



**CENTRAL ASIA REGIONAL ECONOMIC COOPERATION
BUSINESS DEVELOPMENT FORUM REPORT
Urumqi, Xinjiang UAR, People's Republic of China
16-17 October 2006**

**“Building Partnerships Toward Stronger Business Sector Involvement In
Regional Development Across Central Asia”**

A VISION FOR CENTRAL ASIA

The vision of the CAREC Business Development Forum for Central Asia is one where the dynamism of business will be harnessed to realize the full potential of the region for economic growth and to ensure that the fruits of this development will be enjoyed by the greatest possible number of people. This can be achieved only with significant efforts and inputs from both the public and the private sectors, with particular emphasis being placed on building sustainable partnerships between the public and private sectors within the region to develop infrastructure, implement policy reforms, and carry out investment projects. In this process, financial and multilateral institutions will play important roles.

THE CAREC BDF CONTEXT

The Central-South Asia Regional Business Roundtable (RBR) was held on November 3-4, 2005 in Bishkek, Kyrgyz Republic immediately prior to the 4th CAREC Ministerial Conference (MC). The Ministers who attended the 4th CAREC MC endorsed the basic principle of “involving the business communities more closely in regional cooperation in Central Asia”.

A major conclusion of the RBR was recognition of the need to “enhance the representation of the private sector in regional cooperation meetings and reflect the consolidated perspectives and interests from among the region’s domestic and foreign businesses into various regional cooperation programs”. The RBR also called for the more detailed consideration of opportunities and recommendations for sectors of key importance to the business community, namely, energy, mining, finance, agribusiness, and tourism and related services.

Subsequently, the People's Republic of China called for the holding of the CAREC Business Development Forum (BDF) with the following aims:

- To deepen awareness of the region and draw attention to the wide range of investment opportunities available;
- To establish an effective public-private sector partnership mechanism for regional cooperation;
- To improve the business environment through the adoption of relevant policy reforms; and
- To develop the business sector’s capacities in undertaking regional business by giving it a voice in the region.

With these aims in mind, the CAREC BDF participants, representing a unique mix of business, public sector, and multilateral institutions, gathered from 16-17 October 2006 in Urumqi, Xinjiang Uygur Autonomous Region, People’s Republic of China. The Forum stimulated open and constructive dialogues to address the challenge of translating the history and strengths of the dynamic and vibrant Silk Road of ancient times into meaningful business opportunities for present day Central Asia. The Forum examined priority investment opportunities and the challenges to a greater private sector involvement in these endeavors.

The wealth of insights generated from the discussions and in the practical identification of possible joint initiatives in the key sectors affirm the great potential offered by Central Asia to the peoples of the region and to those who are willing to support and invest in regional cooperation.

This Report is submitted to the CAREC Ministers on behalf of all the participants in the CAREC BDF – public and private sector - with the hope that the Forum observations, recommendations and aspirations for the Central Asian region will serve as practical inputs in the implementation of the policy reforms and measures needed to generate more investments in the region and to spur sustainable development and growth.

GENERAL RECOMMENDATIONS

The Forum highlighted the following key recommendations, and urged that the CAREC MC consider these for immediate action:

- CAREC must make itself relevant to business. Business inputs are critical for successful regional cooperation. Regional cooperation processes and programs need to harness the business sector as the engine of growth in the region.
- All stakeholders must maintain the pressure for policy and related reforms in all the key areas of general concern for business – infrastructure provision, cross-border issues, governance and anti-corruption, financial sector reforms, and human resources development - recognizing explicitly that “money comes from reforms”.
- All CAREC members are urged to support the improvement of business environments through the creation of public-private consultation mechanisms at the national level to focus the attention of all stakeholders on implementing critical reforms to enhance the business environments.
- CAREC should proceed immediately to form a mechanism to ensure that business concerns and perspectives are reflected more effectively in the planning and implementation of regional cooperation policies and efforts. As such, the Ministers are urged to take immediate action on specific activities included in the Bishkek Action Plan, including the designation of a business sector focal point in each country, the involvement of business more explicitly in the CAREC working groups and related activities, and the allocation of additional resources to support the activities.
- CAREC countries need to undertake urgent initiatives, both national and regional, to finance the region’s massive infrastructure requirements, estimated by ADB at US\$ 2-3 billion per year, in close cooperation with the business sector, multilateral institutions, and financial sector institutions in the region. These capital-intensive public-private sector partnerships can be implemented following a number of models that were discussed at the Forum and can benefit from analysis of best practices from around the world. Multilateral institutions (MIs) can and should play a particularly important catalytic and supportive role in this process, even when the financing is available from other sources.
- The harmonization of sector-specific policies is essential to attracting investments in the region and creating a more secure operating environment that is conducive to business in the long-term. These policies range from business visas to power sale regulations between countries. CAREC, as a regional institution, can play an important role in this process, but should involve business more explicitly and extensively in the reform programs.
- Most sector discussion groups stressed the importance of efforts and programs in pursuit of economic growth to give special concern for social and environmental issues. Business recognizes that these are key considerations that must be included and addressed to some extent in all programs to enhance the involvement of the business sector in CAREC regional economic cooperation activities.

- Information is critical for business operations, so CAREC is urged to develop special measures to enhance information availability to business on regional cooperation activities and related activities and also to strengthen information ties and linkages among businesses across CAREC. Collaboration among chambers of commerce and business associations could play an important role in this activity. As a part of this activity, the CAREC Program should extend support to raise awareness on the Central Asian business opportunity among investors from outside the region.

RECOMMENDATIONS: FIVE KEY SECTORS

Energy

The wealth of opportunities for business provided by the region in the energy sector are well recognized. With their abundant reserves of oil, natural gas, and coal, as well as hydropower which is a potential major source of renewable energy, CAREC member countries have significant potential to join the league of the world's leading suppliers of energy. The ongoing privatization processes in the region also provide extensive opportunities for equity stakes, joint ventures, and majority-owned foreign enterprises. To maximize these opportunities,

- The CAREC countries should aim for a few selected, fast-tracked, quality private sector investments to demonstrate to the international community that Central Asia is committed to attracting private sector involvement in the energy sector.
- Customized legal and policy framework can be created for the specific projects, in consultation with the private sector.
- MIs need to play an important role as neutral third party "honest broker".

Mining

The region's wealth of mineral resources provides numerous opportunities in tendering or negotiating for extensive proven deposits in the region. Ongoing privatization programs of the Central Asian countries' mining sectors provide additional opportunities for business. These opportunities and the growing awareness on environmental protection present many opportunities for equipment and technology suppliers. To maximize the potential of this sector,

- The legal and regulatory frameworks for mining need to be reformed and brought closer to international standards. Harmonization of legislations would benefit the sector in the light of divergent policies and regulations in the region. These efforts need to be undertaken in consultation with business.
- The legal environment should be conducive to business and it should be reformed in ways that it will lessen opportunities for corruption.

Agribusiness

Parts of Central Asia boast highly fertile grounds that are suitable for agricultural production. Agriculture accounts for 6.5% to 35% of the Central Asian economies' gross domestic products (GDPs). There are a number of opportunities in this sector which may benefit from a more active partnership between business and governments. These opportunities are best harnessed when the following issues are addressed:

- Improvements in physical infrastructure—roads, railways, storage facilities, etc. (with the support of governments and donors) will enable agribusiness enterprises to reach potential markets at prices that are competitive in export markets. Encouraging competition among transport providers (including state-owned enterprises) can help to bring down freight costs.
- Governments and donors are encouraged to promote microfinance and credit to small and medium enterprises. Reform of land policies can help to improve access to credit by enabling the private sector to provide suitable collateral.

- CAREC countries could consider adoption of common agricultural product standards (to meet international quality requirements) and the possible creation of a specialized regional institution to implement/disseminate such standards across the region.

Finance

One of the most critical sectors that requires urgent reforms in Central Asian economies is the financial sector. This sector presents numerous challenges and issues – from being underdeveloped and rudimentary; fragile banking systems that are prone to systemic risk; non-existent or insignificant securities markets which have little prospect for growth; to inadequate internal capacities that undermine investor confidence. Given the magnitude of these challenges, the following initial steps are recommended:

- Improvement of capital flows is a priority to support trade facilitation, remittances, and overall financial transparency.
- Central Banks in the region need to continuously hold dialogue toward the establishment of a unified clearing and payments system.
- The CAREC countries' governments must undertake the efforts necessary to open up their financial sectors to investors from neighboring countries. This is critical for effective regional cooperation.
- There is still scope for multilateral financial institutions to provide financial support in the form of equity investments and debt financing to financial institutions. These interventions should be actively supported by the MFIs member countries including the CAREC countries through their representation in the MFIs.

Tourism and related services

Tourism facilitates the exchange of ideas and fosters mutual understanding, appreciation, and respect for other people's way of life. Its contribution to the promotion of peaceful co-existence among peoples is recognized. There are, however, a number of challenges that face this sector in the region such as limited awareness about Central Asian countries, limited physical infrastructure to support tourism, low standards for tourism, and absence of harmonized visa policies. We proposed the following measures to address these challenges:

- There is a need to establish competent, professional travel bureaus in the Central Asian countries to improve information flows and awareness about the countries in the region. They should involve the participation of the private enterprises, including hotel operators, airlines, tour operators and others. These bureaus need to be funded by national and local governments.
- Each CAREC member country should become a member of the International Congress and Conferences Association to gain better access to the opportunities for hosting such events.
- Visas in the region should be eliminated or at least consolidated to a single, regional visa that would significantly reduce costs to travelers and promote multi-country tourism in Central Asia.
- Governments need to channel more financing and efforts (such as public-private partnership arrangements) that will directly support the development of infrastructure for tourism.

BUSINESS DEVELOPMENT FOR ALL

In sum, the CAREC business community commits to work to support the primary aim of CAREC, namely to raise living standards and reduce poverty in Central Asian countries through more efficient and effective regional economic cooperation. Business will support greater regional cooperation on projects that are of common interest throughout the region, particularly on mining, energy, infrastructure, agriculture and tourism. Governments and multilateral agencies, on the other hand, must make more serious efforts to involve the business sector as key partners in the regional cooperation process in Central Asia. The net result will be sustainable development through cooperation.