

CENTRAL ASIA REGIONAL ECONOMIC COOPERATION PROGRAM
17th Ministerial Conference
15 November 2018; Ashgabat, Turkmenistan

SUMMARY OF PROCEEDINGS

I. Introduction

1. The 17th Ministerial Conference (MC) on Central Asia Regional Economic Cooperation (CAREC) was held in Ashgabat, Turkmenistan on 15 November 2018. The MC was attended by ministers and senior officials from 11 CAREC member countries and representatives from development partners.¹ The ADB President participated in the MC and presented a special address. The MC was chaired by Mr. Gochmyrat Myradov, Deputy Chairman of the Cabinet of Ministers of Turkmenistan, and co-chaired by Asian Development Bank (ADB) Vice President Mr. Wencai Zhang. The MC deliberated and endorsed the CAREC Integrated Trade Agenda 2030, discussed the progress of the CAREC 2030 implementation, and held a high-level panel discussion on “Export Diversification for Growth and Macroeconomic Stability”. A Joint Ministerial Statement was issued at the end of the MC. The agenda and list of participants are in *Appendix 1 and 2*, the Joint Ministerial Statement is in *Appendix 3*.

II. Highlights of the 17th Ministerial Conference

2. **Inaugural Session.** Deputy Chairman of the Cabinet of Ministers Mr. Myradov delivered welcome address on behalf of H.E the President of Turkmenistan. He commended ADB’s support and contributions to the CAREC Program and committed Turkmenistan’s support to strengthening economic cooperation in the region. ADB President Takehiko Nakao delivered a special address. He reaffirmed ADB’s support for CAREC and announced \$2 billion in new assistance for regional projects in CAREC countries in 2018. President Nakao noted that the CAREC region’s economic outlook had strengthened and a recovery of trade was underway. Strengthening ties among CAREC neighboring countries and the improving environment for economic cooperation will boost trade prospects. Mr. Nakao also commended the progress made in advancing cooperation in the five operational clusters of the CAREC 2030 strategy.

3. **Roundtable Discussion on the New CAREC Integrated Trade Agenda (CITA) 2030 and CAREC 2030 Implementation.** The MC was apprised of the economic and trade outlook, CITA 2030 and the implementation progress of CAREC 2030 and deliberated on key challenges going forward (*see Appendices 4, 5 and 6 for presentations*).

- a. **Global and regional economic and trade outlook.** Several aspects were highlighted in the Secretariat’s presentation including (i) improved outlook in the region supported by rising oil prices and higher remittances, as well as increased trade volumes and; (ii) potential downside risks from the trade conflict and unsustainable debt built up in some countries. The presentation noted that although CAREC countries’ trade with the rest of the world (and among themselves) has increased, it remains restrained by high tariffs and non-tariff barriers. Structural challenges also remain, such as the need to diversify

¹ The 11 CAREC member countries are: Afghanistan, Azerbaijan, the People’s Republic of China, Georgia, Kazakhstan, Kyrgyz Republic, Mongolia, Pakistan, Tajikistan, Turkmenistan and Uzbekistan; Development partners present at the 17th MC include: Asian Development Bank, CAREC Federation of Carrier and Forwarder Associations, CAREC Institute, Eurasian Development Bank, European Bank for Reconstruction and Development, European Union, International Monetary Fund, Islamic Development Bank, Japan International Cooperation Agency, Japan Ministry of Foreign Affairs, Shanghai Cooperation Organization, United Nations Development Programme, United Nations Economic and Social Commission for Asia and the Pacific, US State Department, and the World Bank.

exports and improve the business environment. Efforts towards more openness and integration are needed to boost trade and improve external conditions for the region.

IMF noted its concerns about the medium-term economic outlook in the region. It emphasized that the biggest medium-term challenge for the CAREC region is to make growth more inclusive and sustainable. Thus, CAREC should intensify its efforts to further promote trade openness, deepen structural reforms to diversify exports in member countries, and facilitate private sector participation in the economy. Concern was raised also on the likelihood of deceleration in the upward trend of growth recovery, and the potential implications of the trade conflict for the CAREC countries, which could create uncertainty, affect commodity prices, and impact confidence. The MC discussed how to raise growth rates sustainably in the region given that the average growth in the CAREC region of about 4.8% in 2018 was still less than the average 6% growth overall in developing Asia countries in the current year.

ADB President Nakao noted several challenges in the CAREC region, including vulnerability of resource-rich countries to external shocks, the landlocked nature of several CAREC countries, and limited air connectivity. He highlighted eight key actions for lifting growth rates and improving development prospects for CAREC countries: (i) development of high-quality infrastructure; (ii) investment in human capital—education and health; (iii) good macroeconomic policies; (iv) openness to trade and improvement of investment climate; (v) good governance, transparency and accountability; (vi) equality of access to incomes and other opportunities in the society; (vii) clear vision for the future and good strategic planning; and (viii) peace, security and political stability.

- b. **CITA 2030.** Ministers and senior officials extended their appreciation to the CAREC Secretariat for the fully participatory consultation process carried out during the formulation of CITA 2030. CITA 2030 aims to assist CAREC member countries in integrating further with global economy through three pillars: (i) trade expansion from increased market access; (ii) greater diversification; and (iii) stronger institutions for trade. A three-year rolling strategic action plan (RSAP) 2018-2020 will translate CITA 2030 into practical and implementable periodic phases. A results-based approach will be used to monitor and evaluate CITA 2030's progress and achievement in delivering results.

Ministers unanimously endorsed CITA 2030 and the RSAP 2018-2020. They noted that CITA 2030 fully aligns with the national development objectives and trade priorities of CAREC countries. These include: (i) diversifying exports, particularly reducing dependence on hydrocarbon exports in oil-exporting countries; (ii) strengthening cooperation in cross-border trade and exploring the potential of e-commerce; (iii) improving transit services and border crossing points for increased trade; (iv) supporting tourism development; (v) facilitating agricultural trade; and (vi) linking trade with human development, including empowering women. Ministers and senior officials agreed that trade cooperation and integration can be a driver of growth in the region, and facilitating private sector engagement is the key. They committed full support for the implementation of CITA 2030, including through increased knowledge sharing using CAREC as an effective platform and CAREC Institute as an important knowledge center.

- c. **CAREC 2030 Implementation Progress.** Ministers and senior officials were satisfied with the progress made in advancing cooperation in the five operational clusters of the CAREC 2030 strategy including (i) economic and financial stability, (ii) trade, tourism

and economic corridors, (iii) infrastructure and connectivity, (iv) agriculture and water, and (v) human development. Ministers and senior officials welcomed the first CAREC High-level Forum on Macroeconomic Policies for Economic and Financial Stability, and urged the continuation of such dialogue to strengthen economic cooperation in the region, including through the organization of a capital market regulators' forum. They supported the ongoing scoping study on exploring tourism promotion and cooperation opportunities and called for intensified efforts to capitalize on the tourism potential of the region. Ministers and senior officials also welcomed ADB technical assistance to assess the economic potential of a new economic corridor among Kazakhstan, Tajikistan, and Uzbekistan, and noted the progress on the Almaty-Bishkek economic corridor. Ministers and senior officials recognized the strong support provided by CAREC for improving transport connectivity and enhancing energy security in the region. They requested the CAREC Secretariat to deepen its support in both sectors, particularly in the areas of aviation and renewable energy.

4. Panel Discussion on Export Diversification for Growth and Macroeconomic Stability. A high-level panel composed of three ministers from CAREC member countries and three senior officials from development partners led the discussion based on a background note prepared by the Secretariat (*see Appendix 7*).² The discussion focused on the directions and approaches for promoting export diversification in CAREC countries and the role of CAREC in supporting this process. The discussion was guided by seven questions:

- Why have CAREC countries, despite strategic prioritization and state efforts, been less successful in promoting export diversification?
- What can government do to promote diversification?
- In what ways should diversification strategies and policies of resource-rich CAREC countries differ from other CAREC countries?
- How can regional cooperation be a force for export diversification?
- In what ways can a regional platform such as CAREC support policies and programs for export diversification?
- How can small-and medium-sized enterprises (SMEs) be catalyzed to play a large part in national export diversification plans? And how can large companies be incentivized to develop exports?
- What is the potential of greater diversification in the service sector of CAREC countries?

6. The IMF noted that the eight key actions mentioned by President Nakao (para. 3a) will help both resource rich and non-resource rich countries diversify their exports. The key is to get the basics right, including maintaining macroeconomic stability, limiting state intervention and creating an enabling business environment. The role of foreign direct investment (FDI) is important, as it brings both money and know-how. Resource-rich countries tend to suffer from Dutch Disease—making non-resource sector less competitive. Thus, their diversification strategies should focus on facilitating the inflow of non-resource related FDI, supporting non-resource sectors through industrial policies, and investing in education and upgrade of labor skills. As resource-rich countries tend to face more volatility due to changes in commodity prices, making their currencies more flexible to mitigate price volatility and implementing countercyclical policies can also support their diversification efforts. The IMF noted that

² Panelists include: Mr. Batyr Bazarov, Minister of Finance and Economy, Turkmenistan; Mr. Wencai Zhang, Vice President, ADB; Ms. Betsy Nelson, Vice President and Chief Risk Officer, EBRD; Mr. Jamshid Khodjaev, Minister of Foreign Trade, Uzbekistan; Mr. Nasir Ahmad Durrani, Minister of Agriculture, Irrigation and Livestock, Afghanistan; and Mr. Juha Kähkönen, Deputy Director of the Middle East and Central Asia Department, IMF. Mr. Werner Liepach, Director General of Central and West Asia Department of ADB moderated the session.

government needs to play an active role in facilitating a business-friendly environment for private sector participation, providing them necessary infrastructure, legal protection and access to finance. Lessons can be learned from less successful approaches adopted in other countries related to import substitution and special manufacturing zones, as well as overreliance on state planning and less focus on addressing governance issues.

6. Uzbekistan noted it has made efforts in improving its legal system to foster diversification of exports beyond traditional sectors (e.g., oil and cotton), and achieved good results. The country used to be a leading exporter of raw cotton, but now it imports raw cotton to produce high value-added textile products. Uzbekistan has been also trying to export natural gas, which can have a big impact in export diversification in the next 4-5 years.

7. Afghanistan highlighted several factors that currently restrict countries' efforts to successfully diversify their economies and the private sector's ability to compete regionally and globally. These include: (i) physical constraints and poor connectivity which results in high transportation costs; (ii) security concerns; and (iii) lack of level-playing field between the private and public sectors. Regional platforms such as CAREC can play a positive role in the facilitation of cross-border investments among countries.

8. Turkmenistan noted that diversification requires experience in market promotion and competition. CAREC countries need to increase their efforts to better understand the structure of regional value chains to promote and incentivize direct links between manufacturers and suppliers in the region. Greater support for helping CAREC countries transform their transport corridors into trade and economic corridors is key going forward.

9. Regional cooperation platforms such as CAREC have an important role in facilitating export diversification in member countries. The ADB Vice President (VP) noted that the CAREC Program, over the years, has been focused on enhancing physical connectivity in the region. It is also focusing on issues such as addressing trade barriers through policy coordination and harmonization, which can also facilitate cross-border trade and promote diversification. Noting the important role of SMEs in promoting economic diversification, ADB VP noted that more efforts are needed to create an enabling policy environment including proper regulatory framework for SMEs investments, facilitating their access to finance and skills upgrade. Applying digital technology and engaging in e-commerce can also support SMEs growth and diversification. He noted the importance of attracting and facilitating FDI flows in CAREC countries as they can bring money, technology and knowledge.

10. On the role of SMEs in promoting export diversification, EBRD noted that SMEs can produce high quality products and services that are transportable and fully compliant with international standards. EBRD provides advisory services for SMEs to help them meet international standards as well as advising banks to better serve the exporting SMEs. CAREC can serve as a platform for sharing experience and knowledge through bringing together SMEs from different countries and regions for knowledge sharing and cross-learning. EBRD also noted that the services sector has great potential in diversifying exports, particularly financial services and IT services, and some service sectors can be more privatized (e.g. energy and water supply). There are also huge opportunities in tourism sector development, which is a sector of great potential for wider economic spillovers given that a lot of production can be generated from tourism services.

III. Conclusion

13. The Conference endorsed the CITA 2030—an important new trade agenda in the implementation of the CAREC 2030. CAREC Ministers affirmed their strong commitment to actively participate and support the implementation of CAREC 2030 going forward. They agreed that good progress in advancing CAREC 2030 in all the five operational clusters has been made. The brainstorming on “Export Diversification for Growth and Macroeconomic Stability” benefited CAREC countries in better understanding their development context, and provided them with well-informed policy options to facilitate and support export diversification, to achieve stable and sustainable growth in the long term. The MC recognized that CAREC countries’ growth prospects face a myriad of development challenges, and that they need to remain committed to fostering stronger and more inclusive and sustainable growth. CAREC’s expanded mandate to serve as an open and inclusive platform will further galvanize a revitalized and strengthened partnership between CAREC’s development partners and member countries to make progress on the international global agenda and strengthen economic cooperation in the region.

Appendices (as stated):

1. 17th MC Agenda <https://www.carecprogram.org/uploads/2018-17th-MC-Agenda.pdf>
2. List of Participants <https://www.carecprogram.org/uploads/2018-17th-MC-Participants.pdf>
3. Joint Ministerial Statement <https://www.carecprogram.org/uploads/2018-17th-MC-JMS.pdf>
4. Presentation: CAREC Economic Outlook <https://www.carecprogram.org/uploads/01-CAREC-Economic-Outlook.pdf>
5. Presentation: CAREC Integrated Trade Agenda 2030 and Rolling Strategic Action Plan 2018–2030 <https://www.carecprogram.org/uploads/02-CITA-2030.pdf>
6. Presentation: CAREC 2030 Implementation <https://www.carecprogram.org/uploads/03-CAREC-2030.pdf>
7. Background Note: Export Diversification for Growth and Macroeconomic Stability <https://www.carecprogram.org/uploads/2018-17th-MC-Background-Note.pdf>