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# **Toward CAREC Economic Corridors**

Nik Zainal Abidin

Director, Regional Office in Almaty

Islamic Development Bank

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# Regional Development

- Regional and Global Developments
  - strategic position of Central Asia at the crossroads of Europe and East and South Asia
  - strong economic performance of the PRC and India, improved performance of the Russia, and the gradual economic reintegration of Afghanistan
  - strong growth of the global economy, together with concerns about energy security
- Role of Economic Cooperation in Central Asia
  - Partnerships will facilitate a basis for increasing market integration, both inside the region and with world markets
  - Afghanistan provides opportunity to enhance regional cooperation and re-establish historical economic ties between Central and South Asia
  - Promote intermodal transport which is cost-effective alternative to construction of new transport routes, which are more expensive and need increased distance to travel

# Background for Regional Transport Corridors Development

- Link the landlocked CA countries with neighboring countries and sea ports to provide better access of countries to outside markets
- Develop integrated multimodal transport infrastructure network to strengthen regional links
- Reduce transport costs, improve transport services, and facilitate cross-border and transit traffic in the region





# Background for Regional Transport Corridors Development

- Review and harmonize existing Bilateral and Multilateral agreements coordinating regional transport development
- Establish a project database to agree regional investment priorities
- Improve sector funding and management to ensure regional transport network proper development and maintenance
- Expand CAREC initiatives also into Turkmenistan which provides transit access to Persian Gulf, Europe and Afghanistan



# Economic Corridors: Overview

- Geographic area where viable commercial activities are concentrated
- Mechanism to accelerate CAREC economic cooperation and development
- Expands boundaries of sector-based activities
- Anchored in commercial and economic rationale
- Aimed at linking CAREC enterprises to “global value chains” and world markets
- Requires effective public-private partnership





# Context: Building on CAREC Program

- Regional cooperation through CAREC:
  - Primarily “sector/project-driven” to date
- CAREC Program foundations for economic corridors
  - Transport: cross-border transport corridors
  - Trade policy: toward more open trade regimes
  - Trade facilitation: customs-related activities
  - Strengthening role of private sector
    - Regional Business Roundtable and beyond



# Context: Changing Global Economy

## Global Value Chains and Networks (1)

- 2 processes transforming global economy
  - Integration of product markets and geographic relocation of economic activities
    - 'internationalization of production'
      - Leading to emergence of '**global value chains**' (**GVC**)
  - Focus of firms on 'core competencies'
    - 'breaking up' of firms' activities and moving them outside firm, to geographically dispersed locations
      - **Leading to 'international production networks' (IPN)**
- Involves wide range of product groups, e.g. garments, agro-industry, furniture, electronics, IT



# Context: Changing Global Economy: Global Value Chains and Networks (2)

- Increasing fragmentation & specialization in production, e.g. trade in 'components'
- New opportunities for firms—including SMEs—to access global markets
  - Supply even small components to world markets
  - If part of sourcing structure of GVCs/Networks
- Requires simultaneously:
  - Ease of export/import parts/products
  - Effective trade facilitation systems
  - Competitive support services, e.g. logistics system
- *CAREC implication: more 'integrated approach'*
  - Economic corridors as a potentially effective mechanism



# Economic Corridors: Basic Concept

- Geographic area where commercial activities are concentrated
- Anchored in commercial and economic rationale
- Aimed at promoting enterprises (businesses) NOT products, sectors
  - Starting point: *effective market demand*
  - Goal: expand *volume and product diversity to markets*
- Cross-border spatial framework for linking infrastructure-related activities, and production, trade--within a specified geographic area
  - *Mutually reinforcing investment opportunities (infrastructure-production)*
- Possible examples
  - *East-West Economic Corridor (CAREC): Tashkent to Kashgar*
  - *North-South Economic Corridor (CSATTF): Connecting Central Asian Republics through Afghanistan to ports in Pakistan*





# Two Main Transport Corridors - North-South & East-West



# Economic Corridors: Building Blocks

- Market-driven economic/commercial rationale
  - linked to specific value chains, e.g. agro-industry
- Logistics systems for production and marketing
  - Integrating 'hardware' and 'software'
- Streamlined policies and procedures
  - domestic and cross-border
- Production and trans-shipment centres
  - increased efficiency through 'clustering'
- Effective 'corridor marketing strategy'
  - international buyers, private investors
- Involvement of countries / MIs of the region in CAREC to expand interregional cooperation
  - Turkmenistan, Iran / TRACECA, UN ESCAP, etc.





# Economic corridors strategy: Overview of next steps

- I. Clear and visible commitment of CAREC countries at highest level
- II. Identification of potentially viable CAREC economic corridors
- III. Pre-investment study of selected priority economic corridor

# Step 1: CAREC Government Commitment and MI Support

- CAREC Ministers' endorsement to:
  - Develop in more detail economic corridor concept and examine experience elsewhere
  - Assess feasibility and 'critical success factors' in the specific context of the CAREC Program
  - Develop feasible work program, including framework for assessing corridor options and framework for 'pre-investment study'
- MIs commit support to corridor concept
  - NOTE: ADB interest in core support





# Step 2: Identification of CAREC Economic Corridor Options

- Initial identification of potential corridor options
  - Building on existing/planned CAREC initiatives, e.g. infrastructure, trade policy/facilitation activities
- Consult with CAREC governments on options
  - Re: feasible commitments (domestic, cross-border) required for development of potential corridors
- Consult with private sector on interest in options
  - Potential buyers of corridor products
  - Potential investors in corridor activities
- Consult with MIs on possible supporting role
- Select economic corridor options with:
  - Strong commercial interest
  - Credible CAREC Government support

# Step 3: Pre-Investment Study

- Set initial spatial boundary of economic corridor
- Assess what is there (e.g. existing economic activities)
- Market linkage assessment (e.g. buying, outsourcing)
- Mapping corridor economic/commercial potential
- Identify constraints on meeting market demand
  - Public investment requirements
  - ‘constraints as business opportunities’
- Prepare ‘joint corridor development strategy’
- Recommend institutional framework to ‘manage’ corridor development within CAREC Program, including for:
  - Managing preparatory work (studies), stakeholder relationships
  - implementing effective ‘corridor marketing strategy’



# Cooperation in Developing CAREC Economic Corridors

- Role of CAREC Governments
  - Prepare 'behind the border' framework
  - Commit to credible cross-border agreements
- Role of private sector (domestic, foreign)
  - Source of information on commercial viability
  - Market for corridor products
  - Investment in corridor activities
- MIs
  - Support process of multi-country agreements
  - Support for corridor development activities
  - Underwrite risk (government, private sector)
    - *ADB: interest in core support for CAREC corridor initiative*

