



Background Note

CAREC Corridors for the Future: Learning from Economic Corridor Development in Asia

**XII Astana Economic Forum
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I. Introduction

1. Economic Corridor Development (ECD) as an effective vehicle for spurring outward-oriented economic development has been pursued across countries and regions, with myriad success stories and experiences. Economic recovery and favorable regional dynamics exhibited in the Central Asia Regional Economic Cooperation (CAREC) region particularly Central Asia provides improved environment and further momentum for economic cooperation among CAREC member countries including pursuing cross-border ECD. The Almaty-Bishkek Economic Corridor (ABEC)—a pilot ECD under CAREC is yielding tangible results of investment along ABEC in the areas of transport, agriculture, tourism, and health. A new economic corridor among Shymkent (in Kazakhstan), Tashkent (in Uzbekistan), and Khujand (in Tajikistan) and their surrounding oblasts is being explored under ADB assistance.

2. The CAREC Secretariat is hosting a panel session at the XII Astana Economic Forum on 16 May 2019, to discuss regional ECD potentials in the CAREC region. This session intends to share Asia’s ECD experiences and discuss how CAREC can benefit from regional ECDs to promote economic diversification and growth. The session will also examine challenges and opportunities, as well as policy implications for CAREC to develop regional economic corridors.

II. Concept and Experiences of Regional Economic Corridor Development in Asia

3. While there is no standard definition of an “economic corridor”, the basic concept of ECD is to exploit the strong growth effects of spatial economic development featured by scale economies, agglomeration, diversification, and specialization of economic activities within a designated geographic area. It usually applies a three-dimension approach—including linear, spatial and virtual aspects—which involves multisector and multidisciplinary engagement. ECDs have been in practice under the regional and subregional programs in Asia—the CAREC, the Greater Mekong Subregion Program (GMS), and the South Asia Subregional Economic Cooperation Program (SASEC). They involve building physical connectivity—transport corridors— as a starting point, to catalyze economic activity for improved productivity and growth. Overall, ECDs in Asia are in a transition state from transport corridors to economic corridors, with some subregions more advanced (the GMS), some are piloting regional ECDs (the CAREC), and some are still focusing on national ECDs (the SASEC).

a. Corridors in Central Asia Regional Economic Cooperation Program Countries

4. The CAREC Program started with the transport corridor approach in 2007 by identifying six transport corridors across the region for building physical infrastructure connectivity to ensure efficient movement of goods and people across borders.¹ The six road corridors link the region’s key economic hubs to each other, and connect the landlocked CAREC countries to other Eurasian and global markets. The ECD approach was introduced as an operational priority under the CAREC 2020 strategy, laying out priority investments needed to transform the transport corridors into economic corridors. ECD was designated as an operational cluster (together with trade and tourism) under the CAREC 2030 strategy approved in October 2017, to boost economic

¹ The six CAREC Transport Corridors are: CAREC Corridor 1: Europe-Asia (Kazakhstan, the Kyrgyz Republic, and Xinjiang Uygur Autonomous Region); CAREC Corridor 2: Mediterranean-East Asia (Afghanistan, Azerbaijan, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, Uzbekistan, and Xinjiang Uygur Autonomous Region); CAREC Corridor 3: Russian Federation-Middle East and South Asia (Afghanistan, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan); CAREC Corridor 4: Russian Federation-East Asia (Inner Mongolia Autonomous Region and Xinjiang Uygur Autonomous Region in the People’s Republic of China, and Mongolia); CAREC Corridor 5: East Asia-Middle East and South Asia (Afghanistan, the Kyrgyz Republic, Pakistan, Tajikistan, and Xinjiang Uygur Autonomous Region); and CAREC Corridor 6: Europe-Middle East and South Asia (Afghanistan, Kazakhstan, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan).

competitiveness through improved logistics, lowered costs of production, and enabling policies and investments for urbanization.

5. The pilot ECD—the ABEC was created to build on two relatively close urban drivers of economic growth, promoting an integrated economic space in areas of agribusiness, tourism, connectivity, health and education, and rapid intercity links around Almaty and Bishkek, to attract private investments. It has found strong resonance in the political leaders at both national and local levels. At present, investment projects, feasibility studies, and master plans in agriculture, tourism, and connectivity are being developed. These include the ongoing preparation of national master plans and an investment project for the modernization of agricultural wholesale markets under ABEC, to improve food security and food safety, and stimulate food exports. A similar approach is being rolled out to explore ECD among Shymkent, Tashkent, and Khujand and their surrounding oblasts.

6. The China-Pakistan Economic Corridor (CPEC), a bilateral economic corridor between People's Republic of China (PRC) and Pakistan with a timeframe from 2015-2030, is also an important economic corridor. The CPEC is a gigantic project which will connect Gwadar Port in Pakistan to Xinjiang Uygur Autonomous Region in PRC. Estimated to be worth about \$62 billion, CPEC includes upgrading a huge infrastructure network which aims to augment the capabilities of trade and investment between PRC and Pakistan, supported by investment of infrastructure connectivity including transport, energy and special economic zone projects. CPEC also facilitates regional connectivity, supporting Pakistan's growth and integration into the regional and global economy through improved connectivity and trade. This will boost Pakistan's role as a transit country for its landlocked neighbors given its direct maritime access. As of December 2018, 22 projects worth around \$18.9 billion had been undertaken with 11 projects already completed.²

b. Corridors in Greater Mekong Subregion Program Countries

7. The GMS adopted the economic corridor approach in 1998 to accelerate economic development in the subregion. Three major corridors—the East-West Economic Corridor (EWEC), North-South Economic Corridor (NSEC), and Southern Economic Corridor (SEC)—were identified to integrating road systems to interconnect borders, urban centers, production hubs, trade, tourism, and seaports. Three stages of development were experienced in GMS' ECD process: identifying priority road projects to serve as backbone of economic corridors (1992-1997); designing priority corridors for transformation into economic corridors (1998-2007); and formulating and implementing strategies and action plans for EWEC, NSEC, and SEC (2008 onwards). A GMS Economic Corridors Forum was launched in 2008 to bolster efforts in transforming transport corridors into economic corridors through improving policy dialogue and coordination including interaction between public and private sectors, and central and local governments.

8. To date, GMS has undertaken investment projects supporting ECDs in the areas of transport, trade facilitation, tourism, urban development (corridor towns), agricultural value chains, and health security. It is also exploring the development of special economic zones (SEZs) along GMS economic corridors. Over the years of investments, road density has more than doubled, with nearly 6,000 kilometers of roads having been completed with ADB support. Improved connectivity has significantly boosted trade and investment among GMS countries: intra-GMS trade reached \$413 billion in 2014 from just \$5 billion in 1992, while foreign direct investment increased from \$229 million in 2001 to \$2.7 billion in 2012; GMS tourist arrivals increased from 26 million in 2008 to 60 million in 2016. These achievements were largely attributed to the efforts

² <https://pk.chineseembassy.org/eng/zbqx/t1626097.htm>

of ECDs in the subregion, including the Cross-Border Transport Facilitation Agreement, cross-border power exchange networks, tourism campaigns, as well as the e-commerce cooperation platform. Malaysia's five economic corridor development strategy to develop five regions (north Peninsular, South, East Coast, Sarawak, and Sabah) in the country, each with different sector/industry focus, has been recognized as a success story in ECD.³ Malaysia is also exploring the development of cross-border economic area with neighboring Indonesia and Thailand.

c. Corridors in South Asia Subregional Economic Cooperation Program Countries

9. SASEC's strategic objective for promoting ECD over the next 10 years is to promote synergies between economic corridors being developed in individual SASEC countries, while focusing on transport corridor development at present, for improved connectivity among the member countries. Several land transport corridors—Bangladesh-Dhaka northwest corridor; Bhutan-Pasakha access road, India-Panitanki-Fulbari West Bengal north south corridor, and Nepal's strategic roads improvement—were identified as priority road corridors.

10. Three ECDs have been identified as having potential synergies with other in-country corridors in SASEC. These include (i) East Coast Economic Corridor in India; Sylhet-Dhaka-Khulna Economic Corridor in Bangladesh; and Colombo-Trincomalee Economic Corridor in Sri Lanka. These economic corridors aim at reinforcing existing value chains and developing new value-chain linkages; upgrading key transport and trade facilitation infrastructure to improve connectivity; and designing appropriate institutional mechanisms to serve as platforms for cooperation and collaboration among government and stakeholders.

III. Challenges of Regional Economic Corridor Development

11. As demonstrated by the ECD experiences in Asia, a regional ECD aims to connect different sectors and industries in several countries through applying a coherent spatial economic development approach as if they were in one country as in the case of Malaysia. This process involves complex and difficult challenges:

- It entails complex and long development process. Unlike a simple road corridor, ECD involves spatial economic planning and development, which is a multisectoral and multidisciplinary approach and requires careful feasibility studies, multi-country and multisectoral coordination, and pilot testing. In the ABEC case, it took about five years from conceptualization to investment identification.
- Hard infrastructure gaps and soft infrastructure bottlenecks constrain ECD. While infrastructure connectivity has been improved with massive investments in the recent decades, developing Asia will still need to invest \$26 trillion from 2016-2030, or \$1.7 trillion per year to bridge the gaps. Regional ECDs entail cross-border infrastructure connectivity (e.g., border crossing facilities), which are usually weak links in a given country. Further, soft side infrastructure such as customs procedures, trade policies and regulations are mostly uncoordinated and unharmonized which post significant challenges for cross-border ECDs.
- Inter-country and cross-border policy coordination remains a challenge for regional ECDs, as different countries at different development stages have different policy priorities. At the country level, there are hard constraints such as trade policies with different tariffs, as well as nontariff measures; at the local level, border provinces usually have their own development agenda and policy preferences.

³ <https://www.adb.org/sites/default/files/publication/411956/ewp-520-malaysia-economic-corridors-regional-development.pdf>

- Private sector participation, while key to the success of ECDs in developing businesses and creating employment, remains limited due to information asymmetry, weak incentives and insufficient conditions for investment, and poor access to financing. Lack of effective dialogue with public sector stakeholders is partly responsible for these constraints.
- In some cases, lack of strong political will (due to unstable domestic political system) and security concerns are also hard constraints for regional ECDs.
- Apart from the above, effective measurement of impact/benefits of economic corridors is also a challenge. Given the multisector and spatial approach of ECD, there is difficulty in developing a comprehensive analytical framework to capture all the benefits and impact of ECD particularly regional ECD. For example, so far, few institutions have developed a solid analytical framework to comprehensively measure cross-border economic benefits of a given regional project.

IV. Opportunities for Regional Economic Corridor Development in CAREC

12. Despite challenges, regional ECD offers greater opportunities for enhanced regional economic integration in the CAREC region. The region, through 20 years project-based economic cooperation under the CAREC Program, has made remarkable achievements in the areas of transport, energy, trade and trade facilitation, laying solid foundations for regional ECD. The region is currently expanding into new sectors and areas under CAREC 2030 strategy to maximize growth potential. All these provide significant opportunities for regional ECD in CAREC. Below exhibit key areas that provide great potential for regional ECD in CAREC.

13. **Well-developed transport corridors and improving energy connectivity.** The CAREC region has seen marked improvement of infrastructure connectivity through two decades of investment particularly under the six CAREC corridors. As of December 2018, a cumulative of \$34.5 billion worth of CAREC-related investments (\$12.5 billion by ADB) have been made in transport connectivity (75%), energy connectivity (23%), and trade and trade facilitation (2%). These include regional improvement of border services in Kyrgyz Republic, Mongolia, Pakistan, and Tajikistan. Investments in key cross-border energy connectivity projects—including Turkmenistan-Uzbekistan-Tajikistan-Afghanistan-Pakistan Power Interconnection Framework; Turkmenistan-Afghanistan-Pakistan Power Interconnection Project; Turkmenistan-Afghanistan-Pakistan-India Natural Gas Pipeline Projects; and CASA-1000 Projects—are advancing the formation of a common energy market in the CAREC region.

14. **Large trade potentials.** The CAREC region accounts for a tiny portion of world trade (less than 1%), and CAREC countries also trade much less among themselves than countries in other subregions (e.g., Southeast Asia, South Asia). Trade has been constrained to the narrow-traded goods (mainly commodity products) and limited trade partners. However, trade related progress in the regional and national level are promising. Among CAREC's eleven member countries, eight are World Trade Organization (WTO) members, demonstrating the region's improved integration into the multilateral trading system; the Belt and Road Initiative, with its extensive engagement in the region, offers increased trade and investment opportunities with the Peoples' Republic of China; continued efforts in aligning with the Revised Kyoto Convention and WTO Trade Facilitation Agreement further improves the trading environment and investment climate; and the adoption of the CAREC Integrated Trade Agenda 2030 will help CAREC countries in accelerating its integration with the global economy through trade expansion, greater diversification and stronger institutions for trade.

15. **Special economic zones (SEZs) and industrial parks (IPs).** SEZs and IPs are important tools in promoting ECD. SEZs and IPs, if well designed and appropriately aligned with domestic development strategies in a given country, can promote investment climate through their ability

to attract foreign direct investment (FDI), in particular global value chain linked investment and facilitate domestic firms' participation in global production networks, thus promoting regional and cross-border value chain development. They can spur export growth, create jobs and facilitate skills upgrade and technology transfer. Given this, more and more countries in the CAREC region have established and/or are developing SEZs and IPs to boost growth.

16. **Large untapped potential of tourism growth.** The tourism sector has become a major generator of jobs and a key driver of economic growth and development worldwide, accounting for more than 10% of the world's GDP, 7% of global trade and one in ten jobs. Many countries in Asia have been benefiting from continued tourism growth. However, tourism benefits have not yet been fully accrued to the CAREC region. Sustainable tourism in the CAREC region promotes economic growth and facilitates regional ECD. In the five Central Asian countries, tourism accounted for only 5.5% of the GDP and 4.2% of total employment in 2017. Recent studies ⁴ show that the next decade will see international tourist arrivals in the CAREC region growing at an average annual rate of 4.9%, more than matching the anticipated global expansion of international tourism of 3.3% a year to 2030, and 4.4% a year in emerging economies, as confirmed in the UNWTO's 2017 Tourism Highlights report.⁵ The CAREC countries possess both individually and collectively a vast range of natural and cultural resources to attract many segments of the international and domestic tourism market.

V. Questions for Discussion

- How to select “winning” regional corridors that have a high chance of success? What are the prerequisites of successful corridors?
- In what ways can cross-border special economic zones (SEZs) and industrial parks (IPs) promote economic corridor development? What are the requirements for establishing successful SEZs and IPs?
- What are the roles of the private sector for economic corridor development? What policies are needed to maximize benefits of small and medium enterprises for participating in economic corridor development?
- In what ways can development institutions and regional platforms like the CAREC Program support the development of regional economic corridor development among CAREC countries?
- What will be the most effective institutional arrangement for coordinating and managing a regional economic corridor that crosses more than one country and involves sub-national entities? How to ensure coordinated role of governments at national, provincial and local level?

⁴ WTTC country reports under Travel and Tourism Economic Impact 2018 series (Afghanistan and Turkmenistan not covered by WTTC).

⁵ UNWTO. 2017. UNWTO Tourism Highlights 2017. Madrid.