



CENTRAL ASIA REGIONAL ECONOMIC COOPERATION PROGRAM

CAREC High-Level Session During the Annual General Meeting “CAREC at 20: Reimagining Regional Cooperation Through Digital Transformation” (4 May 2021, 15:30–17:30, GMT+8 Manila time)

SUMMARY OF PROCEEDINGS

I. Introduction

1. A virtual CAREC high-level session was conducted on 4th May during the Annual General Meeting of the Asian Development Bank. The objective of the meeting was to discuss how digital transformation can foster increased co-operation between CAREC countries, accelerate the region’s recovery in the wake of the COVID-19 pandemic and lead to new opportunities for socioeconomic development and job creation. All eleven member countries and three ADB development partners (AIIB, EBRD, and IsDB) participated in the high-level session which was moderated by Mr. Tom Standage, Deputy Editor of The Economist magazine. Mr. Yevgeniy Zhukov, Director General, CWRD, ADB introduced the moderator and panelists.

2. Mr. Mikayil Jabbarov, Minister of Economy, Azerbaijan gave the opening remarks. He mentioned the important role played by the CAREC Program in the region’s development thus far and its relevance for the post-pandemic recovery. He stated that going ahead, digitalization and the related transformation in the economies of the CAREC countries can serve as a tool in boosting regional cooperation. He also highlighted the various measures being undertaken by the Government of Azerbaijan in advancing digitalization and related economic activities and mentioned the on-going collaboration between various agencies in this process. The session closed with a wrap-up by Mr. James Patrick Lynch, Director General, EARD, ADB.

II. Meeting Highlights

3. In his introduction, Mr. Standage discussed the role of digital technology in driving economic growth. He explained that digital technology has convincingly demonstrated its effects for accelerating economic growth in emerging economies. By allowing information to move more freely, making markets more efficient and unleashing entrepreneurship, digital technologies can compensate for inadequate basic infrastructure, which is a common barrier in developing countries. While new technologies have shown potential for improving services across sectors, its largest gains can be clearly observed in the areas of connectivity, fintech and payment systems, e-commerce, and e-governance. Some CAREC countries have performed well in these areas. For instance, Mongolia has a relatively high usage of mobile money (38%, whereas the world average is 10%) and Kazakhstan fares very well in e-governance, ranking above developed countries such as Japan and Sweden in provision of online services. However, there is also a large ground still to be covered for all member countries in various important sectors.

4. **Enhancing digital transformation via regional cooperation in CAREC.** Mr. Standage noted that there are several opportunities across the five operational areas of the CAREC Program where members can work together to increase the benefits from digital transformation.

For instance, the region has underperformed in financial inclusion, and there is an opportunity to align and standardize policy to promote interoperability of mobile payment and banking systems. This will allow for improved cross-border transactions and strengthen financial integration to promote stability, which can be undertaken as part of CAREC's Economic and Financial Stability cluster. Trade and e-commerce are areas where CAREC countries can improve by adopting regulatory policy reform. As a result of the pandemic, tourism is another area which will require adoption of new mechanisms so that travel can be conducted in a safe manner. These areas can be covered under CAREC's Trade, Tourism, and Economic Corridor cluster. Further, under the infrastructure and connectivity cluster, airports can be installed with contactless technology and digital ticketing to upgrade the aviation sector and make passenger travel more efficient. Energy and telecoms sectors can also be enhanced by improving technical standards and harmonized regulatory policies.

5. In the Agriculture and Water cluster, a regional data repository for disease surveillance and monitoring mechanism for animal products could be implemented. Further, weather forecasting, agricultural monitoring and water management could be done using predictive tools and satellite imagery. In the Human Development cluster, digital initiatives can integrate the regional labor market and boost development of skills. Remote learning technologies can be used to further cross-border cooperation between countries. In healthcare, the pandemic can serve as a catalyst for regional cooperation on the monitoring of communicable diseases and development of early-warning systems and surveillance centers. Further, tele-health technology can allow sharing of resources and expertise with greater cooperation among health specialists across the region.

6. Mr. Standage's introduction was followed by a discussion of CAREC country officials and development partners to address where are the greatest opportunities and areas of common focus for CAREC countries to collaborate, and what might be barriers to greater cooperation.

7. **Areas of Common Focus and Opportunities.** Participants welcomed the areas suggested by Mr. Standage and further added to the list. It was noted that the benefits are not just in economic spheres, but they go beyond that. Given the circumstances of coping with the on-going pandemic, the most immediate area for incorporating digital solutions are health initiatives which are of utmost importance for promoting health security in the region. The pandemic also demonstrated the importance of telecommunications infrastructure for CAREC countries, which needs early reforms for improved integration. The promotion of private sector will be important for developing open and competitive telecom markets. Another area discussed was cooperation to create Information Technology (IT) parks which can help in large scale digitalization in the region by promoting innovation and startups. As a complementary aspect, the importance of developing skilled professionals to staff these parks and associated institutions was also noted. Participants suggested other related areas of imminent importance such as developing digital trading platforms for the region to reduce transaction costs, improve transparency and accountability, and reduce delays and other associated risks. Similarly, adoption of digital trade, which will also enhance new sectors such as ecommerce, can be achieved by promoting collaboration in customs systems by promoting digital taxation via solutions such as online licensing and certification, unified checkpoint models, electronic queues at border points, and information sharing mechanisms.

8. The transport sector can introduce automated payment systems for rail and road freight to improve efficiency. An integrated transit and transportation system can also serve as a tangible tool to enhance the cross-border transit potential and lead to freer movement of goods and services. The financial sector can be improved by accelerating financial inclusion and utilizing

mobile payments for transactions. In agriculture and water, the development of electronic land and water accounting systems were also stated as areas of common interest. In the realm of security, counter-terrorism efforts based on digital technologies were also suggested as possible areas of cooperation.

9. **Identifying Barriers.** Participants identified the digital divide in the region, which precludes access to digital technologies for many segments of the CAREC population, as a significant barrier. To resolve this divide and develop opportunities on the above identified common areas, solutions would need to address both structural and institutional issues as the root causes impeding connectivity including not only infrastructural gaps but also lack of cohesive policy frameworks. The suggested solutions included building digital infrastructure, harmonizing regulatory policy (in existing sectors but also on emerging issues such as data privacy), and enhancing digitalization skills. It was also suggested that integrated approaches be employed for developing solutions to overcome these issues. A lack of interoperability of existing systems and insufficient private sector investment were also identified as barriers complicating the digital divide problem. However, these challenges are surmountable and can be overcome by further cooperation.

10. **Leading improvements via the CAREC Program.** Participants identified three ways for CAREC Program to support the member countries on their journey towards digital transformation. Firstly, by strengthening public and private sector dialogue for expanded participation of the private sector in mobilizing technical and financial resources needed for digital transformation; secondly, by enhancing knowledge sharing through improved coordination; and thirdly, by harmonizing standards and policies through a unified vision.

11. **CAREC support for public-private dialogue for digital solutions.** Participants raised four aspects where the CAREC Program can improve public-private dialogue to play a critical role in promoting digital transformation. First, the CAREC Program can build consensus and provide strategic guidance to engage private sector participants by developing the CAREC Digital Strategy in line with the needs of the members. Second, the CAREC Program can align development programs with digital goals and provide necessary support by developing knowledge products and via platforms such as forums and knowledge sharing events. It was also suggested that the Chambers of Commerce could be supported to develop new sectors like ecommerce. Third, the CAREC Program can facilitate the mobilization of capital by increasing engagement with multilateral development banks (MDBs). Collaboration between investors and operators can help develop digital infrastructure, for instance with MDBs providing mid-mile infrastructure and operators taking care of last mile access. MDBs can also support development of appropriate contracts and tendering processes. And lastly, CAREC can support the development of a conducive business environment by removing regulatory barriers which can allow increased private sector participation. This can be via promoting regulatory sandboxes to allow for innovation and ecosystem development which can allow companies in CAREC countries to experiment with new ideas and reach scale at a regional level.

12. **CAREC support for collaboration in knowledge sharing and harmonization of standards.** Participants noted that digital solutions for harmonization of administrative systems can enhance cross-border trade facilitation and develop logistical corridors. While the CAREC Program is already playing a role in this area, given the large potential for the region, it was pointed out that there is further scope for harmonization at the regional level that can be achieved by coordinating data sharing processes. Participants shared successful examples, from other

regions (such as the Scandinavian countries) and from CAREC members (such as PRC, Kazakhstan) who have been successful in digital initiatives, who can be used as learning points for the CAREC region and its member states going forward. The exchange of knowledge and best practices will allow countries to deal with challenges and opportunities regarding policy harmonization on key issues such as data use, privacy, and upcoming areas of artificial intelligence. Mr. Shixin Chen, Vice-President, ADB, pointed out that the CAREC Digital Strategy, which is under development, will be adopting a holistic approach to deal with the above-mentioned issues. The strategy will be guided by the CAREC 2030 Strategy, which highlights ICT as a cross-cutting issue. In this process, the CAREC Program can focus on various aspects on digitalization (digital for regional public goods, digital for no-one left behind, i.e., in education and job creation, and digital for green growth), mobilize finance for digital infrastructure and enhance private sector participation, coordinate member countries' efforts on policy harmonization, and develop sector initiatives such as e-tourism.

13. In his closing remarks, Director General James Lynch summarized the discussions with three key takeaways. First, the CAREC Program can serve as an ideal platform to promote digital cooperation in the region as it offers opportunities for members to share “know-how” and tackle common challenges faced by members by embracing common digital solutions. Second, there is a need to mobilize both private and public finance to support digital transformation in the region and the CAREC Program can serve as a facilitator and enabler in this process. Third, regional cooperation and digitalization can help CAREC support member countries build back better and lay the basis for a sustainable economic recovery.

14. Participants welcomed CAREC's initiative to bring together high-level officials from member countries to exchange views on the digital agenda for the CAREC region. It was reiterated that by working together under the CAREC Program, member countries can harness digitalization to strengthen regional cooperation, to stimulate economic growth and to support more sustainable, inclusive, and resilient development across Central Asia and beyond.