



## Roundtable 1: Infrastructure for supporting enhanced trade (CAREC) 26 June 2023 SESSION SUMMARY

Facilitator: Asian Development Bank

### **Background**

The focus on Central Asia in this roundtable was in consideration of the 8 member countries that are landlocked (Afghanistan,<sup>1</sup> Azerbaijan, Mongolia, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan). Central Asia has immense potential for economic growth as it is strategically located linking Europe, Russia, South and East Asia. In particular, trade in agricultural produce is a major source of export opportunities at the regional and global markets. However, current and existing global and regional challenges have slowed down progress towards achievement of this potential. These are connectivity gaps, the impact of the coronavirus disease (COVID-19) pandemic, geopolitical conflicts, and climate crisis ('4 Cs').

**CONNECTIVITY GAPS:** Physical connectivity or hard infrastructure such as roads, railway, power grids, and digital infrastructure are crucial for fully-functioning supply chains. According to the Asian Development Bank (ADB) (2017) report, *Meeting Asia's Infrastructure Needs*, Central Asia must invest \$33 billion in infrastructure, or 6.8% of the region's gross domestic product annually until 2030 to meet the region's infrastructure requirements.

**COVID-19 PANDEMIC:** The pandemic has stalled massive investments in infrastructure as most of the government and donor resources were reallocated in containment, support program and immediate recovery measures. Governments must increase support to small and medium-sized enterprises (SMEs), health care systems, schools, and vulnerable segments of society to cope with post-pandemic recovery. This results to even limited fiscal space for requisite infrastructure for trade.

**CONFLICT:** For Central Asia, the challenge was magnified by Russian invasion of Ukraine. The World Bank's 2022 *Annual Private Participation in Infrastructure Report* shows that Central Asia posted significantly lower investments with the prolonged invasion and the resulting energy crisis and food security issues intensified.

**CLIMATE CHANGE:** Most CAREC countries are highly vulnerable to the impacts of climate change but lack the funding to adequately manage their natural resources and implement climate adaptation and nature-based solutions. The region contributes to carbon emissions with above-average carbon intensity and has significant untapped renewable energy resources.

Given these challenges and the government's fiscal position there is a need to tap private sector financing to support infrastructure for trade and explore sustainable financing opportunities. For example, ADB is co-financier and administrator of the Asia Pacific Project Preparation Facility (AP3F) which is a multi-donor trust fund aiming to increase infrastructure development and enhance the quality of infrastructure in Asia and the Pacific. Target sectors include energy, transport, urban development, and social infrastructure. AP3F provides

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<sup>1</sup> ADB has placed its regular assistance to Afghanistan on hold effective 15 August 2021.

technical support to ADB's developing member countries to facilitate sustainable, resilient, and inclusive infrastructure development under PPP modalities.

ADB is spearheading establishment of CAREC Climate and Sustainability Project Preparatory Fund (CSPPF), to reduce regional infrastructure financing gaps and strengthen the development capacities of member countries. The CSPPF, dedicated to climate change responsive and sustainable regional projects preparation, aims to provide financial and technical support to member countries on project preparation and readiness, initial design, and application of appropriate financial solutions for project preparation while promoting knowledge exchange and capacity development.

### **Expected outcomes**

- (i) Identify priority needs and areas of cooperation among government and private sector stakeholders to address infrastructure gaps towards green, digital, and inclusive trade in Central Asia;
- (ii) Propose concrete plan of actions to feed into the priorities of the 2024 UN Conference on LLDCs;
- (iii) Promote continued dialogue among private and public sector stakeholders for joint and coordinated implementation of the Vienna Program of Action.<sup>2</sup>

### **Possible questions for CAREC government representatives**

- What are your government's priorities in infrastructure development (both hard and soft infrastructure) at the borders and along trade corridors?
- How will these infrastructure investments be financed? How will you encourage private sector financing?
- Could you share experience in public-private partnership (PPP) for infrastructure financing in your country? What are the challenges encountered and how were they addressed?
- What can the government do to help de-risk green infrastructure projects to ensure financial viability and better access private capital?

### **Possible questions for private sector representatives**

- What are the most critical considerations for the private sector to invest in public infrastructure? Do you see business opportunities in investing in public infrastructure? Under what arrangements and with what incentives?
- Would you consider participating in a PPP modality?
- Will you consider participating in infrastructure financing if bankable green projects can be pre-identified?

### **For roundtable summary and wrap up**

- What concrete plans of actions (from both government and private sector perspectives) can you propose to address infrastructure gaps in the immediate and medium-term (next 1-3 years)?
- How can continued dialogue between public and private sectors be sustained to ensure aligned commitment for proposed action plans above?

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<sup>2</sup> A plan of action that was adopted by the United Nations Conference on Landlocked Developing Countries in 2014.

## **Interventions and Recommendations**

**Mr. Yumeng Chu**, Deputy Director, Department of International Trade and Economic Affairs, Ministry of Commerce, People's Republic of China (PRC) shared how PRC is aggressively improving its trade infrastructure including traditional hardware and digital infrastructure to boost connectivity with landlocked developing countries.

**Mr. Daur Chigambayev**, Chief Expert, International Markets Analytics Department, The QazTrade Center for Trade Policy Development, Ministry of Trade and Integration, Kazakhstan commented that his country despite the lack of access to the sea has quite ample opportunities for organizing trade routes. They are actively participating in the construction of the Western PRC-Western Europe transport corridor and that the highway and railway infrastructure have been prepared for this.

**Mr. Vepaguly Amanov**, Head of Division for Financial Analysis of Consumer Complex, Transport, and Communications, Ministry of Finance and Economy, Turkmenistan shared that Turkmenistan pays special attention to the structural transformation of its economy and the development of transport and transit corridors as these will stimulate growth and integrate economic activities into international transport and transit flows.

**Mr. Almaz Kaiyrbekov**, Director of State Enterprise on Halal Industry, Ministry of Economy and Commerce, Kyrgyz Republic informed that his country supports shift to green economy and recognizes the importance of stronger cooperation with neighbors.

**Ms. Ononchuluun Jargalsaikhan**, Project Manager, New Khovd Industrial Park, Khovd Province, Mongolia shared issues in logistics and customs and raised the merit for building manufacturing park nearer border point.

**Mr. Dolgormaa Namsrai**, Sales Manager, Monlogistics Worldwide said customs procedure takes a long time to process export/import as there are too many agencies involved.

*To address the '4Cs' (connectivity gaps, COVID-19 pandemic, conflict, and climate change), we recommend the '5Ds' (decongest, digitalize, diversify, decarbonize, and dialogues).*

**Decongest.** With the unprecedented outbreak of the COVID-19 pandemic, ports and intermodal transport systems were caught unprepared for the sudden surge in demand and this, along with restrictions on product supply and personnel availability, increased the clearance time. These delays, the congestion and the resulting supply chain crisis, can be addressed by enhanced trade facilitation measures.

With the adoption of the Foreign Trade Strategy of Turkmenistan for 2021-2030, as part of the implementation of the "Program for the development of foreign economic activity of Turkmenistan for 2020-2025", the government has identified new tasks to increase the production and export potential of the country's economy, increase the competitiveness of domestic goods in world markets, and further improve business environment and investment climate.

**Digitalize.** Investment in digital infrastructure has become a key requirement for full transformation to digital economy. With increased attention to digitalization of transport operations, countries should be target for seamless, contactless, and paperless border crossings.

Turkmenistan is actively developing business in the field of digital trade, significantly growing during the global pandemic; however, the volumes of cross-border trade are not yet very large.

From the experience shared by the PRC, setting up cargo trade digital infrastructure enables more accessible data-driven services to businesses and empowers traders in their digital transformation. Trade is increasingly more digital. Cargo trade management has been digitalized—PRC rolled out national single window service platform for trade and is now fully operational nationwide. Digital and online expos have been introduced. Smart overseas warehouses and smart ports have been built and electronic records and documents are now widely used.

CAREC countries are making progress in adopting international standards for trade digitalization. PRC has participated in developing international standards for trade digitalization. It has signed twenty free trade agreements with twenty-seven countries and regions and is implementing agreements such as the Regional Comprehensive Economic Partnership (RCEP) and further advancing its efforts to join the Digital Economy Partnership Agreement (DEPA) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

**Diversify.** There is a need to widen, deepen and integrate economic activities at the borders and planned economic corridors through integrated hard and soft infrastructure including corridor-wide energy and transport linkages, focus on railways and trade logistics services improvement, sound economic incentives to attract private firms and investments, development or expansion to new markets, and strengthen institutions and regulations to support increased economic activities along the key trade corridors.

CAREC countries are working on acceding to and implementing international agreements and aligning with international standards (i.e., WTO accession for Turkmenistan). At the beginning of 2023, Turkmenistan prepared and approved the Work Plan for 2023-2024 to expand cooperation with the WTO Secretariat. Turkmenistan is pursuing a consistent policy for rapprochement with the WTO. It is finalizing its institutional arrangement for WTO negotiations.

Kazakhstan is actively building and using International Centers for Cross-border Cooperation to more extensively promote exports and access inexpensive imports, for e.g., Khorgos with PRC; to open similar centers jointly with Uzbekistan, Kyrgyz Republic and Turkmenistan. The priority of the Kazakh Government is the comprehensive promotion of its exports, as well as access to inexpensive imports. Preference is given to the development of routes in the direction of the Central Asian countries, PRC, Russia, Mongolia, the countries of the Caucasus, the United Arab Emirates, Saudi Arabia, Turkey, the countries of Europe and South Asia. To address infrastructure gaps, neighboring countries should abandon restrictive measures, provide each other with a national regime of access to infrastructure, form an association and jointly develop diversified routes in order to move away from dependence on one route.

**Decarbonize.** To ensure sustainable recovery, the way forward is to ensure new investment projects are contributing to the sustainable development goals and aligned with the Paris Agreement. Investments in low carbon modes of transportation (e.g., railway) and clean energy sources (renewable energy such as solar, wind, etc.) are among the top investments to take towards this end.

The opening of the PRC-Lao PDR Railway and its improving cross-border cargo carrying capacity translated to transportation efficiency and reduced cost. As a result, the scale of

agricultural exports from Southeast Asia has significantly increased. The railway is thus turning a landlocked country into a land-linked hub. Similar cases abound between PRC and CAREC countries, especially after the Belt and Road Initiative was launched.

To help de-risk green infrastructure projects, Kazakhstan supports provision of tax incentives and subsidies to investors of green technologies say in energy and electric transport, etc.

**Dialogues and deepening partnerships.** Increasing private investments in infrastructure requires an investment regime that provides clarity and predictability for investors, and a supportive institutional environment, including regulation reforms to safeguard user affordability and cost recovery for private investors.

PPP has been used successfully in certain projects (e.g., infrastructure projects in Kazakhstan, healthcare in Kyrgyz Republic). Leveraging PPP in the transport sectors will require further market reforms, better regulations, and reliance on credit enhancement instruments, which is currently constrained by a limited borrowing capacity. CAREC have been working to encourage change via investment programs that target to address infrastructure gaps, while facilitating regional cooperation through institutional mechanisms, capacity building and dialogue platforms.

To sustain continued dialogue between the public and private sectors, organize regional meetings to discuss requests and suggestions; conduct analysis of business needs and opportunities.

Infrastructure lays the foundation for economic development and growth. Since the pandemic has dampened fiscal resources allocated for infrastructure, it is crucial to tap other sustainable financing sources to ensure the needed infrastructure investments can proceed to restore competitiveness during post-pandemic recovery.