


A Road to Cooperation

Ministerial Conference on Central Asia Economic Cooperation

25–26 March 2002



The Central Asian republics that emerged from the breakup of the former Soviet Union are engaged in a difficult transition from command-style to market-based economies. Governments have made broad-based reforms and much progress has been made, despite the high transitional social and economic costs. But much remains to be done. In particular, subregional cooperation can play an important part in improving the lives of the peoples of these remote, beautiful lands.

THE MINISTERIAL CONFERENCE

4

Confirmation of the Institutional Framework

Presentation of Asian Development Bank Progress Report

Discussion of Asian Development Bank's Draft 3-Year Program

Affirmation of the Need for Donor Collaboration

Discussion of Cooperation with Afghanistan

Consensus on the Way Forward

THE PARTICIPANTS

12

Participating Country Delegations

Observing Country Delegations

Invited Speaker

Bilateral Agencies

Multilateral Agencies

Asian Development Bank



Historically, trade has been a key factor in the economies of Central Asia. The Silk Road that connected Eastern and Western civilizations that thrived for centuries was the product of sturdy trading alliances. Rebuilding Central Asia rests on rekindling these ancient partnerships and forging new ones.

Effective linking of products with markets is an essential element in economic development. The Asian Development Bank (ADB) is committed to supporting economic cooperation among its member countries of the Asian and Pacific region and in promoting mutual trust and respect among their governments.

In 1997 ADB, recognizing Central Asia's potential, began to foster pragmatic relationships that could bring development through subregional economic cooperation. It launched a program of transboundary initiatives for the development of Central Asia. The program included 5 ADB developing member countries: Kazakhstan, the Kyrgyz Republic, Tajikistan, Uzbekistan, and the People's Republic of China (PRC). More recently, Azerbaijan and Mongolia have joined. The program addresses key regional infrastructure development needs, with a focus on regional infrastructure investments projects. Through the program, a strong partnership has been established between ADB and participating countries.

The focus of the program is on projects in the energy, trade, and transport sectors. The program also includes studies, workshops, conferences, and publications—all aimed at the subregion's long-term challenges.

The partnership is now in its fifth year. An Institutional Framework for the partnership was agreed upon in January 2002. It requires that a ministerial forum be held annually to foster high-level dialogue and decision making on priorities and resource mobilization. This led to the Ministerial Conference on Central Asia Economic Cooperation that took place 25–26 March 2002 at ADB headquarters in Manila, Philippines. The Ministerial Conference is a significant step on the road to subregional cooperation that ultimately will lead to stability and prosperity in Central Asia. This pamphlet provides highlights of the historic first gathering and the course set for the ADB-Central Asia subregional program.

THE MINISTERIAL CONFERENCE



Delegates of the 4 Central Asian republics and the PRC participated in the Conference along with observer delegations from Azerbaijan, India, Mongolia, Pakistan, Turkey, and Turkmenistan. They were joined by representatives of funding agencies.

In his welcome remarks, ADB President Tadao Chino noted the high degree of interdependence of Central Asian economies. He emphasized the strong relationship between stability and poverty reduction and he said that economic cooperation is particularly important for Central Asia, which has become even more vital since 11 September.

A main objective of the conference was to prioritize regional investment needs, that would guide the mobilization of financial resources. With this in view, ADB introduced its draft 3-year rolling assistance program. Delegates expressed support for the focus on energy, trade, and transport and for the establishment of committees and working groups at operational level to ensure effective coordination and implementation. They also noted that human resource development is a crucial element for progress in these sectors.

The Institutional Framework, established in January 2002, was seen as the milestone marking the beginning of a new phase in ADB's partnership with its member countries in Central Asia. Delegates considered that it would play a major role in enhancing subregional economic cooperation.

Many delegations mentioned the importance of trust, the need to maintain stability, and the virtues of working together. They came to the forum with shared visions and left with a firm pact to work together to achieve shared goals.

Afghanistan and 11 September were also referred to by many delegations. They noted that recent events in Afghanistan and its overwhelming reconstruction challenges have broadened Central Asia's potential and its economic cooperation possibilities. ADB acknowledged its commitment to rebuilding Afghanistan and mentioned projects under consideration for assistance in 2002.

There was considerable discussion by delegates, following a presentation by the World Bank on the development potential of the Ferghana Valley, which runs through three countries in Central Asia.

At the conclusion of the Conference, a statement was released. It underscored the view that regional economic cooperation is necessary for the reduction of poverty and the spread of stability and prosperity in Central Asia and the need for ADB and all other development partners to cooperate closely to foster economic and social development.

CONFIRMATION OF THE INSTITUTIONAL FRAMEWORK

The staging of the first forum represents the beginning of a mechanism that will enable effective setting of priorities and mobilizing of resources, including those of ADB, to meet the subregion's development needs.

It demonstrates that Central Asian republics are committed to reviving the subregion's deep-rooted traditions of economic interaction, while moving on from the Soviet Union era. They recognize that creating sustainable economic growth in their sparsely populated countries requires new industries, new policies, better transport links, stronger governance, and rational resource management. They are aware of the need for a subregional program that pools the strengths of each country.

The Framework, with support from ADB, is designed to help make this vision reality. It will:

- facilitate high-level dialogue and consensus building about long-term development needs,
- strengthen planning, prioritization, and resource mobilization for regional projects, and
- enhance cooperation with all stakeholders for effective support for economic cooperation.



Opening the first Central Asia ministerial forum

–Tadao Chino
President
Asian Development Bank



We gather today in the context of an increasing globalization. There have been outcries against this trend. But this is the reality we have to live with, whether we like it or not... Those who go along with this trend will prosper, and those who resist it will perish. And there are a number of approaches to dealing with this formidable challenge in today's world. I think that cooperation on a regional basis is one of them.

– Jin Liqun
Vice Minister of
Finance and Head of
Delegation, People's
Republic of China

Institutional support undertaken under the Framework has already begun. A Customs Coordination Committee is being established. A working group for Central Asia power transmission modernization met in April 2002 to formulate investment needs. A working group for a regional transport corridor is meeting in September 2002 to facilitate the preparation of regional transport projects.

PRESENTATION OF ADB PROGRESS REPORT

ADB's partnership with the Central Asian republics focuses on the long-term development challenges confronting the subregion—its landlocked and remote geographical location, small domestic markets, and limited capacity, including financial capacity, to meet its investment needs. The partnership seeks to exploit in a sustainable manner the richness of the region, particularly the complementary resource endowments of water and energy.

ADB projects under the program began in 1997. They are funnelling investment into three priority sectors:

- energy, to promote rational use of energy and water;
- trade, to enhance market integration within the subregion and with world markets; and
- transport, to lessen the subregion's geographic disadvantages through improved transport systems.

The progress of those projects initiated since 2001 was described at the Conference.

Energy. Two projects fostering regional energy transmission systems are already under way.

- **Regional Power Transmission Modernization Project.** This is rehabilitating the transmission system for the Central Asia power grid and improving system efficiency through institutional arrangements. The technical assistance to prepare the project was completed in February 2002, with a final workshop taking place in April 2002. The loan is scheduled for approval in 2002.
- **Regional Gas Transmission System Improvement Project.** Technical assistance was approved in March 2002. It will be used to formulate a strategy for the development of natural gas infrastructure and the promotion of regional gas trade and to prepare a project to improve the quality and reliability of gas supply. Loan approval is programmed for 2003.

Trade. ADB encourages trade, traffic, and transit within, to, and from the subregion. This is important for private sector development. The aim is not to build a regional trade bloc but to promote trade through the exploitation of comparative and competitive advantage and through the removal of trade barriers. ADB's support for growth of trade has focused on customs modernization and cooperation. Following recommendations made at the Senior Officials Meeting in August 2001 and based on the findings of an ADB sector study on subregional customs arrangements, ADB has launched a customs modernization and cooperation initiative. Developed in close consultation with customs officials in the subregion, it entails

- helping customs agencies to implement modernization and reform programs,
- conducting pilot projects at border crossings along trading routes,
- putting together an integrated regional capacity-building program, and
- establishing a mechanism to facilitate cooperation among customs agencies.

At a Customs Cooperation Meeting in January 2002 in Manila, attended by customs officials from Central Asian republics and the PRC, participants recommended establishing a coordinating mechanism and developing a consolidated action plan covering priority areas of cooperation, to be completed by May 2002. A high-level customs officials meeting is planned for June 2002 to endorse the plan. Meanwhile, ADB is processing, for approval in 2002, loans and technical assistance for the Regional Customs Cooperation Program for Kyrgyz Republic and Tajikistan aimed at strengthening the legal and regulatory framework, improving governance, and modernizing customs organizations.

Transport. ADB has focused on regional road and railway projects and accompanying policy reforms. Three activities are under development.

- **Regional Transport Corridor.** The aim is to develop transcontinental rail and subregional road links between Uzbekistan, Kyrgyz Republic, and the PRC. Technical assistance was approved in March 2002 that includes support of working groups for rail and road projects, identification of benefits for each country, consideration of transcontinental potential, advising on financing options and the possibility of an international consortium, and development of effective cross-border arrangements. These activities should be completed by end-2003.
- **Dushanbe–Sary Tash Road Rehabilitation.** ADB is providing technical assistance for a feasibility study, with loan approval in late 2002 or early 2003.



We have always been open to contacts and open to dialogue. These factors determine our domestic and our foreign policies. A further integration of our country into the economic community is inevitable and natural.

– Mazhit Yessenbayev
Minister, Ministry of
Economy and Trade
and Head of
Delegation, Republic
of Kazakhstan



We are faced with the challenges of being remote from markets. We need to develop a rational plan for utilization of our natural resources. One of the ways to resolve these problems is regional development —the development of regional markets. This is what gives priority to regional development, which is aimed at establishing stability and reducing poverty.

– Bolot E. Abildaev,
Minister, Ministry of
Finance and Head of
Delegation, Kyrgyz
Republic

- Regional Transport Sector Strategy. Technical assistance is planned for approval in 2002 for reassessment of the strategy with a view to including Afghanistan and South Asia.

DISCUSSION OF ADB'S DRAFT 3-YEAR PROGRAM

ADB presented a draft of its 2002–2004 economic cooperation program, listing 35 projects.

Aside from projects already mentioned, ADB will support various studies. These include examinations of

- cooperation prospects in the context of the “Developing Western Regions” focus of the PRC and also of the reconstruction of Afghanistan,
- regional banking and financial sector needs, and
- private sector development through regional institution building.

Program details can be found on the ADB website, www.adb.org/caec

AFFIRMATION OF THE NEED FOR DONOR COLLABORATION

The Institutional Framework, while offering solid support for ADB's partnership with participating Central Asian countries, is equally useful for forging strategic partnerships with other funding agencies. The area of trade facilitation is a good starting point for this purpose. The proposed Customs Coordinating Committee could be used to strengthen cooperation among donor organizations.

DISCUSSION OF COOPERATION WITH AFGHANISTAN

Given the historical ties and linkages, subregional economic cooperation has an important role to play in the reconstruction of Afghanistan. It can bring benefit not only to Afghanistan, but also to its neighbors.

ADB is working closely with other international organizations, including the World Bank and the United Nations Development Programme. It recognizes the regional dimension to the long-term stability and prosperity of Afghanistan and the opportunity for subregional cooperation. It is seeking to identify subregional projects that

- improve the lives of Afghan refugees in border regions by supplementing existing education, training, and other facilities in Central Asia;
- expand Afghanistan's access to regional markets through its trading role between Central and South Asia; or
- provide transit outlets for natural resources, such as oil and gas, from Central Asia to South Asia and elsewhere.

ADB is discussing with Tajikistan, Uzbekistan, and Turkmenistan the possibility of ADB assistance for activities that involve cooperation with Afghanistan. ADB will further explore economic cooperation prospects between Central Asia and Afghanistan and other subregions.



In the framework of the world economy changes, globalization and integration of the mutual projects play an important role in strengthening of regional cooperation and further development of the countries involved.

– Zokir Vazirov
Deputy Prime
Minister and Head of
Delegation, Republic
of Tajikistan



September 11 events again confirm that economic development is not enough if this development is not based on a foundation of stability and security. From this point of view, successful economic development and employment in all countries of the region and especially those countries that have no rich natural resources is becoming a common strategic goal.

– Rustam Azimov
Deputy Prime
Minister and Head of
Delegation, Republic
of Uzbekistan

CONSENSUS ON THE WAY FORWARD

STATEMENT of the Ministerial Conference on Central Asia Economic Cooperation 26 March 2002, Manila, Philippines

- The Ministerial Conference on Central Asia Economic Cooperation was convened during 25–26 March at Asian Development Bank headquarters in Manila, Philippines. Delegations from the People’s Republic of China, Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan (hereafter referred to as “the Delegations”) participated in the Conference. Country delegates attending as observers included Azerbaijan, India, Mongolia, Pakistan, and Turkmenistan. The Conference was also attended by multilateral and bilateral development partners.
- The Delegations shared the vision that regional economic cooperation is a strategic means to reducing poverty, and achieving stability and prosperity in Central Asia, particularly in the wake of the 11 September events, and emphasized that for regional economic cooperation to be effective, viable, and sustainable, it must be based on mutual understanding, trust, and consensus and yield mutual benefits.
- It is the view of the Delegations that economic cooperation is particularly important to Central Asia, as the countries in the region have a shared history and face common development challenges, including locational disadvantage, small domestic markets, and the shared use of resources such as energy and water. Economic cooperation complements and supports national development strategies.
- Given these common challenges, the Delegations confirmed transport, energy, and trade facilitation as the priority areas for economic cooperation in Central Asia. The Delegations also considered human resource development to be an important aspect of the three priority areas. The Delegations strongly advocated a practical and results-oriented approach. The key to this approach is to focus on concrete projects that bring tangible benefits. These benefits would help build confidence and foster trust, which would in turn lay the foundation for achieving longer-term strategic objectives.
- The Delegations reviewed ADB’s support for economic cooperation in Central Asia and expressed satisfaction with the progress made to date especially in the area of transport, energy, and trade facilitation. It is the view of the Delegations that ADB should stay focused on addressing the long-term challenges identified above, and continue to play a key role in mobilizing resources for financing investment and other projects. In this connection, the Delegations discussed a 3-year regional assistance program prepared by ADB. By mid-2002 ADB will present a revised program for further consideration by the governments.
- The Delegations stressed the importance of the steps taken for strengthening the partnership between the countries and ADB in support of economic cooperation in Central Asia, particularly

the recent establishment of an overall institutional framework to guide the cooperation program. This represents a new phase of cooperation between the countries and ADB, and will provide an opportunity to enhance coordination with all development partners for effective support to economic cooperation.

- The Delegations noted with satisfaction that the Framework has already been activated, as in the case of a Customs Coordinating Committee that is being established to cooperate among customs authorities in the participating countries. The Delegations urged ADB to expedite the formation of the sector coordinating committees and project-specific working groups as appropriate. National Focal Points will be appointed by each government by mid-2002 to facilitate the overall planning, prioritization, and implementation of the program.
- The Delegations requested ADB to play an active role in mobilizing financial resources, particularly on concessional terms, from multilateral and bilateral sources for financing the region's development needs. They also urged the international community to coordinate closely and effectively in supporting economic cooperation in Central Asia.
- The Delegations recognized that, as peace returns to Afghanistan, stability in Central Asia will be enhanced. This would in turn create opportunities to promote economic development and cooperation. A stable and prosperous Central Asia will contribute significantly to the reconstruction and development of Afghanistan. The Delegations therefore called on all countries, but particularly Afghanistan and the countries in Central Asia and South Asia, to work closely together in seizing this historic opportunity to bring long-term peace and prosperity to their people.
- The Delegations emphasized the importance for ADB and all other development partners to cooperate closely in assisting the economic and social development in Afghanistan. In this connection, the Delegations supported the subregional approach advocated by ADB for the reconstruction and development of Afghanistan. They encouraged ADB and other international partners to continue to explore and support economic cooperation among Central Asia, Afghanistan, and South Asia, in particular by using the human and other resources available in neighboring countries, and requested ADB to report the results to the next Ministerial Conference.
- The Delegations unanimously supported Mongolia and Azerbaijan to become full participants of the partnership and strongly believed that their participation will contribute positively to the cause of economic cooperation.
- The Delegations decided that the venue of the Ministerial Conference will rotate annually among the participating countries. The next Ministerial Conference will be held in Tashkent in 2003. The ADB Secretariat should make recommendations on Conference preparation by end-2002 in consultation with all participating governments.
- The Delegations expressed their appreciation to ADB for its warm hospitality and excellent organization of this Conference.

THE PARTICIPANTS



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CENTRAL ASIAN REPUBLICS AND XINJIANG UYGUR AUTONOMOUS REGION OF THE PRC



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