



Central Asia Regional Economic Cooperation

Good Neighbors • Good Partners • Good Prospects

CAREC is a unique and robust development partnership; a concrete example of countries and institutions cooperating to achieve a common purpose

8 countries

Afghanistan, Azerbaijan, People's Republic of China, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan

6 institutions

Asian Development Bank, European Bank for Reconstruction and Development, International Monetary Fund, Islamic Development Bank, United Nations Development Programme,

1 goal

Development through cooperation

leading to accelerated economic growth and poverty reduction

The Program

The Central Asia Regional Economic Cooperation (CAREC) Program's mission is development through cooperation. By promoting and facilitating regional cooperation in transport, trade, energy, and other key areas of mutual interest, the program helps Central Asian and neighboring countries realize their immense potential in an increasingly integrated Eurasia.

Through partnerships with multilateral institutions (MIs) and other international agencies, the program is a proactive facilitator of practical, results-based regional projects and policy initiatives critical to trade expansion, sustainable development, and meeting new challenges.

The program is guided by clear themes:

- Strategic direction and ownership
- Mainstreaming of regional cooperation
- Connectivity
- Knowledge and capacity-building
- New approaches to development through cooperation

Progress toward development through cooperation is driven by four action pillars:

A **knowledge and capacity building pillar** combines the research and analysis strengths of CAREC countries and MIs, greatly increasing the capacity for designing and implementing mutually beneficial regional initiatives. Training for government officials is developing a core group skilled in regional cooperation processes.

A **regional infrastructure networks pillar** is helping mainstream support for transport corridors, energy markets, and trade-related infrastructure projects integrating the region. Connectivity is a unifying theme of the program, underscoring the region's role as a Eurasian land link.

A **trade, investment, and business development pillar** is helping develop a more integrated framework for improving the investment climate in Central Asia and neighboring countries, and expanding access for business enterprises to international markets.

A **regional public goods pillar** will expand the program on a project-specific basis to address transboundary issues, such as protection of the environment and management of natural resources, and measures to reduce the impact of communicable diseases such as avian flu.

The Opportunity

Asia and Europe are growing ever closer to one another, and the countries that make up CAREC are poised to reap substantial benefits. With the rapid economic expansion of the People's Republic of China (PRC) and Japan to the east, Russia to the north, and India and Pakistan to the south, there is a real and growing demand for improved connections between Europe and Asia.

This momentum provides CAREC countries with an unprecedented opportunity to emerge as a center for trade and commerce, to achieve higher levels of economic growth, and to lift the burden of poverty from the shoulders of their people.

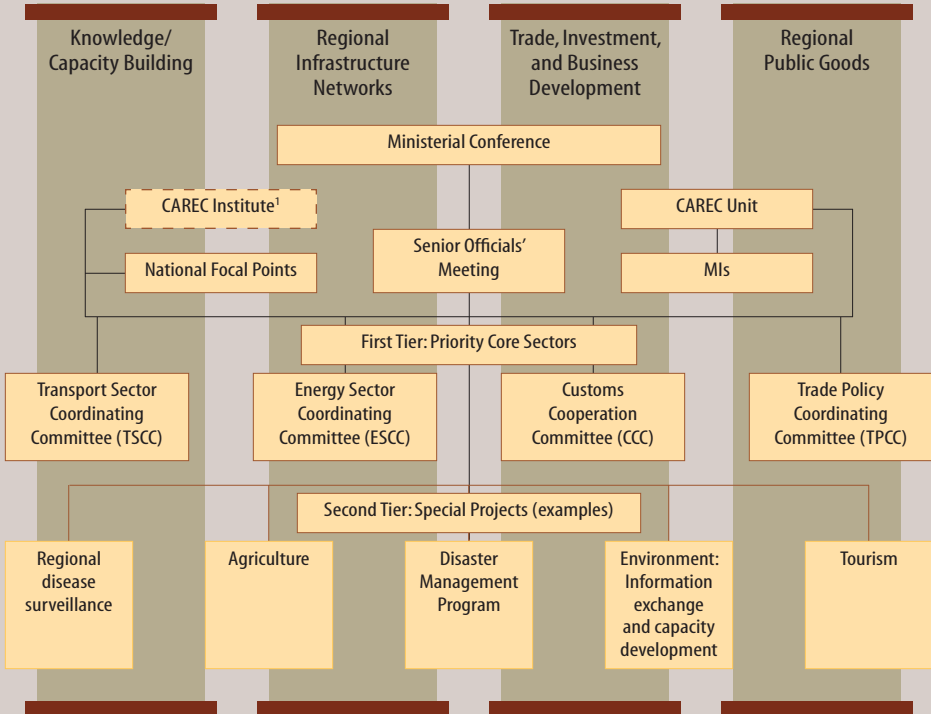
None of the region's economies will be able to fully capture this opportunity in isolation. But all will benefit from working together, and with their neighbors, to build on their strengths for mutual progress.

Turning this potential into reality will require significant improvement in the subregion's physical infrastructure such as roads and rail systems; in the way the region manages its shared resources to support efficient and rational use of energy and water; in progress toward harmonizing, automating, and modernizing its customs administrations; and in efforts to streamline the rules and procedures that govern the countries' international trade relationships.

In turn, improved connectivity, fair sharing of natural resources, shorter transit times, and clear, consistent trade regimes will return large dividends. Asian Development Bank (ADB) research suggests that increased regional cooperation, along with key economic reforms, could help double per capita incomes in the CAREC region within a decade. As a result, poverty could fall from more than 40% today to 25% or less by 2015. This is a powerful motivator for greater regional cooperation, and for the CAREC Program.



CAREC: Overall Institutional Framework



¹ CAREC is preparing for the establishment of a CAREC Institute to promote research, dialogue, and training.

The Structure

The CAREC Program is focused on three priority areas—transport, energy, and trade. Work in each area is led by a working group consisting of country and MI representatives. These groups feed their outputs to regular senior officials' meetings, which assess opportunities from a regional perspective and determine options for the future directions of the program. An annual ministerial conference provides overall guidance to the program and determines policy and strategic directions and goals. ADB is the program secretariat.

At the Fifth Ministerial Conference in 2006, ministers adopted the *CAREC Comprehensive Action Plan (CAP)*. The CAP was developed through a series of intensive consultations with participating countries and provides for broadening the program in new areas (such as human development, agriculture, environment, and tourism), while continuing to focus on specific regional initiatives in support of transport, trade, and energy linkages. The six CAREC MIs plan to provide more than 40 loans worth approximately \$2.3 billion in support of regional investments in transport, energy, and trade-related infrastructure from 2006 to 2008.

Transport

In the transport sector, CAREC aims to help rehabilitate transport networks to improve connections and reduce transport costs. Major recent investments with MI assistance include

■ Afghanistan

In September 2006, ADB approved a \$138-million loan and grant for improving the North-South Corridor.

■ Azerbaijan

In December 2005, ADB approved a \$52-million loan to improve the Yevlakh-Ganja and Qazakh-Georgian border sections of the east-west road. In January 2006, the World Bank approved a \$200-million loan for improving the Alyat-Masally section of the southern road. ADB is preparing a \$100-million loan to improve the Masally-Astara section (on the border to Iran) of the southern road.

■ PRC

ADB is preparing a \$150-million loan to upgrade the Korla-Kuqa road in Xinjiang.

■ Kyrgyz Republic

The Islamic Development Bank (IsDB) approved a \$9.2-million loan to improve the Taraz-Talas-Suusamyр road. The China Development Bank and the Kyrgyz Government, together with ADB, signed a credit agreement to cofinance the southern road corridor improvement project.



■ Mongolia

ADB is preparing a loan for developing a road in the western region to link the PRC and the Russian Federation.

■ Tajikistan

In November 2005, ADB approved a \$29.5-million loan to rehabilitate the Dushanbe-Kyrgyz border road (phase II).

In 2007, CAREC will prepare a regional transport strategy. Other regional cooperation initiatives include drafting of an Agreement on Facilitation of International Road Transport, under the auspices of the Shanghai Cooperation Organization with the support of the United Nations Economic and Social Commission for Asia and

the Pacific and ADB; and negotiations of the PRC, Mongolia, and the Russian Federation on a draft Transit Traffic Framework Agreement.

Energy

In the energy sector, CAREC aims to support efficient and rational use of energy and water through cooperation. Following this basic approach, the program has focused on key investment projects such as improvement of power and gas transmission systems including

- World Bank support since 2003 for discussion of power sector reforms and regulations, analyses of the region's electricity export potential and the Syr Darya water/energy nexus, and support to the Central Asia Cooperation Organization in developing the concept for a water-energy consortium
- Support from the European Bank for Reconstruction and Development (EBRD) and IsDB for the construction of the second Kazakhstan North-South 500-kilovolt (KV) Transmission Line Project
- IsDB support for a 500-KV Syr Darya-Sogdiana Transmission Line in Uzbekistan (\$25 million), and a 110-KV Batken-Karabulak Transmission Line in the Kyrgyz Republic (\$10 million)
- An ADB loan (\$56.5 million) to Afghanistan and Tajikistan in 2006 for the Regional Power Transmission Interconnection Project



In 2005, the CAREC Members Electricity Regulators' Forum (CMERF) was established to support regional electricity trade in the Central Asia region. CMERF is designed to help members capitalize on their shared experiences as they seek to reform their power sectors and work towards

closer cooperation in meeting power demand in the region and facilitating power exports.

In 2007, CAREC will prepare a regional energy strategy.

Trade Facilitation

In the area of trade facilitation, CAREC is focused on customs modernization and cooperation. It has supported measures to facilitate trade and transit for goods and people in the region. These measures include the use of information technology for automated customs services and data exchanges, risk management and post-clearance audit, joint customs control and single window practices, and regional transit development. Specific results include

- Customs modernization and cooperation initiative launched in 2002, aimed at strengthening customs organizations and improving governance through cooperation; with ADB's support, the Kyrgyz Republic and Tajikistan adopted new customs codes in 2004
- ADB support for bilateral trade and data sharing agreements, and pilot testing of joint-border processing
- EBRD's continued support for regional trade financing
- United Nations Development Programme (UNDP) support for trade facilitation under phase II of the Silk Road Area Development Program, and joint European Commission/ UNDP support for improving the effectiveness of border management through the Border Management Programme for Central Asia
- Trade studies on several individual countries under a World Bank initiative on Trade and Transport Facilitation in Central Asia



Trade Policy

CAREC's Trade Policy Coordinating Committee (TPCC), led by the International Monetary Fund, was formed to help participating countries adopt more open trade regimes and coordinate their trade policies to facilitate intra- and interregional trade. TPCC addresses trade liberalization in the context of the World Trade Organization (WTO) and the desire of nonmembers to become WTO members. The committee also addresses bilateral and multilateral trade agreements in the region, with a view to minimizing trade distorting effects.



TPCC is the first CAREC committee established with focus exclusively on policies, not projects. Since 2004, the TPCC has prepared a series of analyses on barriers to trade in Central Asia and possible measures to facilitate trade, including

- Central Asia's actual or potential comparative advantage in global trade;
- regional trade agreements, including the appropriate sequencing between accession to WTO and implementing the Eurasian Economic Community customs union;
- potential conflicts between regional trade agreements and WTO accession; and
- trade taxes in CAREC countries.

Currently, the TPCC is examining barriers to border and transit trade, and quantitative restrictions on trade.

In 2007, CAREC will prepare a regional trade strategy.

Plans into Action

Projects

In fulfillment of its role as a proactive facilitator of practical, results-based regional projects and policy initiatives critical to trade expansion, sustainable development, and meeting new challenges, the CAREC Program has funded a range of projects. Some examples include

■ **Almaty-Bishkek Regional Road Rehabilitation**

The 245-kilometer (km) road between Almaty, Kazakhstan, and Bishkek, Kyrgyz Republic is a key link between the countries' business centers. This project rehabilitated 204 km of the road in Kazakhstan, and 41 km in Kyrgyz Republic; supported improvements of customs facilities at the Akzhol-Chu border; and purchased road maintenance equipment for Kazakhstan.

The improvements have cut travel times in half—what used to be a 6-hour journey in summer, and longer in winter, now takes 2.5–3 hours. Easier access to Almaty, a bustling regional finance hub, creates new opportunities for Kyrgyz Republic citizens and businesses. During the summer of 2006, about 1 million international tourists visited Issyk-Kul Lake in the Kyrgyz Republic, up from about 300,000 a year earlier. A majority of the tourists came from Kazakhstan using the newly-rehabilitated road.

■ **Southern Transport Corridor Road Rehabilitation Project**

This project will rehabilitate sections of road between the cities of Osh, Sary Tash, and Irkeshtam in the Kyrgyz Republic. The improvements will revitalize the transport network from PRC's rapidly expanding economy, through Kyrgyz Republic, and on to Uzbekistan. The project will reduce the cost of road transport and promote economic growth by increasing opportunities for regional trade and cooperation. The Osh-Sary Tash-Irkeshtam road connects to the Osh-Bishkek road, a vital national transport corridor for Kyrgyz Republic, and a link to the Bishkek-Almaty road. These interconnecting projects highlight the building-block approach and regional perspective of the CAREC Program.

■ **Regional Power Transmission Interconnection Project**

This project will tap Tajikistan's power surplus to meet serious shortfalls in neighboring Afghanistan. The project will construct a 220-KV double circuit transmission line linking the hydropower stations on Tajikistan's Vakhsh River to Kunduz and, ultimately, to Kabul, Afghanistan. The total net economic benefits from the project are estimated to be \$114 million, split fairly evenly between the two countries.

Publications and Reports

In addition to projects, the program has developed a range of studies and publications examining various aspects of regional cooperation. Some examples include

- **Central Asia Human Development Report**
Bringing Down Barriers: Regional Cooperation for Human Development and Human Security

The report was prepared by a team of experts under the guidance of the UNDP Regional Bureau for Europe and the Commonwealth of Independent States, in collaboration with ADB and World Bank, and with financial assistance from the United Nations Human Security Trust Fund and the United Nations Foundation. The report argues that increased cooperation among the Central Asian republics will produce large gains by reducing trade costs, increasing remittances from migrant workers, and improving water and energy use.

- **Increasing Gains from Trade through Regional Cooperation in Trade Policy, Transport, and Customs Transit**

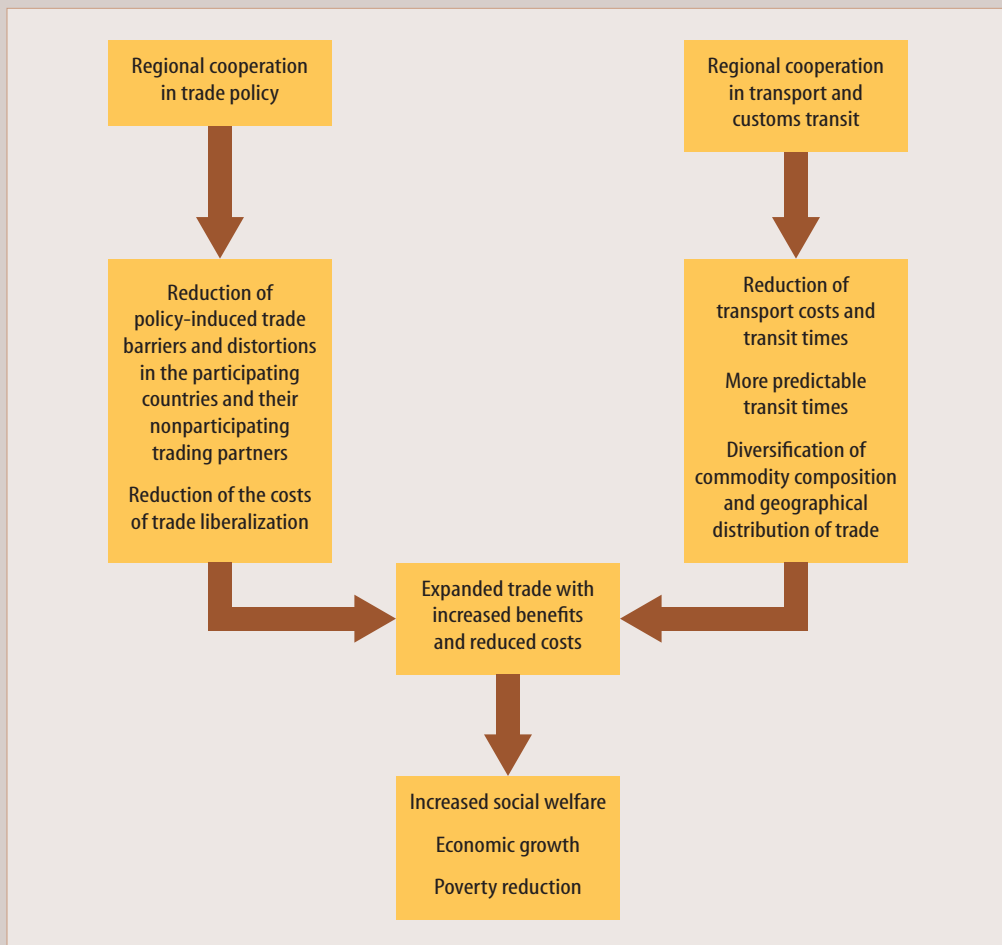
This ADB report seeks to show how Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan can increase the gains from participation in international trade through regional cooperation in trade policy, transport, and customs transit. It attempts to quantify costs of the lack of cooperation and potential benefits of improved regional cooperation in the three areas for the above countries.

- **Central Asia Regional Electricity Export Potential Study**

This World Bank study addresses options for meeting future electricity demand within Central Asia, the potential scope and location of export markets outside the region, and the prospects for accessing these markets.

These and many more publications are available online at www.adb.org/CAREC.

How Regional Cooperation in Trade Policy, Transport, and Customs Transit Can Benefit CAREC Countries



Source: *Central Asia: Increasing Gains from Trade Through Regional Cooperation in Trade Policy, Transport, and Customs Transit*, page 7

For More Information

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