

Publication Launching:
**A Diagnostic Study of Kyrgyz Republic's Free Economic Zones
and Industrial Parks**
**Strategic Framework for Free Economic Zones
and Industrial Parks in the Kyrgyz Republic**

21 May 2018
Bishkek, Kyrgyz Republic

Annotated Agenda

I. Background and Overview

1. Approved by the ADB in December 2014,¹ this technical assistance (TA) seeks to improve the policy framework for planning, developing, and upgrading industrial parks (IPs) in CAREC countries to increase the region's total factor productivity (TFP) and international competitiveness. It focuses on two pilot countries – Kyrgyz Republic and Kazakhstan – which best represent the different levels of progress among the CAREC developing member countries (DMCs) in developing IPs and other special types of economic zones. The 13th CAREC Ministerial Conference held on 5-6 November 2014 endorsed a framework for economic corridor development and the operationalization of this framework through a memorandum of understanding on the Almaty-Bishkek Corridor Initiative, the first of regional cooperation at the city level between Kazakhstan and the Kyrgyz Republic. It was envisaged that pilot diagnostic studies (DS) of these two quite different countries,² whose zones did not appear to have met with much success, would evaluate these zones and thereby suggest how they might be overhauled, and their potential role enhanced in each country's economic development strategy (EDS). It was also envisaged that these studies would provide useful lessons for other CAREC countries.

2. After extensive consultations with officials at the Ministry level, with agencies responsible for the oversight of free economic zones (FEZs) and the implementation of their FEZ strategies, as well as with regional and city officials, with FEZ management companies and locators, and chambers of business, the team will now present its key findings and recommendations as contained in two volumes – “A Diagnostic Study of Kyrgyz Republic's Free Economic Zones and Industrial Parks” and “Strategic Framework for Free Economic Zones and Industrial Parks in the Kyrgyz Republic.”

3. This annotated agenda presents the highlights of these two documents.

¹ “Supporting Industrial Park Development in the Central Asian Regional Economic Cooperation Region,” Project Number 48370-001, Regional – Policy and Advisory Technical Assistance (R-PATA), Asian Development Bank, December 2014.

² For example, whereas Kazakhstan's economy is well endowed with natural resources, particularly oil and gas, which account for over 60 percent of its exports and nearly a quarter of its GDP, the Kyrgyz Republic's main export is labour, whose remittances account for around 30 per cent of its GDP. As a result, Kazakhstan's GDP per capita (current US\$) is roughly ten times that of the Kyrgyz Republic.

(1) Diagnostic Study (DS)

4. The purpose of the DS was to provide an overview of the nature, functioning, features and effectiveness of the Kyrgyz Republic's existing FEZs, High Technology Park (HTP), and proposed Industrial Parks (IPs) in order to identify and correct shortcomings and propose guidelines (in accordance with international rules and best practices) regarding their potential role in the country's EDS. Hence, the aim of this DS is to evaluate the main features of the FEZs/IPs, their performance, especially with regard to attracting export-oriented activities and investment (including foreign direct investment or FDI) as well as creating employment, and recommend how they might be modified to improve their effectiveness (or, indeed, replaced by more effective alternatives).

5. The DS recommends that FEZs (and future IPZs) should be an integral part of a coherent economic development strategy, with the full cooperation of the relevant ministries and other bodies at various levels of government, along with clear objectives and viable numerical targets including the goal of improving TFP. As export- and FDI-oriented firms tend to have higher TFP, and therefore pay relatively high wages, FEZs and IPZs should be mostly oriented toward exports, rather than toward the domestic market. And the government should seek to attract inward FDI (and the new technologies and managerial know-how that usually come with it) to pave the way for the incorporation of Kyrgyz enterprises into global value chains (GVCs). In order to ensure the transparency of FEZs and IPZs, notably regarding their cost effectiveness in achieving their objectives (especially the improvement of their TFP), the FEZs and IPZs and their specific features should be regularly monitored and evaluated using cost-benefit analysis.

6. Although the FEZs and IPZs should be outward-oriented, linkages should nonetheless be made with the domestic economy to ensure that they do not become mere enclaves, with little spillover of benefits into the domestic economy. Therefore, enterprises outside the FEZs and (future) IPZs should be placed, as much as possible, on an equal footing with the enterprises inside the FEZs and IPZs, especially as far as taxation is concerned. This would enable all enterprises to participate in GVCs. Indeed, the government should facilitate forward and backward linkages between enterprises in the FEZs or IPZs and enterprises outside, and with research and educational or training institutions outside the zones, thereby enabling the FEZs and IPZs to become centers of excellence. Links with educational or training institutions are especially important for ensuring the availability of a sufficiently educated and skilled labor force that would be receptive to new technologies and management methods.

7. In sum, while legislative stability is desirable, the Kyrgyz Republic's FEZs, HTP, and proposed IPZs—and, indeed, its economic development strategy—should be sufficiently flexible to adapt to domestic, regional, and global economic developments, including changes in global and regional trade. The FEZs and HTP (and future IPZs) could also possibly play a useful role in, among other things, paving the way for the implementation of the World Trade Organization's (WTO) Trade Facilitation Agreement in helping the country cope with the intensified competition and changes in the pattern of trade resulting from its accession to the EAEU. As the economic environment and consequent fundamentals determining the structure of global trade evolve, the Kyrgyz Republic's FEZs and HTP will need to adapt accordingly (and in light of periodic evaluations of their performance). They can also serve a useful purpose to the extent that they enable experimentation in the country's otherwise insufficiently market-oriented economy. The failure of some FEZs and the HTP may be a price worth paying if others are successful. But the FEZs and HTP will require patience, planning, monitoring, and evaluation to ensure their cost-effectiveness. In any event, the FEZs, HTP, and future

IPZs are always likely to be inferior to economy-wide reforms that reduce impediments to trade and FDI and thus improve the productivity and competitiveness of Kyrgyz enterprises.

(2) Strategic Framework (SF)

8. The second part of the Technical Assistance Program developed a strategic framework (SF) to support industrial park development in the country. While the diagnostic study focused on the current status of SEZs and IZs expressing concerns over their viability from a static perspective, the SF adopts a dynamic perspective and develops a strategic framework with an action plan to turn them into development engines.

9. The SF covers the following steps of the policy cycle: planning; strategic directions design and development; implementation; and monitoring and evaluation. It is broadly organized in two parts: planning and strategic proposals, in the above sequence. It outlines issues faced by policy makers at each stage of the policy cycle and presents strategic proposals.

10. The SF outlines strategic proposals intended to exploit the full potential of FEZs, the proposals are founded on the following pillars: transitioning from export-processing-zone type FEZs to eco-zone type hybrid FEZs; promoting an investment climate in FEZs; promoting linkages with the domestic economy; promoting regional and cross-border value chains; and an implementation strategy.

11. The SF draws on four main models of implementation to identify the factors critical for successful implementation of the FEZ strategy bringing into focus the following key lessons: (i) Stakeholder management: Identify the stakeholders; assess their roles and responsibilities, commitment, and resistance; engage them in decision making and prosperity sharing; coordinate them, keep the policy goals clear and consistent, and communicate the policy clearly to stakeholders including the implementing agencies; (ii) Human resources management: train the implementing personnel, ensure accountability, and offer incentives; (iii) Complementary institutional initiatives: conduct macro management of the economy to create an environment in which trade and investment can grow exponentially; and (iv) Risk management: anticipate, assess, and manage risks in implementing the policy effectively, diversify economic activities, export destinations, and FDI source countries within FEZs; promote rigorous marketing of FEZs to help manage market risks: adopt best practices regarding FEZ-related risks, such as fraud and money laundering, noncompliance, and change in the government attitude toward FEZs.

12. Finally, the SF gives guidance on Monitoring and evaluation to provide government officials and stakeholders with means to learn from past experiences; improve the design, implementation, planning, and allocation of resources; and demonstrate results as part of accountability to key stakeholders. Key lessons are: (i) develop a monitoring and evaluation framework, including a schedule for evaluations; (ii) develop performance indicators covering the measures of inputs, processes, outputs, outcomes, and impacts of the policy; (iii) for each evaluation, prepare an initial evaluation plan; identify the indicators; recruit and train a team to conduct the evaluation; (iv) do not overengineer an M&E system, particularly through multiple monitoring systems or with an excessive number of performance indicators; (v) present the evaluation results externally; and (vi) develop an action plan for follow-up – M&E is worthwhile only to the extent that it is actually used to improve government performance.

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DRAFT PROGRAM

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| 14:00-14:30 | Registration |
| 14:30-14:50 | Welcoming Remarks |
| | <p><i>Almaz Sazbakov</i> <i>Deputy Minister of Economy</i> <i>CAREC National Focal Point</i></p> <p><i>Maria Paniagua</i> <i>Senior Portfolio Management Specialist</i> <i>Asian Development Bank Kyrgyz Resident Mission</i></p> |
| 14:50-15:00 | Background: ADB's Technical Assistance for Industrial Park Development in the CAREC Region |
| | and |
| 15:00-15:45 | Session 1: Overview, Findings and Recommendations of the Diagnostic Study |
| | <p><i>Guoliang Wu</i> <i>CAREC Unit Head, Senior Regional Cooperation Specialist, Central and West Asia Department (CWRD), ADB</i></p> |
| 15:45-16:30 | Open Discussion |
| 16:30-16:15 | Session 2: Overview and the Proposed Strategic Framework for Free Economic Zones and Industrial Parks in the Kyrgyz Republic |
| | <p><i>Speaker: Aradhna Aggarwal</i> <i>Strategy Formulation and Policy Planning Expert (International Consultant), ADB</i></p> |
| 16:15-16:45 | Open Discussion |
| 16:45-17:00 | Wrap-up |
| | <p><i>Guoliang Wu</i> <i>CAREC Unit Head, Senior Regional Cooperation Specialist, CWRD, ADB</i></p> |
| 17:00-17:30 | Concluding Remarks |
| | <i>Representative from the Ministry of Economy</i> |