows in all countries which will eventually promote interconnectivity and interoperability
- Supporting CAREC members adoption of freedom of transit under Article V of *WTO General Agreement on Tariff and Trade* and Article 11 of *WTO TFA*, membership in international conventions (such as the *Transports Internationaux Routiers (TIR) Convention* and the *Convention on a common transit procedure*

³² For the purpose of this review paper, market access refers to improved trade opportunities outside as well as into and within CAREC members that result from tariff, non-tariff and trade facilitation measures.

³³ Six CAREC corridors link the region's economic hubs to each other and connect the landlocked CAREC countries to other Eurasian and global markets.

and use of New Computerized Transit System (NCTS) among European Union candidate or observer neighboring countries such as Azerbaijan and Georgia)

- Participation to and effective implementation of transit schemes such as CAREC advanced transit system (CATS) and Quadrilateral Traffic in Transit Agreement (QTTA) including sharing of experience of these pilot initiatives
- Regional improvements in border services (RIBS), integrated border management and joint border or joint customs control projects
- Regulatory alignment with recognized international standards or development of common or harmonized standards within the CAREC region for trade facilitation
- Mutual recognition or acceptance of laboratory results or certification on SPS and TBT
- Regional Upgrade of SPS Measures for Trade (RUST) as part of CAST implementation and improve quality infrastructure including through laboratory capacity assessment and training for SPS personnel
- Impact analysis of a potential cross-border transport agreement
- Enhanced CAREC corridor performance measurement and monitoring to address the bottlenecks at key border crossing points and behind the borders

B. Greater Diversification

25. The CITA will create an enabling environment for greater economic diversification through adoption of policies to ensure adequate financing and link CAREC countries with regional and global value chains. This also relates to the country's industrial and foreign trade policy as tariff profiles have an impact on product diversification and competitiveness. For example, there is an emerging trend to develop cluster industries among CAREC countries (e.g., in services, information and communications technology (ICT) and transport corridors).

26. **Adequate financing.** The CITA will include adoption of measures to improve access to trade finance, consistent and open foreign direct investment policies, and develop domestic financial markets. CAREC interventions include:

- Small and medium enterprise (SME) access to trade finance including under the ADB's Trade Finance Program, supply-chain finance, as well as trade insurance
- Establishment of a multilateral agency for trade finance
- Cross-border financial transactions and investment facilitation and promotion
- Capacity-building and knowledge-sharing on inclusive and effective financing models including public-private partnerships and those that promote innovation (e.g., seed money, start-ups or incubation)

27. **Linkages with global and regional supply chains.** The CITA will include measures to promote matching of skills supply with demand including upgrading, adoption of innovation, and business development and other support services. CAREC interventions include:

- Regional collaboration on training and education services, mutual recognition of skills arrangements, development of a regional labor market information system and skills upgrading
- Policy work such as analysis of CAREC regulations on identified services sectors vis-à-vis their commitments under the General Agreement on Trade in Services or other trade agreements
- Analysis on the trade restrictiveness and development of telecommunications, financial, transport, logistics, education and other business services
- Study on the best practices on e-commerce including the WCO's new *Framework of Standards for Cross-border E-commerce*, and promotion of digital trade

including duty-free electronic transmissions or information technology products that are part of value chains;

- Innovation for the fourth industrial revolution (Industry 4.0), eliminating the digital divide and promoting faster internet access (e.g., WTO "Enabling E-commerce" initiative)
- Sectoral clusters development and industrial development (including research and development)
- Scoping studies/market analysis for the development of special economic zones or industrial parks which dovetails into economic corridor development
- Development of tourism and travel-related services including facilitated visa regimes for business people (e.g., Asia Pacific Economic Cooperation business cards) or special arrangements for trader/driver mobility and temporary movement of "migrant workers"
- Providing a venue for business promotion or matching (e.g., trade missions or expos) to introduce new products and emerging markets while improving product diversity and quality
- Creation of a more favorable business environment and improvement of export capacity and participation in the supply chain by SMEs, micro SMEs, and women entrepreneurs

C. Stronger Institutions for Trade

28. The CITA will promote better coordination of sectoral policies and priorities, evidence-based policy-making and enhanced capacity of government agencies.

29. **Coordinated sectoral policies and priorities.** The CITA will include measures to support collaborative policy formulation and implementation, alignment of national and regional planning, and promote regulatory convergence in the region. CAREC interventions include:

- Support for development of national strategies, roadmaps including through advice on legal matters (training, mentoring or advisory services for national lawyers)
- Establishment and/or strengthening of intergovernmental and cross-sectoral mechanisms such as WTO National Committees on Trade Facilitation or similar mechanisms
- High-level dialogues on emerging issues that are better resolved with regional action or cooperation
- Sharing good practices in promoting regulatory convergence or coherence
- Creation of permanent contact points and e-platforms to discuss issues and develop common approaches to respond to trade challenges in the region (e.g., establishment of CAREC Food Safety Network portal)
- Case or feasibility studies on the development of bilateral or subregional economic corridors and/or trade and economic cooperation centers

30. **Evidence-based policy-making and negotiations.** The CITA will include measures to improve data collection and cross-country analysis, enhance officials' policy analysis and negotiation skills, and increase participation of think tanks and the private sector. CAREC interventions include:

- Development or increased awareness of data sources to support policy analysis including innovative solutions to trade policy
- Development of an e-platforms or online trade portal, for enhanced transparency, improved exchange of information and updates on CAREC trade policy regimes, best practices, statistics, and donor-supported programs

- Technical assistance to streamline or update trade-related regulations and procedures
- Research and analytical work on areas with long-term implications in enhancing trade such as the effect of existing and potential trade agreements whose membership overlaps with CAREC countries and feasibility of a CAREC-wide FTA or development of a reference guide or model for comprehensive FTAs
- Inter-subregional sharing of experience on FTAs e.g., with Association of Southeast Asian Nations and Greater Mekong Subregion
- Capacity-building to engage and negotiate agreements beyond trade in goods including training of trainers for trade
- Seminars or conferences to increase awareness and understanding of issues in recent FTA negotiations or implementation such as in competition policy, intellectual property rights, economic and technical cooperation
- Enhanced role of CAREC Institute to engage national research institutes and provide opportunities for cross-learning
- Establishing a venue to encourage active public-private sector dialogue and cooperation to provide enabling environment for private sector (such as authorized economic operators schemes)
- Policy coordination and synergy to the extent possible with other international agreements and programs

IV. Institutional Structure

31. The RTG will have the lead and full operational authority as the coordinative and consultative body for trade sector in the CAREC Program. It will champion CAREC trade sector priorities, report progress and make recommendations to the CAREC Ministerial Conference through the Senior Officials' Meeting and National Focal Points' (NFPs) Meeting. The RTG will focus on overarching trade issues, whereas the CCC will continue to be the responsible body for all customs-related issues. Both RTG and CCC shall closely coordinate and cooperate with each other. Ad-hoc working groups and expert groups in technical areas such as in SPS, TBT standards, and other new areas (e.g., investment) may be organized to improve coordination and data exchange. Appendix 2 presents the institutional structure and terms of reference of the RTG and CCC.

32. To the extent possible, the RTG will cooperate and coordinate with CAREC Institute, think-tanks and research institutions in CAREC countries, international organizations (e.g., WTO and WCO), international standard-setting bodies, development partners engaged in trade sector activities in CAREC countries, and regional cooperation mechanisms (Belt and Road Initiative, Shanghai Cooperation Organization, Economic Cooperation Organization, Eurasian Economic Union, among others) to share knowledge, create synergies and optimize the use of resources. Recognizing their integral role in trade promotion and trade facilitation, private sector engagements especially with traders, business and industry associations such as the CAREC Federation of Carrier and Forwarder Associations (CFCFA) will be strengthened. CAREC will also explore the possibility of establishing CAREC Chamber of Commerce and Industries to serve as a regional business-to-business platform.

V. Implementation Approach and Results-Framework

33. Taking into consideration the capacities and varying levels of progress among the countries, CITA will adopt a phased and pragmatic approach in its implementation. A three-year RSAP will be developed. RSAP will prioritize projects that are specific, measurable,

achievable, realistic and timely.³⁴ There will be flexibility in allowing two or more CAREC countries to initiate and implement regional projects and initiatives agreed on by members. The first three years of CITA is spelled out in RSAP 2018–2020. It includes current and ongoing projects as well as planned and proposed projects that will be used to mobilize funds from other development partners (see Appendix 3).

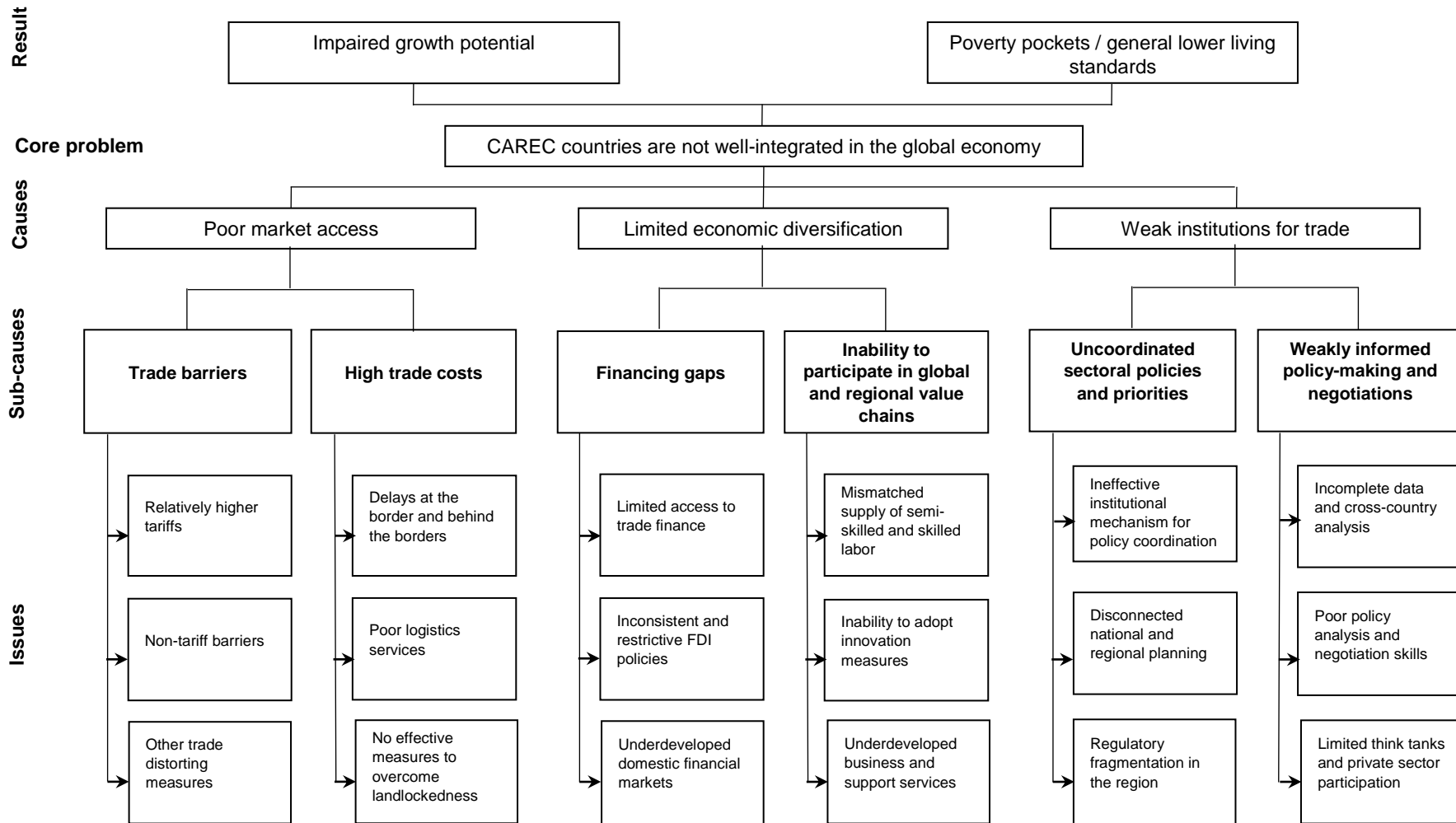
34. The preparation, finalization and updating of the three-year RSAP will be the responsibility of the RTG. The RSAP's implementation will be coordinated with other CAREC sectoral bodies including the CCC, Transport Sector Coordinating Committee, Energy Sector Coordinating Committee, or sub-sectoral groups as may be established. The interventions will include investment projects, policy dialogue and cooperation, and knowledge products and services. It is important to align the trade sector work with real sectors – such as customs with transport, logistics standards, logistics centers and border crossing points improvements; SPS with agriculture and technical standards with industrial development.

35. The progress of CITA and RSAP implementation will be regularly reported to the CAREC Ministerial Conference through the Senior Officials Meeting and NFP Meetings. A communications plan will be developed to widely disseminate information on the CITA and RSAP to all public and private stakeholders.

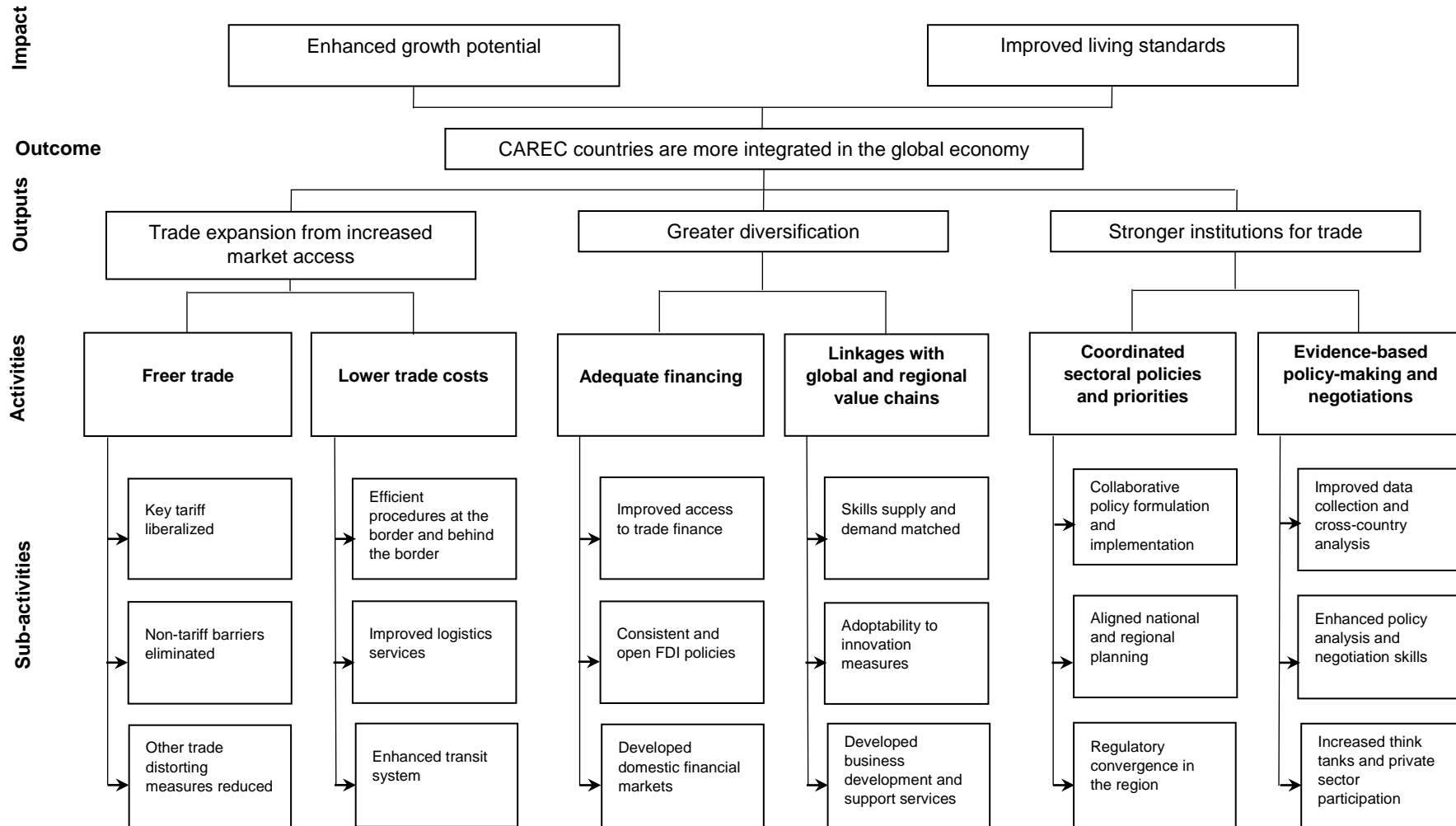
36. A results-based approach will be used to monitor and evaluate CITA implementation (see Appendix 4). The CITA results framework emphasizes strategic alignment from high-level goals to project activities, focuses on results rather than activities, and clearly lays out the required work priorities to deliver results. Continuous monitoring and analytical review based on the identified indicator sets will inform the CAREC countries of areas where progress is either slow or not present, thus enabling timely development of appropriate response and adjustment. As RSAPs translate CITA into practical and implementable three-year periodic phases, each RSAP will be informed by individual project design and monitoring frameworks and will feed into CITA results framework, which anticipates overall achievements expected by 2030.

³⁴ Specific, measurable, achievable, realistic and timely or “SMART” indicators are described as follows: (i) Specific—relate to the outputs or outcome the project seeks to achieve (cross-border trade increased); (ii) Measurable—stated in quantifiable terms (ton-km); (iii) Achievable—realistic in what is to be achieved; (iv) Relevant—useful for management information purposes; and (v) Time-bound—stated with target and baselines, both with dates.

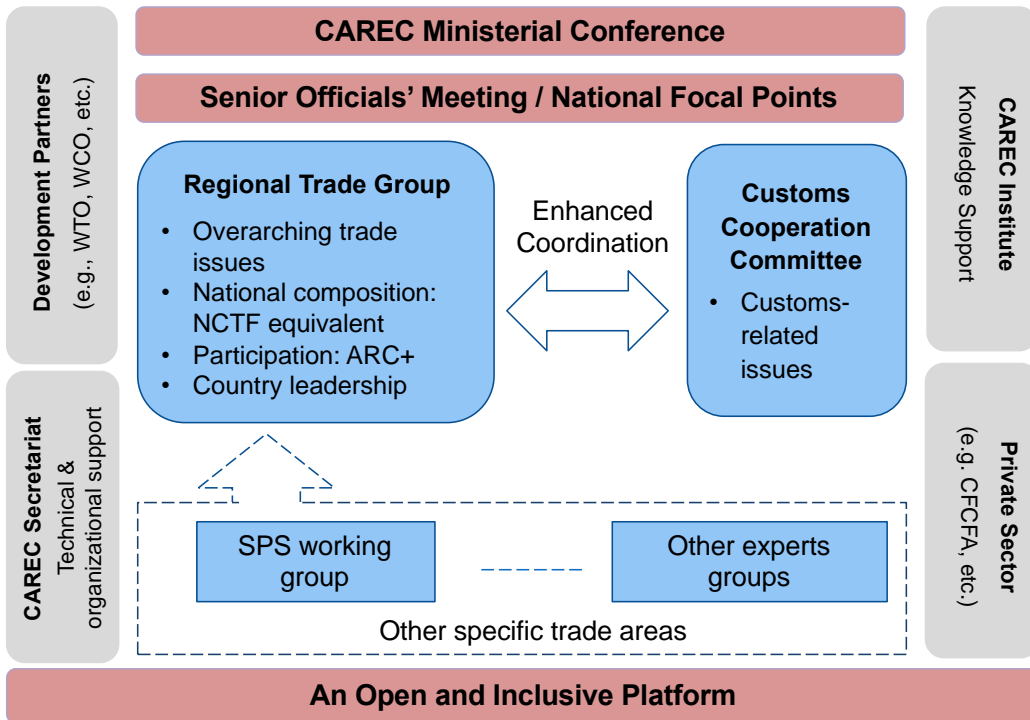
Appendix 1: Problem Tree



Objective Tree



**Appendix 2a:
Institutional Structure**



Appendix 2b: Terms of Reference of the Regional Trade Group (RTG)

A. Introduction

1. The new strategy for the Central Asia Regional Economic Cooperation (CAREC) Program, *CAREC 2030* provides the new long-term strategic framework to create an open and inclusive regional cooperation platform that connects people, policies, and projects for shared and sustainable development. *CAREC 2030* envisages focus on five operational clusters going forward including the cluster of trade, tourism, and economic corridors.³⁵

2. Amid the rapidly changing global and regional trade landscape, CAREC is repositioning itself as a catalyst for trade expansion and economic diversification in the region. However, CAREC members are not well integrated into the global economy. The CAREC region (data excluding PRC), accounts for less than 1% of the global trade. There is room for CAREC to enhance trade by addressing the main challenges including poor market access, limited economic diversification and weak institutions for trade.

3. Towards this end, a CAREC Integrated Trade Agenda (CITA) 2030 is envisioned to assist member countries integrate further into the global economy through three Pillars, namely: (a) trade expansion through increased market access, (b) greater diversification, and (c) stronger institutions for trade. Market access will be enhanced through adoption of freer trade policies and strengthened customs cooperation and integrated trade facilitation to lower trade costs. Diversification will be promoted by creating an enabling environment that would mobilize adequate financing and establish linkages with global and regional value chains. Stronger trade institutions will be achieved through coordinated sectoral policies and priorities and evidence-based policy-making and negotiations. CITA 2030 will be implemented through a phased and incremental approach through a three-year Rolling Strategic Action Plan (RSAP). The first three years of RSAP will be RSAP 2018-2020 which will prioritize investment projects, policy dialogue and cooperation, knowledge product and services interventions and actions. The three-year RSAP will be reviewed annually to maintain relevance. An institutional framework that is guided by strong country and development partner ownership and strengthened engagement with the private sector and civil society will be essential.

4. In the past, CAREC's trade work has been guided by separate strategies or action plans namely, *Transport and Trade Facilitation Strategy 2020*, *Trade Policy Strategic Action Plan (2013-2017)*³⁶ and *Common Agenda for Modernization of Sanitary and Phytosanitary (SPS) Measures for Trade*. As envisioned under *CAREC 2030*, the Regional Trade Group (RTG) will be established to discuss and deliberate on the increasingly intertwined issues of trade policy and trade facilitation in a synergistic manner including trade-related linkages with *CAREC 2030*'s operational clusters and priorities.

5. The inaugural meeting of the RTG was held back-to-back with the Senior Officials Meeting in June 2018 in Bangkok. CITA 2030 and its accompanying RSAP 2018-2020 is a key deliverable of the RTG at the 17th CAREC Ministerial Conference (MC) in November 2018.

B. General Purpose and Reporting Structure

³⁵ The other operational clusters are on economic and financial stability; infrastructure and economic connectivity; agriculture and water; and human development— with use of information and communication technology (ICT) as a cross-cutting priority across the spectrum of CAREC operations.

³⁶ The Trade Policy Coordinating Committee (TPCC) was responsible for trade policy matters.

6. The RTG will have the lead and full operational authority as the coordinative and consultative body for trade sector in the CAREC Program. It will champion CAREC trade sector priorities, report progress and make recommendations to the CAREC MC through the Senior Officials' Meeting and National Focal Points' (NFPs) Meeting. The RTG will focus on overarching trade issues, whereas the Customs Cooperation Committee (CCC) will continue to be the responsible body for all customs-related issues under CAREC. Both RTG and CCC shall closely coordinate and cooperate with each other. Ad-hoc working groups and expert groups in technical areas such as in SPS measures, standards and technical barriers to trade (TBT), and other new areas (e.g., investment) may be organized as needed.

C. Scope of Work

7. The RTG shall plan, discuss, deliberate, coordinate and monitor the implementation of the trade work under the CAREC program, specifically, the CITA 2030 and its accompanying RSAPs, including to undertake the following key functions and tasks:

(a) Policy Dialogue and Strategy Formulation

- (i) To be an inclusive and constructive forum for policy discussions, consensus-building, cross-learning and cooperation in the trade sector with the objective of supporting CAREC countries' trade-related development strategies and furthering their integration into the global economy;
- (ii) Develop, refine and update the CITA 2030 and its accompanying RSAPs. The CITA 2030 will be updated after a mid-term review or as needed and the RSAP will be updated on an annual basis, to maintain its relevance and responsiveness to the changing global and regional trading paradigm, and emerging challenges and opportunities in the CAREC region;
- (iii) Develop and monitor performance in achieving the CITA objectives based on the results framework that will measure and assess progress, making use of selected indicators to assist in formulating, updating, and prioritizing actions and recommendations;
- (iv) Provide updates and make recommendations to the MC through the SOM and NFPs' meeting on trade-related issues and priorities for the CAREC region.

(b) Project Pipeline Development, Implementation and Monitoring

- (i) Support the implementation of RSAPs and endeavor to prioritize investment projects, policy dialogue and cooperation, and knowledge products and services that are specific, measurable, achievable, realistic and timely;
- (ii) Identify mutually agreeable solutions and flexible operational arrangements (such as allowing two or more CAREC countries to initiate and implement regional projects and initiatives agreed on by all members) guided by international best practices and demonstrated results to implement and promote CAREC trade work;
- (iii) Provide advice and support as required, on the formulation and implementation of national plans with respect to CITA and RSAPs, working closely with the National Committees on Trade Facilitation (NCTFs) or similar inter-agency mechanisms in CAREC countries, to ensure country-level buy-in and effective implementation;
- (iv) Support the CAREC Secretariat in developing sector-specific monitoring framework to provide inputs to CAREC 2030 program results framework;
- (v) Report periodically to the MC through SOM and NFPs' meeting on the progress of implementation of CITA and three-year RSAPs.

(c) Institutional Strengthening and Stakeholders Coordination

- (i) Support the establishment and/or strengthening of intergovernmental and cross-sectoral mechanisms (e.g., NCTFs) with the objective of better coordination of sectoral policies and priorities in the region;
- (ii) Promote evidence-based policy-making and negotiations including through improved data collection and cross-country analytical work and capacity-building for government officials in emerging trade issues and negotiations;
- (iii) Strengthen trade-linkages and create synergies with other *CAREC 2030* operational clusters and priorities, through coordination with other sectoral bodies such as the CCC, Transport Sector Coordinating Committee, Energy Sector Coordinating Committee, and/or sub-sectoral groups including ad-hoc working groups and expert groups as may be established;
- (iv) Strengthen dialogue mechanisms with the private sector such as the associations of exporters and importers, chambers of commerce, business and industries including the CAREC Federation of Carrier and Freight Forwarder Associations (CFCFA), to identify and address issues and challenges faced by the private sector in expanding trade;
- (v) To the extent possible, cooperate and coordinate with think-tanks and research institutions (e.g. CAREC Institute), international organizations (e.g., World Trade Organization and World Customs Organization), other development partners engaged in trade sector activities in CAREC countries, and regional cooperation mechanisms (e.g., Belt and Road Initiative, Shanghai Cooperation Organization, Economic Cooperation Organization, Eurasian Economic Union, among others) to share knowledge, create synergy and optimize the use of resources.

D. Membership, Chairing, Secretariat and Technical Support

8. Membership of the RTG will be per country, represented by respective Appointed Representative of the Country (ARC) for the RTG. Each country will provide list of relevant agencies and focal point contacts for future topical issues discussion.

9. The RTG meetings will be agenda-driven and issues-based to ensure in-depth discussions among relevant government agencies and help improve the effectiveness and efficiency of the RTG meetings. Each CAREC country may determine the size and composition of the country's delegation to the RTG meetings. The delegates to the RTG meetings shall comprise senior-level representatives from trade-related agencies of CAREC countries and experts from development partners. The RTG may also invite international experts, resource persons and observers to the RTG meetings as may be required.

10. RTG shall meet at regular intervals, including possibly, an annual meeting prior to SOM, attended by ARC from each country and delegates as may be nominated based on the selected RTG topics. A Chairperson shall be appointed by the host-country, which is designated following the same rotation among countries for CAREC hosting. To strengthen ownership and promote cross-learning, Country co-chair may be appointed during the RTG meetings based on the agenda and specific country expertise.

11. ADB will provide Secretariat support and technical support in close coordination with other key stakeholders.

E. Review

12. The TOR will be reviewed and updated if deemed necessary by member countries and ADB, in 2024 and 2030, respectively.

Appendix 2c: Terms of Reference of the Customs Cooperation Committee (CCC)

A. Background

1. The Central Asia Regional Economic Cooperation (CAREC) Customs Cooperation Committee (CCC), established in January 2002, held its first meeting in Urumqi, People's Republic of China on 21-22 August 2002 and identified five priority areas of work:

- (i) Simplification and Harmonization of Customs Procedures;
- (ii) Information and Communications Technology (ICT) for Customs Modernization and Data Exchange;
- (iii) Risk Management and Post-Entry Audit;
- (iv) Joint Customs Control and One-Stop Services; and
- (v) Regional Transit Development.

2. In October 2017, the CAREC Ministerial Conference endorsed its new long-term strategy *CAREC 2030: Connecting the Region for Shared and Sustainable Development (CAREC 2030)* that highlighted, among others, the need to build consensus among stakeholders, integrate discussions on trade issues and synchronize priorities under a unified platform.³⁷ Under the *CAREC 2030* framework, the CAREC Integrated Trade Agenda (CITA) 2030 seeks to provide such coherent amalgamation to set the direction for the CAREC trade sector up to 2030. Taking into consideration the varying levels of capacities and progress among CAREC countries and the need to implement CITA 2030 in a phased and incremental approach, a three-year Rolling Strategic Action Plan (RSAP) will be developed and reviewed annually.

3. At the Regional Trade Group (RTG) Meeting and the Senior Officials Meeting (SOM) held in June 2018, it was agreed that customs cooperation functions related to trade facilitation will continue to be carried out by the CCC, which will work in close coordination with the RTG. At the 17th CCC meeting held in September 2018, the CCC agreed to update its priority areas of work and terms of reference reflecting the evolving mandates and cooperative relationships.

B. Composition

4. The CCC is composed of the heads and deputy heads of customs organizations of the CAREC member countries namely: Afghanistan, Azerbaijan, the People's Republic of China, Georgia, Kazakhstan, Kyrgyz Republic, Mongolia, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan.

C. Objectives

5. The main objectives of the CCC, while recognizing the evolving role of customs authorities are:

- (a) **Strategizing** by identifying tangible and concrete solutions to customs-related issues and priorities under CITA 2030;
- (b) **Implementing** the World Trade Organization (WTO) Trade Facilitation Agreement (TFA) which came into effect in February 2018, with customs playing a predominant role at the national and regional level, and promoting national and regional trade facilitation initiatives through concerted customs reforms and modernization;

³⁷ ADB. 2017. *CAREC 2030: Connecting the Region for Shared and Sustainable Development*. Manila.

- (c) **Innovating** by responding to the rise of cross-border e-commerce and digital trade, use of block-chain technology, big data analysis, and the internet of things, and rapidly changing supply chain management;
- (d) **Monitoring** and supervising the implementation of customs-related work under CITA 2030 and RSAPs to ensure effective and efficient implementation, regularly reviewing progress of work, and formulating policy recommendations for consideration by respective CAREC governments;
- (e) **Partnering** with the private sector by creating favorable conditions for business and customs interaction, supporting inclusive and sustainable trade facilitation while maintaining and developing open, transparent and predictable regulatory systems; and
- (f) **Serving as a regional forum** to address customs-related issues of common interest and to promote cooperation among customs organizations, including with the World Customs Organization (WCO) and with other trade-related agencies of CAREC countries to support implementation of CITA 2030 and its three-year RSAPs.

D. Priority Areas of Work

6. The CCC agreed to update its priority areas of work as follows:

Customs development

- (i) WTO TFA implementation;
- (ii) customs-business partnership;
- (iii) institutional and human resource capacity development.

Customs technology

- (iv) information exchange (customs-to-customs; customs-to-business platforms);
- (v) risk management and authorized economic operator (AEO) programs;
- (vi) regional transit and cooperation.

Customs services

- (vii) coordinated border management;
- (viii) single window;
- (ix) simplification and harmonization of customs procedures in accordance with developments in global trade.

E. Terms of Reference

7. Customs Priority Areas

Customs development

- (i) Lead effective implementation of the WTO TFA using WCO instruments, adopting best practices, and working towards harmonization and simplification of customs formalities;
- (ii) Provide oversight on the conduct of research studies, including the Corridor Performance Measurement and Monitoring mechanism, that support effective and efficient implementation of the three-year RSAPs, including surveys to establish benchmarks, identify inefficiencies and provide the basis for policy and implementation decisions;

- (iii) Promote customs-to-business partnership at regional and national level to develop a relationship of mutual trust and respect through constructive, sustained and open dialogue;
- (iv) Conduct regular customs-business dialogue to discuss areas of cooperation and undertake joint skills development and/or research activities with the private sector whenever possible; and
- (v) Develop the institutional and human resource capacity of customs authorities and agencies to effectively respond to dynamic changes in trade environment;

Customs technology

- (vi) Support digital transformation through enhancing e-Customs systems, paperless trade, other transformational technology, and new developments in information and communications technology (ICT) to facilitate trade;
- (vii) Strengthen and expand the coverage of trade-related risk management systems and approaches, and develop national-level authorized economic operator programs, and explore cooperation mechanisms for mutual recognition of AEOs across border;
- (viii) Promote efficient regional transit regime and cooperation including through bilateral and regional information exchange to facilitate both intra and extra-regional trade;

Customs services

- (ix) Supervise the design and conduct of border management strategies and capacity building programs to strengthen implementation capabilities of customs organizations and other relevant border agencies in the CAREC region;
- (x) Introduce innovations in customs procedures such as single window or one-stop shops, risk management, and coordinated border management to manage ever increasing volumes in trade with less reliance on physical intervention and with greater efficiency and speed; and
- (xi) Promote enhanced implementation of the provisions of the Revised Kyoto Convention to continue simplification and harmonization of customs procedures in accordance with developments in global trade, thereby supporting transparent and predictable trade and reducing the time and cost of cross-border trade transactions.

8. Working with Other Key Stakeholders

- (xii) Provide leadership in promoting trade facilitation initiatives – expanding the scope of the work program from customs cooperation to a deepened interagency collaboration and enhanced partnerships between the public and private sectors;
- (xiii) Strengthen coordination with key stakeholders, particularly, the RTG and Transport Sector Coordination Committee, and with other regional cooperation mechanisms, including research institutions such as CAREC Institute and private sector entities such as the CAREC Federation of Carriers and Forwarders Association, and others as may be established;
- (xiv) Encourage the participation and active involvement of development partners and multilateral agencies in the implementation of CITA 2030 and foster inter-committee collaboration and coordination within CAREC.

**Appendix 3:
Rolling Strategic Action Plan 2018–2020**

	Project/Activity	Description/Objectives	Type of Input	Status	Participating Countries	Implementation Period
Pillar 1: Trade Expansion from Increased Market Access						
1	Regional Improvement of Border Services (RIBS)	Project includes upgrade of facilities at key border crossing points (BCPs), customs automation system to reduce processing time and costs, and strengthen customs and project management capacity	Investment Project	Ongoing	KGZ-TAJ, MON, PAK	KGZ-TAJ: 2013-2019 MON: 2016-2022 PAK: 2015-2022
			Investment Project	Planned	UZB	2019-2022
2	National Single Window (NSW)	Project design for establishing NSW, which is part of WTO TFA commitments	Investment Project (Scoping)	Planned	PAK	2018-2020
3	Developing a new border crossing point (BCP) (AZE-GEO)	The proposed Abreshumis Gza -Ipek Yolu friendship BCP in AZE-GEO will include joint customs control component	Investment Project (Scoping)	Proposed	AZE, GEO	2019-2020
4	Regional Upgrades of Sanitary and Phytosanitary (SPS) Measures for Trade Project (RUST)	Project covers measures and facilities to strengthen food safety, animal and plant health standards to help realize the country's potential for agri-food exports	Investment Project	Ongoing	MON	2015-2021
		Needs assessment study at the borders including laboratory capacity and cold-chain facilities	Investment Project (Scoping)	Proposed	KGZ	2018-2020
		Pilot project for SPS infrastructural development in railway Gardabani BCP to foster the growth of countries transit and logistics capacity	Investment Project (Scoping)	Proposed	AFG, PAK	2019-2020
		Capacity assessment of laboratory and border facility and development of country plans for plant and animal health	Investment Project (Scoping)	Proposed	AZE-GEO	2019-2020
5	CAREC Common Agenda for Modernization of SPS Measures for Trade (CAST) implementation	Develop or amend regulations, procedures, and requirements to be consistent with WTO SPS agreement and aligned with international standards	Knowledge-Sharing Products and Services	Ongoing	REG	2018-2020
		Strengthen international food safety standards in agricultural value chains,	Knowledge-Sharing Products	Ongoing	REG	2016-2019

Project/Activity	Description/Objectives	Type of Input and Services	Status	Participating Countries	Implementation Period	
	including through CAREC food safety network					
	Develop regional/subregional animal diseases and pest surveillance program	Knowledge-Sharing Products and Services	Planned	REG	2019-2020	
	Explore potential mutual recognition or accreditation of SPS certificates to facilitate trade, initially focusing on perishable goods	Policy Dialogue and Cooperation	Planned	REG	2019-2021	
6	Technical Barriers to Trade (TBT) mapping	Workshop or seminar to enhance transparency and data exchange of TBT technical regulations and accreditation or conformity assessment and organize working or expert group meetings	Policy Dialogue and Cooperation	Planned	REG	2019-2020
7	CAREC Advanced Transit System (CATS) pilot project	A new transit mechanism that offers risk-based and comprehensive guarantees to reduce time and cost of transit trade	Investment Project (Scoping)	Ongoing	AZE, GEO, KAZ	2017-2020
8	Information Common Exchange (ICE)	Pilot customs data exchange among participating CAREC countries, which could be linked to CATS pilot	Investment Project (Scoping)	Planned	AZE-GEO-KAZ	2019-2020
9	Membership and implementation of transit schemes	Participation and effective implementation of regional transit schemes and arrangements such as CATS and Quadrilateral Traffic in Transit Agreement (QTTA)	Policy Dialogue and Cooperation	Planned	REG	2019-2021
	Accession to Convention on Common Transit Procedure and use of New Computerized Transit System (NCTS) to facilitate trade within CAREC and with the European market	Knowledge-Sharing Products and Services	Proposed	AZE, GEO	2020-2021	
10	Strengthened dialogue and cooperation between public (customs and other trade-related agencies) and private sector (including	Continuing dialogue between CAREC Federation of Carriers and Freight Forwarders (CFCFA) and RTG/CCC with the objective of providing enabling environment for private sector and support their participation at the global trade. Specific areas of cooperation include:	Policy Dialogue and Cooperation	Ongoing	REG	2018-2020

	Project/Activity	Description/Objectives	Type of Input	Status	Participating Countries	Implementation Period
	exporters, importers, business and industry associations)	(a) credit evaluation of logistics enterprises for authorized economic operators (AEO) schemes; (b) CFCFA trade and logistics standards publication and continuing development including through establishment of standards working group under the RTG; (c) pilot projects on new transport corridor route; (d) regional industry–education development alliance.				
		Information sharing with chambers of commerce on CAREC work, feasibility of establishing a CAREC chambers of commerce, and discussions on proposals or issues raised by the private sector (e.g., establishment of export houses at the borders, capacity-building for certifying authorities, visa issues)	Policy Dialogue and Cooperation	Proposed	REG	2019-2020
11	Joint customs control (JCC) pilot project	Phase 1 of implementation is document harmonization through the unified cargo manifest aimed at electronic exchange. Phase 2 will involve mutual recognition of inspection results.	Investment Project (Scoping) / Policy Dialogue and Cooperation	Ongoing	PRC-MON	2016-2020
12	Paperless trading or e-certification of trade documents	Capacity building to promote best practices on paperless trade which is linked to NSW, with potential interconnectivity and interoperability via electronic data interchange or regional single window	Knowledge-Sharing Products and Services	Planned	REG	2018-2020
13	World Trade Organization (WTO) accession and post-accession commitments	Advisory support and capacity-building for WTO accession, including as WTO observer	Knowledge-Sharing Products and Services	Ongoing	AZE, TKM, UZB	2018-2022
		Country/sector-specific impact assessment of trade policy reforms or policy adjustments, enhanced transparency measures, and trade policy reviews	Knowledge-Sharing Products and Services	Planned	KGZ, TAJ, UZB	2018-2022

	Project/Activity	Description/Objectives	Type of Input	Status	Participating Countries	Implementation Period
14	Best practices on free trade agreements (FTAs)	In-depth analysis of the impact of multiple FTAs or a potential region-wide FTA in the context of varying levels of openness and commitments of CAREC members in multilateral and bilateral trade agreements	Knowledge-Sharing Products and Services	Planned	REG	2020-2022
		Development of a model/template FTA for CAREC countries, considering the experience of other regions (ASEAN/EU)	Knowledge-Sharing Products and Services	Planned	REG	2020-2022
		Seminar on priority FTA topics such as rules of origin and role of customs agencies	Knowledge-Sharing Products and Services	Planned	REG	2020-2022
15	Facilitated visa arrangements	Dialogues may be organized on potential visa regimes to develop tourism and travel-related services and special arrangements for temporary movement of people (e.g., APEC business cards; frequent traveler for business/trade; workers; special permits for driver mobility)	Policy Dialogue and Cooperation	Planned	REG	2020-2022
16	CAREC Corridors Performance Measurement and Monitoring (CPMM)	Continue to measure the competitiveness of CAREC corridors to enhance performance and address the bottlenecks at key BCPs including issues behind-the-border	Knowledge-Sharing Products and Services	Ongoing	REG	2018-2020
Pillar 2: Greater Diversification						
17	Free trade zone, special economic zones (SEZs) or cross-border economic zones (CBEZ) or cooperation centers	Feasibility study on free trade or special economic zones to strengthen competitiveness and promote economic diversification including as part of economic corridor development (such as PRC-Pakistan Economic Corridor) and development of Anaklia seaport and SEZ including infrastructure for connectivity, customs and trade facilitation, and SEZ-related policy and regulatory framework	Investment Project	Planned	PAK, UZB, GEO	2019-2022
		Feasibility study on CBEZ between CAREC countries	Investment Project	Planned	MON-PRC (IMAR)	2019-2020

Project/Activity		Description/Objectives	Type of Input	Status	Participating Countries	Implementation Period
		Feasibility study on integrated free trade zone – which includes construction of essential trade-related facilities and services including a regional TA to support cooperation with neighboring country on potential CBEZ	Investment Project and Knowledge-Sharing Products and Services	Planned	PRC (XUAR); KAZ- PRC (XUAR)	2018-2020
18	Economic corridor development or cross-border cooperation centers	Study visits or workshops to promote the development of economic corridors and/or trade and economic cooperation centers	Knowledge-Sharing Products and Services	Planned	REG	2018-2020
19	Value-chain development	Case study or situation-gap analysis to support the participation of market players in CAREC in global and regional value chains (e.g., agricultural value chain in the Fergana valley)	Knowledge-Sharing Products and Services	Planned	REG	2018-2020
20	Logistics centers / facilities	Establish logistics centers including analyzing the transport sector and linkages and assessing adequacy of multimodal transport infrastructure	Investment Project	Ongoing	KAZ, MON	2018-2019
			Investment Project (Scoping)	Proposed	UZB, KAZ	2019-2020
21	Developing trade in services	Study to promote expansion and integration of trade in services in priority sectors (finance, health, pharmaceutical, education, transport and tourism)	Knowledge-Sharing Products and Services	Proposed	REG	2019-2022
22	Developing sectoral or industrial clusters between CAREC countries	Scoping studies and market analyses for potential sectoral and industrial clusters or industrial parks which dovetails into economic corridor development	Investment Project (Scoping) / Policy Dialogue and Cooperation	Proposed	REG	2019-2022
23	Awareness and access to trade finance, supply chain finance, and guarantees	Bridge financing gaps and improve access to trade finance and credit guarantees for small traders including through ADB's Trade Finance Program and Supply Chain Finance Program	Investment Project	Ongoing	REG	2018-2020
			Investment Project (Scoping)	Planned	REG	2018-2021
		Encourage participation of CAREC members in the proposed Multilateral/ Regional Trade Credit and Investment Guarantee Agency	Investment Project (Scoping)	Planned	REG	2018-2021

	Project/Activity	Description/Objectives	Type of Input	Status	Participating Countries	Implementation Period
24	Investment Forum	Facilitate exchange of ideas and identify new opportunities for stakeholders with priority in agriculture, tourism and technology sectors	Policy Dialogue and Cooperation	Proposed	REG	2020-2021
25	Promotion of e-commerce and innovation (Industry 4.0)	Scoping study to look into adoption of e-commerce or other innovation such as use of blockchain technology, internet of things, and big data in government services related to trade	Investment Project (Scoping)	Proposed	REG	2019-2020
		Pilot initiative on new WCO framework of standards in cross-border e-commerce and potential partnership with existing programs initiated by private sector or international entities	Knowledge-Sharing Products and Services	Proposed	REG	2019-2022
		Seminar on best practices or field visits to promote digital trade including duty-free electronic transmissions of information technology (IT) products	Knowledge-Sharing Products and Services	Ongoing	REG	2018-2020
Pillar 3: Stronger Institutions for Trade						
26	Roadmap for CITA 2030 implementation	Information-sharing on strategic planning for the effective implementation of CITA 2030	Policy Dialogue and Cooperation	Proposed	REG	2019-2020
27	Online trade portal	Develop one-stop shop repository for trade policies/regulations, best practices and data of CAREC countries (sub-site in CAREC website) which could be linked with existing business to business platforms or mechanisms	Investment Project	Planned	REG	2019-2022
28	Trainings on data gathering, policy analysis and negotiations	Capacity-building to improve capacity of CAREC trade-related agencies and officials	Knowledge-Sharing Products and Services	Planned	REG	2019-2022
29	Experience-sharing of WTO members	Dialogue on benefits from accession, lessons from accession processes, and implementation (experience from KAZ and PRC)	Policy Dialogue and Cooperation	Planned	REG	2018-2020

	Project/Activity	Description/Objectives	Type of Input	Status	Participating Countries	Implementation Period
30	WTO Trade Facilitation Agreement enhanced implementation among CAREC members	Seminars and inter-subregional forum on WTO TFA especially mandatory provisions and of high significance to CAREC (e.g., freedom of transit, AEOs, customs valuation, border agency and customs cooperation)	Policy Dialogue and Cooperation	Ongoing	REG	2018-2022
		National-level consultations or country-specific needs assessment for National Committee on Trade Facilitation (NCTF)	Knowledge-Sharing Products and Services	Ongoing	REG	2018-2020
		Establish WCO-accredited Training Institute	Investment Project (Scoping)	Proposed	PAK	2019-2020
		Establish and/or strengthen other intergovernmental and cross-sectoral mechanisms on trade	Knowledge-Sharing Products and Services	Proposed	REG	2019-2020
31	CAST (Capacity building component)	Establish a national SPS working group (WG) to deliberate on national-level SPS strategy and develop priority action plan. The national SPS WG will provide inputs to the Regional SPS WG in terms of priorities and policy actions best done at the regional level	Policy Dialogue and Cooperation	Ongoing	REG	2018-2020
		Capacity-building and/or training of trainers on SPS regulations and international standards on plant/animal health and food safety	Knowledge-Sharing Products and Services	Planned	REG	2019-2020
		Develop a border SPS management strategy and enhance capacity of border agencies to implement at selected borders	Knowledge-Sharing Products and Services	Ongoing	REG	2018-2020
32	Improved research capacity and coordination among CAREC countries	Strengthen the role of CAREC Institute and linkages with national research institutes to provide opportunities for cross-learning including engagement with trade-related agencies and their participation at relevant initiatives	Knowledge-Sharing Products and Services	Ongoing	REG	2018-2022

Notes: *Implementation period* is indicative.

Countries/Members: AZE= Azerbaijan; AFG= Afghanistan, PRC= People's Republic of China; IMAR= Inner Mongolia Autonomous Region, XUAR=Xinjiang Uygur Autonomous Region, GEO=Georgia, KAZ= Kazakhstan, KGZ= Kyrgyz Republic, MON=Mongolia, PAK=Pakistan, TAJ=Tajikistan, TKM=Turkmenistan, UZB=Uzbekistan, REG = Regional

Status: *Ongoing* = where projects have been approved and/or under implementation including those that may require additional financing, *Planned* = projects already in the pipeline or could be funded under existing projects or technical assistance, *Proposed* = as requested by countries in concept development stage and/or funding options to be identified.

Appendix 4: Results–Framework for CITA 2030

1. The CAREC Integrated Trade Agenda (CITA) 2030 sets the direction for the trade sector under *CAREC 2030: Connecting the Region for Shared and Sustainable Development* (CAREC 2030).³⁸ It aims to enhance the growth potential of CAREC countries by enabling them to integrate more into the global economy. CITA is designed around three pillars: (i) trade expansion through increased market access; (ii) greater diversification; and (iii) stronger institutions for trade. It will be implemented in a phased and incremental manner through a series of rolling strategic action-plans (RSAPs).

2. To monitor and evaluate the progress of CITA and RSAP, a results-based approach will be applied to their management cycles,³⁹ harnessing continuous learning and evidence-based decision-making to improve performance.⁴⁰ Specifically, a comprehensive results framework comprising focused sets of indicators will monitor progress made by all projects and activities designed and implemented under CITA 2030 and its accompanying RSAPs.

3. The CITA Results Framework lays out the rationale for applying a results-based approach, the methodology used, and introduces proposed indicator sets that correspond directly to the three pillars of CITA. It also discusses some of the potential challenges faced in monitoring the progress of many stakeholders in aggregated format across a wide range of trade activities and proposes mitigating courses of action.

A. Rationale

4. Results-based management is essential for complex programs such as CITA and the RSAPs, which involve multiple actors and operate in an evolving environment. A results framework emphasizes strategic alignment from high-level goals to project activities, focuses on results rather than activities, and clearly lays out the required work priorities to deliver results. Furthermore, measuring achievements promotes transparency, provides evidence of performance to aid decision-making, and builds an information base for learning. Continuous monitoring and analytical review based on the identified indicator sets will inform the CAREC countries of areas where progress is either slow or not present, thus enabling timely development of appropriate response and adjustment.

B. Methodology

5. Applying a results-based approach to CITA requires specifying causal relationships between various elements (e.g., under the first pillar, addressing border delays will reduce trade costs, which in turn improves access to markets abroad) that will lead over time to more globally integrated economies – which is ultimate objective of CITA. This can be visualized as a results chain that flows from inputs (financial, human, and material

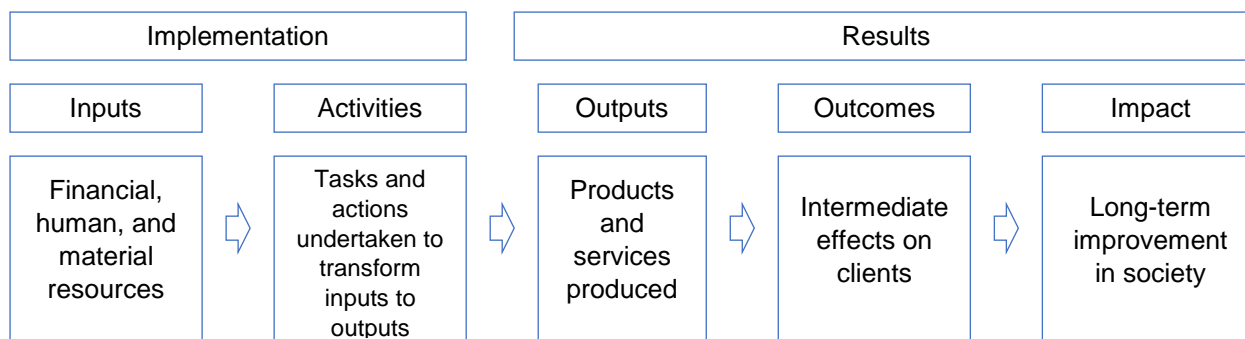
³⁸ CAREC 2030 builds on the foundation of progress made under *CAREC 2020*, the strategy that has guided CAREC's activities since 2011, and envisages focus on five operational clusters going forward: (i) economic and financial stability; (ii) trade, tourism, and economic corridors; (iii) infrastructure and economic connectivity; (iv) agriculture and water; and (v) human development. Integrating the use of information and communication technology (ICT) across the spectrum of CAREC operations will be a cross-cutting priority.

³⁹ Results management is the set of tools for strategic planning, monitoring and evaluating performance, reporting, and organizational improvement and learning (ADB, *An Introduction to Results Management: Principles, Implications, and Applications*, 2006). In 2008 ADB was the first multilateral development bank to adopt a corporate results framework to mainstream management for development results across its operations. The original corporate results framework is being extended until the Strategy 2030-aligned one is approved in 2018. (ADB, "The Asian Development Bank's Transitional Results Framework, 2017-2020," November 2017).

⁴⁰ ADB. 2016. *Guidelines for Preparing a Design and Monitoring Framework*. The methodology is based on this publication.

resources) that are converted by activities or interventions (actions) into outputs (products and services), which lead to outcomes (intermediate effects on clients) that have an impact (long-term effect).

Appendix Box 4.1: The Results-Chain



Source: ADB. 2006. *An Introduction to Results Management: Principles, Implications, and Applications*.

6. The standard approach of results management is to plan linkages from impact back to inputs, while actual performance is tracked in the opposite direction, from input level forward to impact. Information is continually fed back to the input and activity level to more effectively make necessary adjustments in the results chain. These adjustments ensure that the results statements at each level are feasible for delivery. This approach is guided by the following principles:

- (i) efficiency and effectiveness in delivering results;
- (ii) a realistic appreciation of factors that affect results, including those beyond the direct control of the program;
- (iii) stakeholder participation as central to ensure relevance and responsiveness,⁴¹ define results and identify activities, monitor performance, and assess lessons, while building commitment to the program;
- (iv) outcome orientation and the importance of knowledge feeding back into decisions, creating a dynamic process as well as ensuring relevance; and
- (v) partnerships with other actors in development work.

7. CITA and RSAP have been formulated in accordance with the above principles especially, the third and fifth principles, and align closely with CAREC national priorities while taking into account relevant programs of development partners.

8. RSAPs will be designed to translate CITA into practical and implementable three-year periodic phases which is the operational programming cycle. Phasing enables (i) division of activities into more manageable steps, geographic areas, or packages; (ii) adjustment for change in circumstances; (iii) verification of cause-effect links including through pilot projects; (iv) time to recognize and analyze emerging issues; and (v) consideration of additional or different actions required to achieve high-level results. As more information becomes available, other causal connections may also appear or change.

9. Each three-year RSAP will be informed by individual project design and monitoring frameworks.⁴² RSAP results will feed into CITA Results Framework, which anticipates overall

⁴¹ Stakeholders include government agencies, the private sector, civil society, and development partners.

⁴² This is the project-level results framework, the core link between project design, implementation, and evaluation, and provides the basis for the project performance management system used by ADB.

achievements expected by 2030. Each RSAP will be reviewed annually to reconfirm its relevance and responsiveness to the changing environment and emerging challenges of the CAREC region. By the end of 2030, the cumulative activities of all RSAPs for Output 1 should have achieved CITA Output 1, and so on.

10. Data for the CITA results framework will be gathered from public-domain secondary sources for pillar 1 (trade expansion through increased market access) and pillar 2 (greater diversification), and from the Regional Trade Group (RTG) and national committees for trade facilitation (NCTFs) or similar mechanisms from CAREC countries for pillar 3 (stronger institutions for trade). Data for the RSAP results will be sought from CAREC governments through their NCTFs and other trade-related agencies, as well as from CAREC project reporting mechanisms. All data will be analyzed by the RTG and contribute to its report to the annual Senior Officials' Meeting (SOM), in its function to provide information and recommendations on policy issues and priorities to the Ministerial Conference.

11. Coordination with other CAREC 2030 clusters (footnote 1) in common areas of work will be important to ensure the efficient use of resources and enhance the effectiveness of interventions, e.g., investment and capital flow under the Economic and Financial Stability cluster, sanitary and phytosanitary measures and agricultural value chain under the Agriculture and Water cluster, and labor mobility and trade in health services under the Human Development Cluster. The RTG will be responsible for coordination with other CAREC sectoral bodies, as provided in its Terms of Reference.

C. Proposed Indicators

Anticipated results such as outcomes and outputs, are translated into a set of indicators that monitor activities and establish whether progress is being achieved, relative to identified baselines and targets.⁴³ Indicators should apply “smart” criteria, i.e., they should be specific, measurable, achievable, relevant, and time-bound, and be based on valid and reliable data. Appendix Table 4.1 provides a list of proposed indicators to monitor progress made at outcome and output levels toward achieving CITA goals.

D. Potential Challenges and Mitigating Factors

12. The CITA Results Framework has been developed based on the following assumptions:

- Economic integration with the global economy is beneficial;
- The necessary activities or interventions can be undertaken within the allotted timeframe;
- Government commitment is strong and takes the necessary action; and
- Beneficiaries will respond positively to policy change and reform.

13. CITA brings together a wide range of stakeholders, including but not limited to government agencies of the CAREC member countries, development partners, representatives of the private sector, the CAREC Institute and national research organizations, and civil society representatives and organizations. To the extent that CITA projects and activities will involve the participation of numerous stakeholders across eleven countries, the likelihood of one standardized approach and implementation for all activities is not high. For this reason, strong and informed leadership by government will be critical in setting and maintaining the overall direction of CITA activities, and in guiding each activity to achieve the desired results. During national consultations for the development of CITA and RSAPs, political commitment and support for achievement of CITA objectives was voiced.

⁴³ The baseline may be the current performance level, zero, binary, or not applicable.

14. Results are achieved mainly at the country level and will be measured at that level. Given that the CAREC members are at different levels of development, and the state of preparedness and capacity to implement CAREC activities varies significantly, there may be uneven implementation of activities in certain areas, such as contributing toward economic diversification. Even within one country, the composition or heterogeneity of actors may also affect implementation, particularly if the activity seeks to change systems or procedures. To mitigate this risk, CITA component 3 to strengthen institutions is expected to address capacity needs and help countries prepare and implement such activities. Alternatively, activities could be defined to cover specific locations within a country to make them more manageable.

15. The process of establishing results by identifying appropriate indicators and realistic targets is intensive and relies on quality and comparable information, which can be challenging for CAREC countries. Non-quantitative information is particularly difficult, e.g. trade-distortive measures, laws on investments, domestic regulations affecting services, etc, which form a significant part of CITA. The unavailability of information affects implementation as (i) courses of action will depend on a factual assessment of the existing landscape, and (ii) reliable data is essential in setting baselines and targets and measuring progress. Therefore, the explicit cooperation of CAREC governments in providing the desired data and information, is a necessary condition.

Appendix Table 4.1: CITA 2030 Results Framework

Result Level	Result Statement	Indicator	Source	Baseline	Target	Definition	Rationale
OUTCOME	CAREC countries are more integrated into the global economy	Trade in manufactured good with CAREC and non-CAREC countries as a share of aggregate GDP	WDI	2016	Increases by x% by 2030	Trade is the sum of imports and exports of goods and/or services of a country. In this case trade in goods is differentiated from trade in services.	Trade with non-CAREC countries is used as it indicates the extent of exchange transactions with the rest of the world. Share of GDP provides context for size of economy.
		Trade in primary commodities (excluding oil and gas, and other minerals) with CAREC and non-CAREC countries as a share of GDP				Trade in goods is broken down into trade in manufactured goods and trade in primary commodities.	
		Trade in oil and gas, and other minerals with non-CAREC countries as a share of GDP				Trade in primary commodities is further broken down to trade in oil, gas, and other minerals, and trade in other primary commodities.	
		Trade in services with CAREC countries and the rest of the world as a share of GDP				Services include maintenance and repair, transport, travel, communication, construction, insurance, financial, royalties and license fees, information, business, personal, and government services.	
		Investments inflow and outflow as a share of GDP	WDI	2016	Increases by x% by 2030	Foreign direct investment refers to direct investment equity flows in an economy (sum of equity capital, reinvestment of earnings, and other capital). Net inflows are new investment inflows less disinvestment in the reporting economy from foreign investors.	International capital flows are the financial side of trade in goods.

Result Level	Result Statement	Indicator	Source	Baseline	Target	Definition	Rationale
						Net outflows are from the reporting economy to the rest of the world.	
OUTPUT 1: Trade expansion from increased market access	Trade in goods and services is facilitated	Exports of goods and services to the rest of the world as a share of GDP Exports of goods and services within CAREC as a share of GDP	WDI / WTO	2016	Increases by x% by 2030	Exports are the value of goods and services provided abroad and include merchandise, freight, insurance, transport, travel, royalties, license fees, communication, construction, financial, information, business, personal, and government services. This is broken down into exports within CAREC and to the rest of the world.	Export performance shows the capability of countries to access (i.e. enter and survive in) foreign markets, as well as the underlying trade infrastructure and domestic market.
OUTPUT 2: Greater diversification	CAREC countries' capacity to produce and trade in diversified products, sectors, and markets is enhanced	Product extensive margin Market extensive margin	WITS	2016	Increases by x% by 2030 Increases by x% by 2030	The product extensive margin ⁴⁴ refers to the range of varieties exported (in contrast to intensive margin, which refers to exports of the same products to the same markets) while market extensive margin refers to the range of export markets.	Diversification leads to new products and markets, i.e. increase in extensive margins. This indicator covers goods. One covering services has yet to be estimated.
OUTPUT 3: Stronger institutions for trade	Institutional capacity for policy formulation and implementation is strengthened	RTG and NCTFs are operational	CAREC	0	annual	Whether and to what extent the RTG or NCTFs are operational will be based on criteria to be determined later.	The sustained operation of the RTG and NCTFs would imply that they are capable of carrying out their mandates effectively.

⁴⁴ The Hummels-Klenow (Products) Extensive Margin is the share of world export of goods that Country A exports in total world exports of all goods while the (Markets) Extensive Margin is the share of world export to only those countries that Country A exports in total world exports of all goods. (WITS).

GDP = gross domestic product; NCTF = National Committee on Trade Facilitation; RTG = Regional Trade Group; WDI = World Development Indicators;
WITS = World Integrated Trade Solutions; WTO = World Trade Organization

Appendix 5: Consultation Process, Timeline and Support

1. In order to promote strong ownership among CAREC countries, a more proactive role among development partners, and strengthened private sector engagement (e.g., CFCFA), think tanks and research institutes and other relevant stakeholders will be involved from the beginning to kick off discussions and create synergies in relevant interventions within the CAREC region.

2. The timeline for the preparation of the CITA is as follows:

Date	Activity	Venue	Document Version
12-13 Dec 2017	Regional consultation workshop	Bangkok	Concept Paper
Feb 2018	Circulation of draft consultation paper (15 February 2018 version) for official comments of CAREC countries		Consultation Paper
12-13 Mar 2018	Subregional consultation workshop (Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan)	Almaty	Consultation Paper
23 Mar 2018	National consultation workshop for Mongolia	Ulaanbaatar	Consultation Paper
18-19 Apr 2018	Subregional consultation workshop (Azerbaijan, Georgia and Pakistan)*	Tbilisi	Consultation Paper
25 Apr 2018	National consultation workshop for PRC	Beijing	Consultation Paper
17 May 2018	High-level private sector consultation (Astana Economic Forum 2018)	Astana	Consultation Paper
29-30 May 2018	Presentation at the Sanitary and Phytosanitary Measures regional workshop	Bishkek	Consultation Paper
25-26 Jun 2018	Presentation at the Inaugural Meeting of the Regional Trade Group (RTG)	Bangkok	Working Paper
27-28 Jun 2018	Presentation at Senior Officials Meeting	Bangkok	Working Paper
28 August 2018	National consultation workshop (Pakistan)	Islamabad	Working Paper
4-6 Sep 2018	Presentation at Customs Cooperation Committee (CCC) and CAREC Federation of Carrier and Forwarder Associations (CFCFA)	Ashgabat	Working Paper
9-10 Oct 2018	Presentation at National Focal Points (NFP) Meeting	Ashgabat	Review Paper
15 Nov 2018	Endorsement at the 17 th CAREC Ministerial Conference	Ashgabat	Review Paper
Dec 2018 onwards	Stakeholders dissemination		Publication

* Originally planned to include Afghanistan but no delegate was able to attend at the last minute.

3. The series of consultations generally affirmed that the proposed CITA is relevant, responsive, comprehensive and aligned with national strategies and economic plans of CAREC countries. For instance, under Azerbaijan 2020, state regulations aim to ensure healthy competition in market economy conditions and measures are targeted to improve the structure of the economy. Kazakhstan 2050 prioritizes pragmatic economic policy that leads to competitiveness and pursues institutional reform for industrialization. Kazakhstan has also passed its national strategy to diversify its exports. Pakistan's Vision 2025 aims to ensure good governance and strengthen institutions, attract investments, and develop a competitive knowledge economy through value addition. Priorities set out in Tajikistan's National Development Strategy includes creating jobs through economic diversification and building competitiveness.

4. Representatives from trade-related agencies also identified specific projects and activities (from investment projects including scoping studies, policy dialogue and cooperation, and knowledge products and services) for the RSAP 2018–2020 to support their respective countries in achieving the objectives and implementing the CITA.

CITA Supplementary Issues Paper:

i. Addressing Technical Barriers to Trade

1. Non-tariff barriers (NTBs) are now probably more important than tariffs in restricting market access for exports.⁴⁵ This lends added importance to identified priority for CAREC members to accede to the World Trade Organization (WTO) and implement its rules and disciplines. The WTO has a number of agreements that address non-tariff measures (NTMs), seeking to ensure in particular that the trade-related regulations used by governments avoid becoming unnecessary barriers to trade and are transparent, predictable and non-discriminatory, applying equally to domestic products and imports of like products, from all sources.⁴⁶ Respect for the disciplines of these agreements is an “essential means of ensuring that countries can attain their public policy goals while benefiting from open trade.”⁴⁷

2. Important among such WTO Agreements are those on Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary Measures (SPS). The two Agreements are distinct. The scope of the TBT Agreement is wider than that for SPS, with the latter deals with specific risks related to human health, mainly on food safety, and animal/plant health, including protection from pesticides. Besides the protection of human, animal and plant health or safety, the TBT Agreement also deals with measures pertaining to national security, deceptive practices and the protection of the environment. The TBT Agreement excludes SPS measures from its scope.

3. The distinction between the two Agreements is somewhat artificial. For example, a single measure on food products could contain a requirement on the spread of pests—relevant to SPS—and on labelling and grading—relevant to TBT. Thus, the issues arising in the implementation of the Agreements, such as conformity assessment (below), are essentially similar.

4. CAREC Integrated Trade Agenda (CITA) 2030, with a view to lowering trade costs, includes in its market-access pillar support for the implementation by its members of the TBT and SPS Agreements. However, CAREC work on TBT is in its infancy, unlike that for SPS. Ministers in 2015 endorsed the CAREC Common Agenda for Modernization of Sanitary and Phytosanitary Measures for Trade (CAST), including a modernization of systems and infrastructure, and the Rolling Strategic Action Plan (RSAP) 2018-2020 envisages some specific SPS-related projects, including needs assessments in various members. Given the inherent risk of TBT measures becoming NTBs, and hence an impediment to regional integration, CAREC might do well to accord a similar priority to TBT.

5. It is of note for CAREC that a growing number of regional agreements contain provisions on TBT/SPS measures; in fact some 60% of regional trade agreements contain such provisions, with harmonization and mutual recognition thought to be steps toward more open trade.⁴⁸

⁴⁵ There is a growing body of literature in this area; good places to start are: (i) World Trade Organization (WTO), “World Trade Report, 2012, Trade and public policies: a closer look at non-tariff measures in the 21st century”, www.wto.org; and (ii) United Nations Conference on Trade and Development, “Non-Tariff Measures to Trade: Economic and Policy issues for Developing Countries”, 2013, www.unctad.org

⁴⁶ NTMs need not restrict imports, *per se*: indeed, abundance by safety regulations, for example, may increase demand for the product, as public confidence grows, but unnecessarily burdensome conformity assessment procedures for such abundance may well restrict trade, becoming an NTB.

⁴⁷ WTO, “The WTO Agreements Series. Technical Barriers to Trade”, www.wto.org

⁴⁸ WTO, “World Trade Report 2012”, *ibid*.

6. Harmonization implies a common regulation between (or among) countries—which may include conformity with an international standard,⁴⁹ as both the TBT and SPS agreements encourage—while mutual recognition is the reciprocal acceptance of each other’s measures. Although the evidence is not totally clear, both approaches are considered trade enhancing between partners as they increase the possibility for economies of scale and foster a more efficient allocation of resources.⁵⁰ Harmonization is expected, in general, to boost trade more than mutual recognition in that in the former case products are likely to be more homogenous, reducing the home-country bias.⁵¹ Mutual recognition tends to favor a wider variety of the products, thus enhancing consumer choice.

7. It should be noted, however, that (i) harmonization could give rise to differing compliance costs among partners, meaning that the benefits may not be equally shared whereas mutual recognition avoids the costs of adaptation to a “new” harmonized regulation, and (ii) in settling on a harmonized standard bargaining power is likely to be important, which could disadvantage smaller members and which, incidentally reinforces the encouragement in the TBT and SPS Agreements to seek conformity with international standards.⁵² In this respect, harmonization following international standards may improve access to non-CAREC markets.

8. The harmonization and mutual recognition approaches are likely to have different effects on third countries. Harmonization tends to reduce the “learning” costs for entry by third parties, enlarging the possibilities for CAREC countries for the sourcing of imports, although it may impose compliance costs. Mutual recognition encourages third parties to seek exports to the country with regulations that best suit its production technology, perhaps narrowing supply possibilities for some CAREC members.

9. The choice of harmonization or mutual recognition varies across regional arrangements. Agreements by North American countries tend to favor mutual recognition of technical regulations while agreements of European Union (EU) frequently contain harmonization provisions.⁵³ However, mutual recognition of conformity assessment is a feature that occurs across many types of regional arrangements.

10. Conformity assessment is the process for determining whether a product is in compliance with a regulatory measure. In the case of TBT (and SPS) measures conformity assessment, including testing, inspection and certification, can entail costs, which are necessary because they ensure compliance with the policy objectives, such as consumer’s health and safety. But they could be an impediment to trade. If, for example, the exporting country has the necessary facilities and capability to test the product for compliance with regulations in a cost-effective way it could be duplicative to undergo conformity assessment again in the importing country. In fact, these assessments are widely viewed as NTBs. A business survey by the International Trade Centre reported that more than 50% of all complaints about TBT/SPS measures in 11 countries analyzed dealt with conformity

⁴⁹ As published, for example, by the International Organization for Standardization (ISO).

⁵⁰ M.X Chen and A Mattoo, “Regionalism in Standards-good or bad for trade”, November 2004, World Bank. www.worldbank.org

⁵¹ However, a “high” standard may also remove lower quality products that some consumers might wish to buy, thus potentially reducing trade.

⁵² Some members may lack the expertise to fully take part in such exercises, which is another reason why the CITA and RSAP projects on TBT and SPS are important.

⁵³ The EU itself accords mutual recognition among its members but also has a wide range of harmonized standards. These are not technical regulations, which are obligatory, but rather are voluntary and developed by a recognized European Standards Organization, such as CENELEC; these standards support the legal requirements, but manufacturers and conformity assessment bodies are free to choose other technical solutions to see that the requirements are met.

assessment.⁵⁴ As such, it would seem that the proposal for the mutual recognition of laboratory results and acceptance of SPS certification could be a way forward. A similar CAREC project for TBT would be of real value.⁵⁵

11. In conclusion, TBTs measures are part of the trading environment. They help to achieve public policy goals, including human health and safety. However, they are not meant as a shield for domestic producers against foreign competition, thus potentially limiting a country's potential benefits from. Nevertheless, they will have trade effects. Abidance by the WTO's Agreements, as well as potential regional or bilateral harmonization and mutual recognition, could help attenuate any negative trade effects of these measures. This underscores the importance of continued capacity building in CAREC to plan and implement appropriate TBT regulatory environments.

⁵⁴ WTO, footnote 4.

⁵⁵ This process might be relatively straight forward for some CAREC countries to the extent that they maintain the Gosudarstvennye Standarty State Standard (GOST standards), especially if these have been revised to conform to international standards. Some CAREC countries have adopted GOST standards in addition to their own, nationally developed standards.

CITA Supplementary Issues Paper:

ii. Expanding Trade in Services

1. Services are the dominant source of value in the global economy. They represent some 70% of global production and 50% or more of world trade. The CAREC economies are no exception to the general pattern: the share of their services in gross domestic product (GDP) ranged from 36% to 66% in 2016, with the sector comprising at least 50% of the economy in 8 of the 11 countries.⁵⁶ Trade in services as a proportion of GDP varies more widely, making up between 5.5% to 39.6% in 9 countries, while the share of services in total exports ranges from 8.5% to 53%.⁵⁷ For seven of them, the share of the total workforce employed in service sectors exceeds 40%.

2. Services frequently join up or lubricate markets that would otherwise stand separately in a disjointed manner, compromising growth and economic opportunities. More specifically, what are often referred to as “producer services” are essential to the functioning of practically every sector in any economy. These include financial services (banking, insurance, brokerage services and others), business services, transport, communications, energy and distribution.

3. This widespread dependence on producer services means that as economies grow, service sectors grow even more. A similar story prevails on the consumption side of the economy. As people become richer, their consumption preferences are tilted increasingly towards services, such as travel, entertainment and leisure activities, all of which are services-intensive.

4. The new long-term strategic framework for the CAREC region, *CAREC 2030*, as well as national strategies, illustrate the centrality of the services economy. The operational clusters and associated policy areas identified under CAREC 2030 cover a major part of the regional economy, and in no small measure comprise service activities. These are the realities that make services key to development, diversification and economic growth.

5. Despite their prominence, services have been relatively neglected in economic analysis and policy. This comparative inattention to services as a source of value in production, trade and consumption is the result of several factors. Two of the most important ones for the present purposes are, first, in contrast to goods, services are intangible and more difficult to measure. Second, services are frequently embedded as inputs in goods and other services, so they are not separately identified in aggregated statistics. Considerable work has been undertaken in recent years to remedy the “services gap,” but much remains to be done both on the policy and statistical side.

6. Trade is clearly a prominent component of CAREC’s future prosperity. Relatively recent breakthroughs enabled by greater data availability and enhanced data processing capacity have permitted us to gain important insights into the significance of services in trade. In the past, governments were only able to report gross trade flows in their national accounts. This meant that the measure of a country’s exports did not distinguish between the domestic sources of value and the imported value embodied in the data. Domestic value-added and foreign value were simply added together and there was no way of knowing what share of export value was produced in the domestic economy rather than being imported.

⁵⁶ Computed from UNCTADStat (<http://unctadstat.unctad.org/wds>) (Accessed 20 September 2018).

⁵⁷ World Bank Open Data (<https://data.worldbank.org/indicator>) (Accessed 20 September 2018). Trade in services is in current US\$.

7. Even worse, on this basis it was not only impossible to know the geographical source of value, but also its product composition. Once this hurdle was crossed through the use of value-added as opposed to gross data, it transpired that the value of services in trade was far higher than previously reported. Services has recently been estimated to account for 40% world trade in value-added terms, and the services content of exports is about 46% for developed countries and 33% for developing countries.⁵⁸

8. Unfortunately, trade numbers measured in value-added are not easy to compile for all countries. They require a sophisticated dataset that can trace the sources of value in an economy through an input-output table.⁵⁹ This has led to many misperceptions about what a country actually exports. Perhaps the best-known illustration of the problem is the 2010 ADBI study on the value chain of an iPhone, which has provoked a significant literature on the subject.⁶⁰ The basic point is that as People's Republic of China (PRC) was the last stop in the production chain for iPhones, US imports would record the product as an export of PRC. This was a gross misrepresentation because PRC's contribution at the time this study comprised a modest share of total value-added generated at the assembly stage. All the services and other components entering the production process were produced elsewhere, including in the United States itself. This kind of accounting not only inflated PRC's real trade surplus with the United States, but also mis-specified the technological content of the bilateral trade flow and failed to reveal the true sources of trade and trade interdependency implied by these patterns of exchange. The value-added data also served to demonstrate that export success is not possible without imports – an important policy message for diversification policies that fail to recognize that not all imports can be replaced by domestic production.

9. This deviation into the technicalities of measuring trade flows is not without purpose when considering the appropriate stance of governments in relation to services activities in their economies. One important message is that services are often “hidden” inputs into production processes. Neglect of their role and relevance is a recipe both for bad business decisions and bad policy. The old saying that a chain is only as strong as its weakest link applies to this world, where many product markets (goods and services) intertwine in production and trade.

10. Other valuable insights relate to the issues of tradability and productivity. Traditionally, services were regarded as largely untradeable, low productivity segments of the economy – necessary but unpromising in terms of growth, trade and development. When actual sources of value are properly identified, however, the picture changes significantly. For a start, it is definitely the case that all services entering the production process are potentially tradable, depending on what other sources of value they are bundled with in the production process.

⁵⁸ R. Lanz and A. Maurer. 2015. “Services and global value chains: Some evidence on servicification of manufacturing and services networks,” WTO Staff Working Paper No. ERSD-2015-03, March 2015.

⁵⁹ A recent ADB study of global value chains reveals that on the one hand, backward participation ratios (the foreign value-added contribution to a country's exports) for a country could be low because inputs are sourced domestically, e.g. Pakistan's textiles, or Kazakhstan's minerals, which are primary goods that require few intermediate inputs. On the other hand, forward participation ratios (a country's value-added contribution to the production of foreign economies) are high for Kazakhstan and Mongolia because their exports are natural resource-based and at the upstream segment of value chains. See ADB. 2018. *Key Indicators for Asia and the Pacific 2018*, p.206)

⁶⁰ Xing, Y., and N. Detert. 2010. How the iPhone Widens the United States Trade Deficit with the People's Republic of China. ADBI Working Paper 257. Tokyo. <https://www.adb.org/sites/default/files/publication/156112/adbi-wp257.pdf>

11. For example, the cleaners of a factory and the repairers of factory machinery in an establishment producing footwear for export are also exporters, since their contributions enter the value of the final product. Similarly, product designers and other high-technology suppliers of value that is putatively supplied locally is also exported. The only services that are technically untradeable are certain consumption services such as restaurant and hotel services, although the international definition of services includes foreign suppliers of facilities supplying such services and these count as traded product as well.

12. As for the productivity story, services – especially government-supplied services such as health and education – were traditionally considered technologically static and incapable of significant improvements in terms of productivity and efficiency levels. A growing appreciation of how productivity gains emanate both from product and process innovations, and how the bundling of inputs matters in fostering efficiency, have both illuminated the contribution of services to productivity growth. The growth of the knowledge economy and increasing importance of intangible capital in economic activity have also clarified where services fit in.

13. As far as international cooperation is concerned, trade in goods has been subject to a multilateral regime for 70 years. But it was not until the 1980s that governments started to think about international rules for trade in services, and not until the mid-1990s before the General Agreement on Trade in Services (GATS) entered into force under the auspices of the World Trade Organization.

14. Much is made of the differences between goods and services, although the only immutable distinction between them is that goods are tangible, and services are not. Nevertheless, the manner in which services are traded is often different from that of goods. Services more frequently require simultaneous production and consumption along with physical proximity for transactions to occur, such as in the case of hairdressing services. Services are often more heterogeneous than goods subject to mass uniform production. No two visits to the dentist, for example, will result in the delivery of an identical product.

15. The proximity constraint for services delivery has resulted in a GATS definition of services that distinguishes among four modes of supply. Mode 1 is cross-border delivery, akin to trade in goods. Mode 2 involves consumption abroad, either where the consumer has crossed a frontier to consummate the transaction or the supplier is a foreign entity. Mode 3 offers domestic commercial presence (i.e. investment rights) to foreign services firms. Finally, Mode 4 allows individual suppliers of services, either in an independent capacity or as employees of services firms to work in a foreign market. As far as Mode 4 is concerned, it is important to note that the movement of people is designed only to facilitate the non-permanent or mere temporary presence of service providers. It has nothing to do with immigration and the movement of populations.

16. All of these rights to market access are negotiated and inscribed in schedules of specific commitments. It is for governments to decide how far they want to open up and gain the advantages of trade and specialization, measured against their broader economic strategies. For instance, services trade regulations in some CAREC countries appear to be relatively restrictive in insurance and air passenger transport and auditing under Mode 1; in professional services, banking, insurance, communication under Mode 3; and professional services under Mode 4.⁶¹ Nevertheless, the 8 CAREC countries that are WTO members made commitments on 20% to 85% of 56 services subsectors. The subsectors that all 8

⁶¹ See World Bank Services Trade Restrictions Database (iresearch.world.org/servicetrade) (Accessed 19 September 2018). The countries included PRC, Georgia, Kazakhstan, Kyrgyz Republic, Mongolia, Pakistan, and Uzbekistan.

committed to were telecommunications, banking, insurance, professional and other business services, and hotels and restaurants; another 23 subsectors had commitments from at least 5 countries.⁶²

17. The prospects for CAREC economies to grow, develop and prosper depend not only on the policy choices of national governments, but also on their success in cooperating regionally. The preponderance of services in so many sectors and activities makes a strong case for paying careful attention to the intangible economy in this regard. The GATS can contribute too through its mechanisms for encouraging cross-border trade, investment and the movement of people.

⁶² See World Trade Organization and World Bank. Integrated Trade Intelligence Portal (i-tip.wto.org/services) (Accessed 20 September 2018).

iii. Engaging in Regional Trade Agreements

1. Regional trade agreements (RTAs) can promote the economic integration of its members, to the possible benefit of their growth, with improved price and quality choices for their consumers.⁶³ They have proliferated since the early 1990s and now number well over 300. In the case of goods, an RTA may be either a customs union (CU), with a common tariff for imports from non-members, or a free trade agreement (FTA), with each partner retaining sovereignty over its tariffs for non-members but then requiring rules of origin for the movement of goods amongst themselves. Each of these may be complemented by arrangements for trade in services among its members, as is the case for about one-half of all RTAs. In addition, an RTA may include provisions, to deepen the links between participating countries, on trade-related matters, including standards, sanitary and phytosanitary measures (SPS), customs procedures, rules of origin (ROOs), e-commerce, intellectual property rights, etc. At present, each Member of the World Trade Organization (WTO) is party to at least on RTA.

2. CAREC's long term strategy has stated that in "going forward, CAREC will assess the shifting landscape of global and regional trade paradigms and the potential of moving toward free trade agreements (FTAs) in the region".⁶⁴ Each CAREC member country already has at least one FTA, although not in each instance with another CAREC partner: Mongolia's only RTA is with a non-CAREC country (Japan), but each of the others are in RTAs with at least one other CAREC member. Intra-CAREC, Georgia has been the most active, having notified four FTAs to WTO, including one on goods and services with People's Republic of China (PRC), which entered into force in January 2018. PRC and Pakistan joined in a goods FTA in 2008, which was subsequently extended in 2010 to include services. Kazakhstan, the Kyrgyz Republic, Pakistan and Turkmenistan are also partner to bilateral intra-CAREC FTAs, although that between Kazakhstan and the Kyrgyz Republic is now superseded by the membership of both in the Eurasian Economic Union (EAEU), which is a CU and single market. Afghanistan, together with Pakistan, is a member of the South Asian Free Trade Area but is not party to a solely intra-CAREC agreement.

3. The European Union (EU) is an outstanding example of an RTA serving the end of economic integration among its members. The EU, with a CU at its core, is a single market for its members with free movement for goods, services, capital and labor. It should be noted that (i) the EU has supplemented its own internal arrangements with wide ranging market opening and integration to third parties through (carefully calibrated) bilateral and multilateral agreements (i.e., the WTO) with non-members; and (ii) no member of the EU has a trade arrangement in its own right with a third party—the EU negotiates as a block. Among FTAs, the North American Free Trade Agreement (NAFTA) (though currently being re-negotiated) and the Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) are examples of successful integration. Both agreements are very deep, with comprehensive coverage of not only goods and services but seeking to deal also with non-tariff barriers, investment etc., and parties to the agreement have sought market opening beyond their own agreements through other FTAs and by active participation in the WTO. The lessons are reasonably clear that RTAs should be deep and be complemented by other arrangements to promote greater integration and maximize the potentials in these agreements.

⁶³ Regional Trade Agreements (RTAs) is the term used by the WTO for agreements that come in many shapes and forms but generically are either free trade agreements (FTAs) or customs unions (CU).

⁶⁴ ADB. 2017. CAREC 2030: Connecting the Region for Shared and Sustainable Development.

4. To date, the Georgia-PRC FTA appears to be a good example of an FTA with deep coverage. It provides that Georgia will impose zero tariffs on 96.5% of PRC's products immediately, covering 99.6% of the total imports from PRC and PRC will impose zero tariff on 93.9% of Georgia's products, covering 93.8% of PRC's total imports from Georgia, of which 90.9% (taking up 42.7% of imports) will have zero tariffs immediately and the remaining 3% (taking up 51.1% of imports) will gradually have zero tariff within 5 years. In terms of trade in services, both sides will further open their markets to each other on the basis of their WTO commitments. In addition, both sides have reached broad consensus in many fields such as environment and trade, competition, intellectual property, investment and e-commerce. In addition, both have FTAs in force with other partners – e.g., PRC with 15 and Georgia with 11 – and both are active in the WTO.

5. But some select words of warning are in order. RTAs provide their members with preferential access to their markets—that is their purpose. In so doing they run counter to the WTO's cornerstone principle of *non-discrimination*. This preferential access will almost invariably lead to trade diversion, with imports no longer being sourced from what would otherwise be the low-cost supplier, to the detriment of the multilateral trading system. Yet, the WTO permits RTAs on condition, *inter alia*, they cover “substantially all the trade”, in the case of goods, and “substantially all sectors”, in the case of services, between the parties, with then the possibility that the RTA will result in *net trade creation*, to the potential benefit of the system. This argues for broad coverage.

6. In the case of FTAs, rules of origin are also a possible area of concern. They can be costly to meet, perhaps undercutting economies of scale, especially if a country has a web of FTAs – the phenomenon called *spaghetti bowl* effect.⁶⁵ This can be met by calibrating the rules across various FTAs, with the EUs Pan-European Rules of Origin serving perhaps as an example, but it requires willing partners or adoption of options including flexible cumulation rules.

7. Policy makers will also need to be careful not to becloud the trading environment for their economic actors, which behoves them to maintain full, readily accessible transparency on all agreements, to allow appropriate market selection. In addition, the authorities should remain fully engaged in, and in conformity with, the WTO, despite its present difficulties, as the single venue where all their trade concerns potentially can be addressed on multilateral level.

8. Given the above, possibilities are available for improved CAREC integration following the FTA route. Non-EAEU CAREC members could seek bilateral FTAs with each other, including in services, *a la* PRC-Georgia and PRC-Pakistan. Were such a path to be followed it would be very useful if parties could agree on and follow a single template, obviating, for example, differing rules of origin and thus reducing complexity and trade costs. It would also serve integration if, for example, members could agree to cumulation across their FTAs with fellow CAREC members and if they pursued mutual recognition and/or harmonization of standards, for example in SPS; in addition, parties should be careful to meet WTO provisions on RTAs, ensuring significant coverage, in both goods and services, if possible, and perhaps to go beyond the WTO by including areas such as investment and competition. Non-EAEU CAREC members could also seek to form a single FTA amongst each other but this may be both more difficult and time-consuming than the bilateral route.

⁶⁵ The term refers to the complications that arise when, for example, producers face differing rules of origin for the same product to the various markets with which a country may have an FTA.

CITA Supplementary Issues Paper:

iv. Establishing Special Economic Zones

1. The matter of special economic zones (SEZs) is both one of significant interest and of some concern. On the one hand an SEZ can help to transform a small fishing village (Shenzhen) into the vanguard of a nation's economic development. On the other hand, *inter alia*, they can create distortions in an economy, which is a reason why it is thought that it is normally preferable to liberalize on a nationwide scale rather than on a patchwork basis⁶⁶. The CAREC Integrated Trade Agenda 2030 and its accompanying Rolling Strategic Action Plan 2018-2020 proposes feasibility studies on the establishment of free trade zones and/or cross-border economic zones in a number of CAREC member countries. The importance of identifying the pros and cons of such zones, and of learning from the experience of other countries, cannot be overemphasized.⁶⁷

2. Essentially, in a broad description, an SEZ is a clearly demarcated area with an administration that provides incentives, services and infrastructure to its resident companies, and where the rules for business and trade are different from those that prevail in the rest of the country.⁶⁸ The differential laws seek to provide more liberal business and trade conditions and they normally furnish incentives with respect to tariffs and customs, taxation, investment conditions and the regulatory environment, often including labor regulations. Thus, economic actors in the SEZ can produce and trade at lower, more globally competitive prices, with hoped for benefits for growth and development of the national economy. SEZs can include free trade zones, export processing zones, free economic zones, free ports, industrial parks, bonded logistic parks etc.⁶⁹

3. New York saw the first modern SEZ, in 1937, which was export oriented.⁷⁰ Since then their number has grown to around 4,300 and are now present in some 75% of all countries, including in most CAREC members.⁷¹ Clearly, SEZs are viewed, despite certain misgivings, as a viable tool of industrial policy and which dovetails into economic corridor development.

4. While the World Trade Organization (WTO), accession to which is a CAREC priority for its members, does not have explicit provisions for SEZs, it is understood that a Member's WTO commitments will apply uniformly throughout its customs territory, including to any and all its SEZs. Indeed, most recently acceding Members, since 2000, have agreed to this specifically, including the People's Republic of China (PRC), Georgia, Kazakhstan and Tajikistan, among CAREC members.⁷² The Kyrgyz Republic in 1998 also took this

⁶⁶ See, for example, *The Economist*, "Special economic Zones: Not So Special", 4 April 2015.

⁶⁷ See Asian Development Bank (ADB). 2018. *A Diagnostic Study of Kazakhstan's Special Economic Zones and Industrial Zones*. <https://www.carecprogram.org/?publication=diagnostic-study-kazakhstan-special-economic-industrial-zones> See also, ADB. 2018. *A Diagnostic Study of Kyrgyz Republic's Free Economic Zones and Industrial Parks*. <https://www.carecprogram.org/uploads/Diagnostics-Study-of-Kyrgyz-Republic-FEZs-and-Industrial-Parks-en.pdf>

⁶⁸ Typically, an SEZ is within the boundaries of one county but it could be an across-border arrangement, as for example the PRC/Kazakhstan Khorgos/Horgos Free Trade Zone.

⁶⁹ These, listed chiefly for taxonomic purposes, differ somewhat in scope but each provides special incentives, especially for trade, not available in the rest of the national territory.

⁷⁰ See, Competitive Industries and Innovation Program, "Special Economic Zones: An Operational View of Their Impacts", World Bank Group, 2017. www.worldbank.org.

⁷¹ See: Asian Development Bank, "Asian Economic Integration Report 2015: Special Chapter; How Can Special Economic Zones Catalyze Economic Development", <https://www.adb.org/publications/asian-economic-integration-report-2015>.

⁷² See WTO Working Party Reports CHN73 (11/12/2001), GEO40 (14/06/2000), KAZ208 (30/11/2015) and TJK (2/03/2013), respectively. www.wto.org

commitment upon its accession and in addition agreed to bring its existing SEZ measures into full conformity with the WTO.⁷³ Mongolia undertook similar commitments in 1997.⁷⁴

5. Ideally, SEZs foster economic development both inside and outside the zones. Inside a zone, the aim is to attract investment, particularly foreign direct investment (FDI), with its attendant technology, to bring new firms, especially those in global value chains, jobs and “know how”. Outside the SEZ, states aim to have the zones generate synergies, networks and spill overs, especially of knowledge, that will engender additional economic activity and national growth. A number of factors are thought to be of some significance in achieving these effects.⁷⁵ Among these is the *size* of the zone—it should be sufficient to house multiple companies, to improve the possibilities for both horizontal and vertical agglomeration with the subsequent increased chance of positive externalities, for example with respect to transport and knowledge sharing.

6. Another factor of some importance would seem to be the *location* of the zone. It would appear best for an SEZ to be close to a fairly large center, particularly one with good transportation links to foreign markets. This could enhance, *inter alia*, the availability of an appropriate labor pool and the feasibility of spill overs, especially if those outside the zone are able to fit into zonal, and perhaps, global value chains.

7. Also, of considerable import is the *administration* of the zone. It needs to be center of good governance, a one-stop shop for all the necessary licenses, for coordinating activities in the zone and ensuring that the resident companies efficiently receive the promised incentives and services. Failing this the appropriate functioning of the zone could well be jeopardized.

8. There are possible down sides to SEZs. Among them is the fact that they offer, as noted, preferences not available to the rest of the national economy. By their nature, preferences divert resources, creating distortions, potentially leading to economic inefficiencies. In this context it is not inappropriate to note that the literature is replete with examples of preference-policies leading to balance of payments difficulties. In this respect it might be as well, as with most industrial policies, to make the preferences time-bound, encouraging the resident companies to integrate into the rest of the economy once they have become internationally competitive.

9. SEZs, as a corollary to the above, may lead to unequal geographic development, especially if there are limited spillover effects; certain regions and classes will benefit but without significant positive effects on national socio-economic development, leading to possible discontent.

10. SEZs can be costly. The revenue foregone in consequence of the possible tax and tariff incentives, as well as the cost of setting them up, may constrain a government’s fiscal resources for the needs of the rest of the economy. While this may a short-term phenomenon if the SEZ succeeds, the “outside” economy may in the interim be deprived of the resources (for infrastructure, education etc) to allow it to catch up at a later stage; it could become caught in a lower/middle income trap. Again, spill overs are essential, as is perhaps a time bound policy for SEZs.

⁷³ See WTO Working Party Reports KGZ83 (20/12/1998) and KGZ115 (20/12/1998). www.wto.org

⁷⁴ See WTO Working Party Reports KGZ83 (20/12/1998) and KGZ115 (20/12/1998). www.wto.org

⁷⁵ See, for example, Competitive Industries and Innovation Program, *op cit*. And, as well, Asian Development Bank, “The Role of Special Economic Zone in Improving Effectiveness of GMS Economic Corridors”, November 2016. www.adb.org

11. In these respects, it should be noted that an SEZ, as a concentration of competitive firms, could be used as the centerpiece of a cluster-development strategy. Policies to leverage SEZs to promote clusters and enhance productivity are thus required, including on (i) improving the attractiveness of SEZs for investment into global value chains; (ii) promoting spill overs; (iii) forming regional and cross-border value chains, and (iv) establishing a sound implementation strategy and monitoring and evaluation frameworks.⁷⁶

12. It is not, in short, a simple matter to decide on the establishment and nature of an SEZ. It seems clear that a zone will function best in a sound, stable macroeconomic environment, with attendant good governance and policies that encourage spill overs and, possibly, with time-bound incentives. It would, in any event, be untoward to embark on an SEZ without a prior feasibility study including a determination as to whether an SEZ would be preferable to nationwide liberalization.

⁷⁶ ADB. 2018. Strategic Framework for Special Economic Zones and Industrial Zones in Kazakhstan. <https://www.carecprogram.org/?publication=strategic-framework-special-economic-zones-industrial-zones-kazakhstan>.