



CAREC Institute Work Plan (2009–2011)

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**Endorsed by the Seventh Ministerial Conference on Central Asia
Regional Economic Cooperation
19–21 November 2008
Baku, Azerbaijan**

CAREC Institute Work Plan (2009-2011)

1. The Central Asia Regional Economic Cooperation (CAREC) Program has identified the generation of knowledge, delivery of training, and expansion of understanding of issues relevant to strengthening regional economic cooperation as an important objective. The *Comprehensive Action Plan (CAP)*¹ and *CAREC Institute Prospectus*² outline the Program's intention to harness the region's research strengths and combine them with a training program for government officials to increase capacities for examining, designing, and implementing mutually beneficial regional initiatives.
2. The CAREC Institute has two main purposes:
 - (i) Improve the capacity of CAREC government officials to plan and implement regional cooperation projects; and
 - (ii) Apply new solutions and best practices based on empirical research to regional challenges and cooperative processes, and build up policy analysis capabilities in the region.
3. These will be accomplished through the CAREC Institute's main outputs, including:
 - (i) A professional development and training program to improve knowledge and skills of government officials in areas related to regional cooperation;
 - (ii) An applied research program, to generate new knowledge, innovation, and recommendations that will support more effective regional cooperation; and
 - (iii) An outreach program, to extend the impact of the Institute's training and research more broadly.
4. The Institute anticipates the knowledge developed through research and the skills improved or generated through training will support more rapid identification and development of priority regional projects, a greater number of regional proposals and activities initiated by the CAREC countries, and more effective development policies.
5. This work plan, the Institute's first, covers the period 2009-2011. The work plan has six parts: (i) guiding principles; (ii) focus areas; (iii) professional development and training program; (iv) research program; (v) outreach and dialogue program; and (vi) resources. (*A matrix of activities in areas (iii), (iv), and (v) is presented in Appendix 1.*)

I. GUIDING PRINCIPLES

6. CAREC Institute activities and outputs will be guided by five principles:
 - (i) *Focused*: The Institute will confine its efforts to issues related to deepening regional economic cooperation among CAREC Program participating countries, and between the CAREC region and external markets.

¹ Endorsed at the 5th Ministerial Conference on CAREC, October 2006.

<http://www.adb.org/Documents/Books/CAREC-Comprehensive-Action-Plan/default.asp>

² Endorsed at the 6th Ministerial Conference on CAREC, November 2007.

<http://www.adb.org/Documents/Events/2007/6th-Ministerial-Conference-CAREC/CAREC-Institute-Prospectus.pdf>

- (ii) *Flexible:* The Institute will encourage and support results-oriented training, research, and dialogue that increase the exchange of information relevant to the work of the CAREC Program based on a variety of views, perspectives, and methodological approaches.
- (iii) *Practical:* The Institute's training and research outputs will respond to questions raised by the Program's committees, Senior Officials, and Ministers, and provide inputs to enable evidence-based decision making on issues affecting the CAREC Program and regional cooperation more broadly.
- (iv) *Integrated:* The work of the Institute will be closely linked with and complementary to the work of the broader CAREC Program. Similarly, the training, research, and dialogue activities of the Institute will be integrated, with each area of activity feeding ideas and expertise to the others.
- (v) *Collaborative:* The Institute will prioritize the involvement of expertise from the CAREC region and support collaboration among institutes, think tanks, universities, researchers, and others in the CAREC participating countries, and among these entities and leading international institutions in relevant areas.

II. FOCUS AREAS

7. In line with its guiding principles, the Institute will align its training, research, and outreach efforts with the priority areas of the CAREC Program, namely transport, energy, and trade. The Institute will also examine issues related to potential new areas of operation and improving the Program's institutional arrangements and efficiency.

8. Given the dynamic nature of the Program, the Institute will remain sufficiently flexible in its programming to ensure it can respond effectively to relevant requests from Ministerial Conferences, Senior Officials' Meetings, and sector committees.

III. PROFESSIONAL DEVELOPMENT AND TRAINING PROGRAM

9. The Institute's professional development and training program will seek to improve the knowledge and skills of government officials from participating countries in areas related to regional cooperation. Based on the findings of the CAREC training needs assessment,³ the Institute will pursue activities in this area through two streams:

- (i) it will design a Leadership Development Initiative to meet the identified needs of senior officials for courses in executive leadership practice; public sector management and finance; strategic planning; and negotiation and communication; and

³ In mid-2007, the CAREC Secretariat conducted an assessment of participating countries' training needs in relation to regional cooperation. A survey of government officials involved in the CAREC Program and a series of in-country workshops were held to identify priority areas for training and professional development. The assessment established a positive demand for quality training activities among both senior and mid-level officials.

- (ii) it will support the active training programs of the CAREC sector committees for transport, energy, trade facilitation, and trade policy, as well as a series of issue-focused knowledge sharing events to help meet the identified needs of mid-level officials for specialized skills and technical knowledge.

10. The Leadership Development Initiative will be a major output of the CAREC Institute. The Initiative will comprise a CAREC Executive Leadership Development Program and a CAREC Public Sector Management – Short Courses Program.

11. The **Executive Leadership Development Program** (ELDP) will be a unique CAREC Institute training project developed and delivered in collaboration with a leading international university or business school. The ELDP will provide senior and upper-middle level government officials with direct assistance in professional development to improve their leadership and management proficiency—a critical capacity development issue for CAREC public sector leaders.

12. The ELDP will be an annual, customized, one-week residential course for approximately 32 participants (four per CAREC country). It will cover five curricula areas: (i) leadership – styles, approaches, practice and communication; (ii) negotiation, persuasion and influence; (iii) strategic thinking and planning; (iv) public sector management; and (v) public sector finance. Development of the program will begin in late 2008 with delivery of the first session targeted for the second half of 2009. (*Further information on the approach and goals of the ELDP is in Appendix 2.*)

13. The **Public Sector Management – Short Courses Program** will provide upper and mid-level government officials with training in public sector management (principles and practice) and public sector finance. The content will build on the relevant modules of the ELDP and be extended with workshop exercises. The customized, two-day training program will be delivered by the selected ELDP partner for up to 40 participants in each of the eight CAREC countries in the 2009-2011 period. Development of the program will begin in late 2008 with delivery of the first session targeted for the second half of 2009.

14. In 2010, the Institute will examine the feasibility of initiating a **Leadership Development Fellowship Program**. The program is intended to provide exceptional individuals with leadership potential from the participating countries with an opportunity to participate in open-enrollment international public administration and management programs. Factors influencing the Institute's ability to pursue this program would include the availability of financial resources and reaction to the ELDP and Short Courses Program.

15. The CAREC sector committees implement active training and knowledge-sharing programs intended to deepen the technical skills and knowledge of committee members. Topics addressed by such activities in 2008 include private sector infrastructure investment, multilateral trade liberalization, tariff-setting principles (energy), trade logistics, and approaches to single-window services (trade facilitation).⁴ The Institute will work closely with each committee to identify a forward schedule of appropriate training and knowledge events that meet the needs of committee members and support broader dissemination of technical knowledge and information in the CAREC priority sectors. Similarly, as the CAREC Program enters second-tier areas,⁵ the

⁴ See Appendix 3 for a summary of CAREC Program training and knowledge-sharing activities in 2008.

⁵ As outlined in the Comprehensive Action Plan, second tier activities will be limited to highly focused projects. They will not take a sector-wide approach.

Institute will work with the relevant lead partners to identify and develop appropriate training and knowledge-sharing activities.

IV. RESEARCH PROGRAM

16. The Institute's research program will generate new knowledge, innovation, and recommendations to support more effective regional cooperation. The program will seek to provide sound intellectual support to CAREC's work in the priority areas of transport, energy, and trade; and raise the research capacity of research institutes in CAREC countries. The Institute will pursue activities in this area through four streams:

- (i) creation of a shared knowledge and information base for each of the CAREC priority areas;
- (ii) flagship research programs to examine broad and fundamental questions affecting regional cooperation and its contribution to economic development in the CAREC countries;
- (iii) a small research grants program to encourage research by researchers and institutes in the CAREC countries that will advance regional cooperation; and
- (iv) issue-specific papers or studies responding to requests for information or analysis from Senior Officials' Meetings, Ministerial Conferences, or sector committees. Such papers may also be prepared to address issues related to institutional arrangements for the CAREC Program, impact evaluation, or second-tier activities.

17. The **creation of a shared knowledge and information base** will support improved coordination among countries and partners in the CAREC priority areas. The Institute will undertake "foundation studies" in the priority areas. Each study will seek to present a full picture of what has been achieved in a sector; what activities are ongoing and what is planned; and where are the gaps or overlaps CAREC should seek to address. Studies will be broadly disseminated and updated at appropriate intervals. Foundation studies for transport and trade facilitation are planned to start in late 2008.

18. The Institute's **flagship research program** for 2009-2011 will link the CAREC Program's main objectives and priority areas to three research areas. These are: (i) accelerating structural change and economic diversification through regional integration and trade; (ii) moving beyond dependence on natural resources; and (iii) overcoming problems of landlocked economies. The program will explore a series of questions in each of these areas. In addition, the Institute will seek to undertake impact evaluation of selected regional cooperation initiatives to determine benefits and costs to households. The program will be implemented with world-renowned academic institutions in collaboration with highly regarded research centers in the CAREC countries. Program development is underway and full implementation will begin in 2009. *(A note on the coverage, approach, and goals of the research program is in Appendix 4.)*

19. The Institute will implement a **small research grants program** to encourage research by local researchers and institutes that will advance regional cooperation among CAREC countries. Beginning in 2009, the program will finance one research project each year in each participating CAREC country. The research grant will be for a maximum of \$25,000. Each research project would be aligned with or support the research focus of the flagship research

program and have a maximum period of 12 months. (*Further detail on the approach to the small research grants program is provided in Appendix 5.*)

20. The Institute will commission and coordinate the preparation of **issue-specific papers or studies** in response to requests for information or analysis from Senior Officials' Meetings, Ministerial Conferences, or sector committees.⁶ Such papers may also be prepared to address issues related to institutional arrangements for the CAREC program, impact evaluation, or second-tier activities.

V. OUTREACH AND DIALOGUE PROGRAM

21. The Institute's outreach and dialogue program will extend the impact of the training and research programs more broadly, and inform a wider audience of the goals, work, and achievements of the CAREC Program. The Institute will pursue activities in this area through three streams:

- (i) proactive information dissemination through development of a web-based knowledge dissemination platform focused on regional cooperation in the CAREC priority areas, and publishing of relevant studies, reports, papers, etc.;
- (ii) preparation and delivery of a series of seminars, conferences, and other events to enable sharing of knowledge among various stakeholders in CAREC countries and with interested parties beyond the CAREC region; and
- (iii) co-sponsorship of or participation in relevant external events to inform a wider audience of the goals, work, and achievements of the CAREC Program.

22. The Institute will establish a web-based **knowledge dissemination platform** to provide easy access to a wide range of documents related to the CAREC priority areas and activities. Over time, the Institute will seek to develop this platform into a recognized knowledge hub on regional cooperation issues for the CAREC region. The Institute will collect and present reports, papers, articles, assessments, strategies, project information, and other documents from the CAREC multilateral partners, other multilateral and bilateral partners active in the CAREC region, academia, and other sources. Development of the platform is underway. Establishment and proactive maintenance of the platform will be a major output of the Institute. The success of this initiative will depend in large part on active contributions from all parties interested in regional cooperation in the CAREC region.

23. The Institute will seek to develop an active program of **seminars, conferences, and other events** at the national and regional level to raise awareness and stimulate discussion and debate on regional issues related to the CAREC Program, and to share international perspectives and best practice with the CAREC community. The Institute will seek inputs from countries and sector committees on appropriate topics and approaches to event development, as well as opportunities for cooperation and co-hosting of activities. The number and scale of events the Institute will be able to support will depend on the availability of financial resources.

⁶ Sector committees undertake a variety of research studies. Information on ongoing studies is presented in Appendix 6.

24. In addition to in-region activities, the Institute will identify a small number of high-profile **external events** each year that it will seek to co-sponsor or participate in to expand awareness of the goals, work, and achievements of the CAREC Program among appropriate audiences.

VI. RESOURCES

25. The Asian Development Bank will provide seed financing for the Institute's activities in 2009-2011.⁷ In the initial period, the CAREC Institute will be a "virtual" institute. Its day-to-day operations will be managed by the CAREC Secretariat based on guidance from, and with regular reporting to, the CAREC Senior Officials' Meetings.

26. The sustainability and long-term success of the Institute will depend, in large part, on the degree of interest and commitment to its activities by participating countries. In the initial period, the Institute will benefit greatly from proactive information sharing by all parties and in-kind support (venues, logistics, etc.) for Institute activities from participating countries and regional research centers.

27. An important mid-term goal of the Institute will be to raise funds to support future operations.

⁷ A regional technical assistance grant to support Institute activities is due for consideration by ADB's Board of Directors in September 2008.

Appendix 1: CAREC Institute Work Plan 2009-2011

Training Program			
Activity	Goal	Approach and Timing	Coverage
Executive Leadership Development Program (ELDP)	Provide senior and upper-middle level government officials with direct assistance in professional development to improve their leadership and management proficiency.	One-week residential course. Approx. 32 participants per course. Annual delivery (2009-2011).	(i) leadership – styles, approaches, practice and communication; (ii) negotiation, persuasion and influence; (iii) strategic thinking and planning; (iv) public sector management; and (v) public sector finance.
Public Sector Management – Short Courses Program	Provide upper and mid-level government officials with training in public sector management (principles and practice) and public sector finance.	Two-day course delivered in CAREC countries. Approx. 40 participants per course. Delivered once in each CAREC country in 2009-2011.	(i) public sector management; (ii) public sector finance. Material will constitute relevant modules from ELDP extended to include workshop exercises.
Leadership Development Fellowship Program	Provide exceptional individuals with leadership potential an opportunity to participate in open-enrollment international public administration and management programs.	Program funding options and development will be studied in 2009.	To be determined.
Sector committee training and knowledge-sharing activities	Assist in addressing training and knowledge-sharing needs of sector committees.	The Institute will seek to develop a multi-year agenda comprising two to three activities per committee.	To be determined with sector committees. Among others, potential areas would include: (i) customs harmonization/ modernization; data exchange, integrated border management, etc. (ii) corridor monitoring methodologies (iii) trade logistics (iv) WTO-accession related issues (v) energy trade and security, energy efficiency
Support for second tier areas	Assist in addressing training and knowledge-sharing needs in selected second tier areas.	As second-tier areas enter the Program the Institute will seek to develop an appropriate schedule of activities in coordination with the respective lead funding institutions.	To be determined.

Research Program			
Activity	Goal	Approach and Timing	Coverage
Creation of a shared knowledge and information base	Present a full picture of what has been achieved in a sector; ongoing and planned investments/activities; overlaps or gaps CAREC should seek to address.	The Institute will undertake "foundation studies" in the priority areas and update these studies at appropriate intervals. Studies on transport and trade facilitation will begin in 2008.	(i) transport; (ii) trade facilitation; and (iii) energy.
Flagship research program	Provide intellectual support to CAREC's work in the priority areas of transport, energy, and trade.	The program will be developed and implemented in collaboration with leading international academic institutions and highly regarded research centers in the CAREC countries. Program development started in 2008. The program will be implemented in 2009-2011.	(i) structural change, intra-regional trade and economic diversification; (ii) problems of landlocked economies; and (iii) dependence on natural resources.
Small research grants program	Encourage and fund research by local researchers and institutes that will advance regional cooperation among CAREC countries.	Beginning in 2009, the program will finance one research project each year in each participating CAREC country. The research grant would be for an amount up to a maximum of \$25,000.	Research topics would be aligned with or support the research focus of the flagship research program.
Issue-specific papers or studies	Provide timely response to requests for information or analysis from Senior Officials' Meetings, Ministerial Conferences, or sector committees.	The Institute will respond to requests within available budget.	To be determined. Among others, potential issues could include: (i) sector specific issues; (ii) issues related to institutional arrangements and progress (i.e. mainstreaming regional cooperation; potential second tier activities); and (iii) impact evaluation.

Outreach and Dialogue Program			
Activity	Goal	Approach and Timing	Coverage
Development and maintenance of knowledge dissemination platform	Provide easy access to a wide range of documents related to the CAREC priority areas and activities. Over time, the Institute will seek to develop this platform into a recognized knowledge hub on regional cooperation issues for the CAREC region.	The Institute will collect and present reports, papers, articles, assessments, strategies, project information, and other documents from the CAREC multilateral partners, other multilateral and bilateral partners active in the CAREC region, academia, and other sources. Development of the platform is underway.	Regional cooperation in CAREC countries, with a focus on: (i) transport; (ii) trade facilitation; (iii) energy; and (iv) trade policy.
CAREC seminars, conferences, and other events	Raise awareness and stimulate discussion and debate on regional issues related to the CAREC Program, and share international perspectives and best practice with the CAREC community.	The Institute will seek inputs from countries and sector committees on appropriate topics and approaches to event development, as well as opportunities for cooperation and co-hosting of activities. Consultations on a 2009 schedule of events will be undertaken in fourth quarter 2008.	Issues related to regional cooperation in CAREC countries, from broad areas to sector-specific topics are possible. In the initial phase, the Institute will seek to focus available resources on the CAREC priority areas and issues aligned with the flagship research program.
External events	Expand awareness of the goals, work, and achievements of the CAREC Program among appropriate audiences outside the CAREC region.	The Institute will identify a small number of high-profile external events each year that it will seek to co-sponsor or participate in.	Regional cooperation issues, with a focus on the CAREC priority areas.

Appendix 2: CAREC Executive Leadership Development Program

1. The CAREC Executive Leadership Development Program (ELDP) will be a major output of the CAREC Institute. The ELDP will provide direct assistance in professional development training to senior and upper-middle level government officials in participating CAREC countries. The program will seek to develop genuinely regional leadership. The ELDP will be designed to meet identified needs for training in areas such as public sector management and finance, negotiation and communication, and executive leadership practice.

2. The CAREC Institute will develop the ELDP with a university or business school with global recognition and standing as a premier institution that offers highly ranked post graduate programs such as MBA or MPA degrees. The partner institution will have:

- (i) outstanding faculty with relevant experience in the proposed subject areas;
- (ii) significant experience in customized, multi-cultural executive education including delivery of multi-lingual programs and multi-country programs;
- (iii) leadership program development experience for both public and private sector participants;
- (iv) strong connection, identification and experience in Asia – preferably with facilities within or near Asia; and
- (v) ability to provide follow-on modular short courses “in-country” built from the common ELDP design as public sector management short courses.

3. The ELDP will be an annual, customized, one-week residential based course for approximately 32 participants (4 per CAREC country). It will cover five curricula areas: (i) leadership – styles, approaches, practice and communication; (ii) negotiation, persuasion and influence; (iii) strategic thinking and planning; (iv) public sector management; and (v) public sector finance. Participants would be awarded a Certificate of Completion by the selected educational institution and CAREC Institute.

Appendix 3: Summary of CAREC Training and Knowledge Sharing Events, 2008

1. Seminar on Private Sector Participation and Investment in Physical Infrastructure for CAREC

More than 30 senior officials from CAREC countries representing the trade and infrastructure sectors participated in a Seminar on “Private Sector Participation and Investment in Physical Infrastructure for CAREC” on 5-7 March 2008 in Tokyo, Japan. The Seminar was organized by the ADB Institute (ADBI) in coordination with the CAREC Secretariat, and in collaboration with partners including the European Bank for Reconstruction and Development, the Islamic Development Bank, the World Bank, and private sector organizations representing investor interests. The three-day seminar sought to enhance understanding of the benefits of and main challenges to achieving greater public-private partnerships (PPPs) for infrastructure development in the CAREC region.

2. Seminar on Multilateral Trade Liberalization: Recent Developments and Outstanding Issues

International Monetary Fund staff, in coordination with the CAREC Secretariat, conducted a training seminar on “Multilateral Trade Liberalization: Recent Developments and Outstanding Issues” for some 30 government officials from CAREC countries in Bishkek, Kyrgyz Republic on 3 April 2008. Presentations and discussion covered the following topics: (i) New developments in the Doha round negotiations; (ii) Energy issues on the trade liberalization agenda; and (iii) Liberalization of trade in financial services. Participants were trade officials who attended the TPCC Meeting held a day before the Seminar.

3. CERF Training on Tariff Setting

As part of the CAREC Electricity Regulators Forum (CERF) work program for 2008, a training workshop on “Tariff Setting Principles and Practices for Energy Regulators” was conducted in Baku, Azerbaijan on 7-11 April 2008. The workshop was co-hosted by the Tariff (Price) Council of Azerbaijan and ADB. Twenty-four participants from the eight CAREC countries participated in the training workshop.

4. Seminar on Trade Logistics Development and CAREC Corridor Performance Monitoring

The Seminar was held on 23 April 2008 in Baku, Azerbaijan, in association with the SOM. Participants included customs, finance, and transport officials from the CAREC countries, as well as representatives of freight forwarders associations. The morning session reviewed the state of trade logistics in several CAREC countries and identified common issues or constraints related to further development. These issues could be addressed through broader transport and trade facilitation programs aimed to ensure future transport and trade facilitation investment and technical assistance projects are consistent with trade logistics development needs.

The afternoon session, which covered performance measurement and monitoring of CAREC corridors, proposed a comprehensive set of performance measurement activities to reflect the efficiency or quality of the CAREC transport and trade corridors' three dimensions: (i) physical infrastructure; (ii) customs and other trade/transport regulation and procedures; and (iii) trade logistics. The proposed methodologies include: (i) UNESCAP's "time/cost-distance" methodology to record the time and costs incurred in transporting goods from point to point

along CAREC corridors; (ii) the World Customs Organization's "time release" method to measure the average time taken between the arrival of goods at a border post and their release to the importer/broker; and (iii) simplified trade logistics performance assessments.

5. CAREC Customs Training Course on Tariff Collection Supervision

A "CAREC Customs Training Course on Tariff Collection Supervision" was jointly sponsored and organized by the General Administration of Customs of the People's Republic of China and ADB on 3-12 June 2008 at the Shanghai Customs College in Shanghai, PRC. The training program provided an opportunity for CAREC Customs participants to understand tariff collection through theoretical presentations and case studies. By introducing new managerial concepts and methodologies, it also sought to promote the capability of Customs officials in terms of policy analysis and addressing practical issues. Seventeen Customs officials from CAREC participating countries, including Turkmenistan, attended the training course.

6. Seminar on Trade Development of Regional Agricultural Products in Central Asia

A Seminar on "Trade Development of Regional Agricultural Products in Central Asia" was conducted on 17-18 June 2008 in Urumqi, PRC. The Seminar was jointly organized and financed by PRC's Ministry of Commerce and ADB. Forty-seven government representatives from CAREC countries participated in the Seminar. The purposes of the Seminar were to: (i) exchange ideas on best practices in agricultural trade; (ii) identify bottlenecks and constraints to agriculture trade; and (iii) explore prospects of expanding agriculture trade among CAREC countries.

7. Workshop on Single Window Development for CAREC Trade and Customs Officials

A "Workshop on Single Window Development for CAREC Trade and Customs Officials" was conducted on 8-10 July 2008 in Singapore. The workshop was jointly organized for CAREC trade and customs officials by Asian Development Bank and the International Enterprises of Singapore. The workshop was designed to give participants a comprehensive picture of the single window development process and focused on the topics of: (i) Single Electronic Window, (ii) Integrated IT Platform for Trade, and (iii) E-Customs.

8. Workshop on Trade Logistics Development for the CAREC Region

A "Workshop on Trade Logistics Development for the CAREC Region" is planned for 2-4 September 2008 in Tashkent, Uzbekistan. The workshop will enable detailed discussion of the results of trade logistics country studies including issues or constraints to logistics development and recommendations to address such constraints; and strategies to advance the logistics sector, promote public investment, and strengthen public-private partnership and regional cooperation projects. Additional topics for discussion include: location principles and selection criteria for existing and proposed logistics centers, corridor performance measurement, and trade logistics monitoring.

9. CERF Fourth Annual Meeting

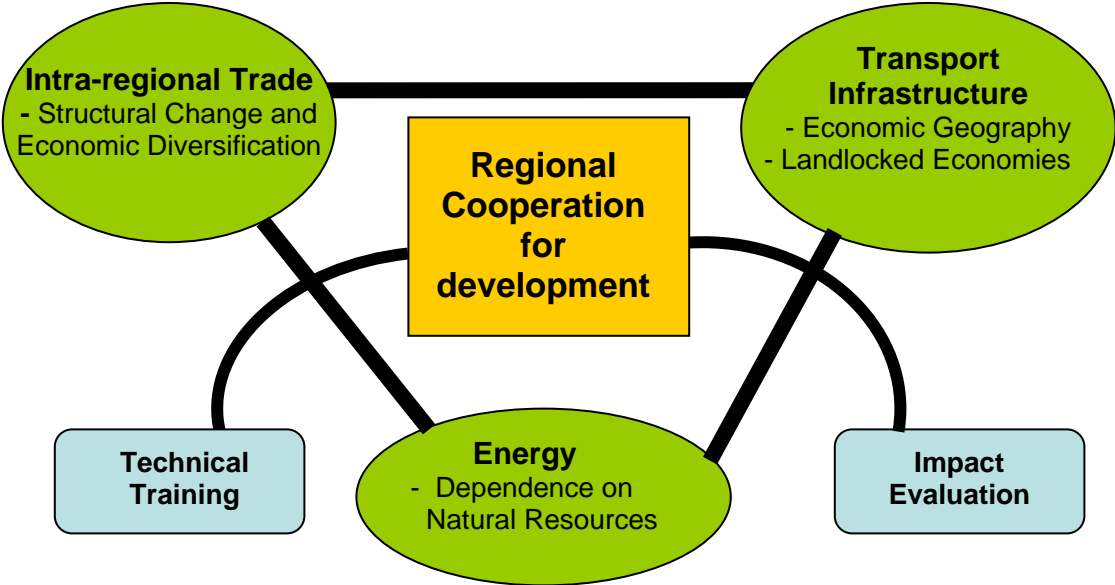
CERF's Fourth Annual Meeting is planned for 15-16 September 2008. It will be co-hosted by the State Department of Regulation of the Energy and Fuel Complex of the Kyrgyz Republic and ADB. The theme of the meeting will be "Independent Energy Regulation in Promoting Private

Sector Participation, Energy Efficiency, and Renewable Energy." The meeting will be followed by a training workshop (17-19 September 2008) that builds on the meeting theme and includes tariff setting topics including detailed technical and functional exercises on a rate setting computer model.

Appendix 4: Flagship Research Program, 2009-2011

- 1. The objectives of the flagship research component of the CAREC Institute work plan are (i) to provide intellectual support to CAREC’s work in the priority sectors of transport, energy, and trade, and (ii) to raise the capacity of research institutes in CAREC participating countries to conduct research and analysis in support of regional cooperation.
- 2. This research program for the period 2009-2011, will be implemented jointly with world-renowned academic institutions. The Institute expects to identify highly regarded research centers in the CAREC countries to collaborate with experts from these two leading institutions in implementing the research program.
- 3. The research program links CAREC’s work on transport, energy, and trade to three research areas. These are: (i) structural change, intra-regional trade and economic diversification; (ii) problems of landlocked economies; and (iii) dependence on natural resources. (See figure.)

CAREC Institute
Flagship Research Program 2009-2011



(i) Accelerating structural change and economic diversification through regional integration and trade

4. Trade liberalization, while important, will not, on its own, deliver development. The latter will be achieved if CAREC countries manage to transform their economies into modern industrial and service economies. CAREC can play an important role not only in fostering trade by lowering trade barriers, but also in promoting trade that results in the exchange of more diversified and sophisticated products. For countries to get the most out of these opportunities, cooperation has to go beyond liberalization of trade and financial relations. It must include joint action on macroeconomic, infrastructure, and industrial aims to strengthen the potential for growth and structural change leading to more broad-based and sophisticated economic activity. There is an untapped potential for such joint undertakings among developing countries. And this kind of cooperation can open policy options to developing country governments beyond those available at the national level.

5. Research shows that it is not only the relative pace of trade expansion that makes regional integration a promising strategy for accelerating economic development. More important is the composition of intraregional exports. This has a strong influence on long-term growth. In general, the share of manufactures in intraregional trade, including those that are relatively skill- and technology-intensive, is considerably higher than the share of such goods in total trade. The clear implication is that heightened regional economic activity supports industrial upgrading and diversification.

6. A developing country may benefit from expanding its exports globally as well as regionally. However, for a developing country seeking to upgrade its production structure and the technology content of its domestic industry, an orientation towards the regional market can be an important factor for enhancing the competitiveness of domestic producers and can be an effective initial step towards integrating into the wider international market.

7. There are apparent "geographical biases" related to trade and economic growth. Formal cooperation schemes are easier to arrange among neighbors; proximity results in lower transport costs; tacit knowledge develops through repeated interaction; and spillovers of technology and business practice are more likely because of similarities in climate, culture, language, and other factors.

(ii) Moving beyond dependence on natural resources: cooperation on energy issues

8. Under this topic, two themes related to resource endowments and energy will be explored. First, research will be undertaken to highlight the significant opportunities for, and benefits from, regional cooperation in energy. Complementarities exist among the CAREC countries with respect to energy resources, and there are tremendous gains to be reaped from linking energy networks and tapping power from where it can be sourced most cheaply. Energy security could also be improved as a result of regional cooperation. Such analysis can also facilitate energy development by clarifying costs and benefits to participating countries. Special concerns such as environmental soundness and sustainability could also be incorporated in this analysis.

9. Second, studies will be undertaken on the options for managing resource revenues. Research on the optimal management of resource revenues is crucial for CAREC. Several CAREC countries are already major exporters of oil and gas. In future, several others may be

major regional suppliers of hydropower. The experience of countries in CAREC provides a laboratory in which to evaluate policy options and test them against real country circumstances. For example, optimal policy depends critically on supply responses in the domestic economy, and on the extent to which the economy is open to international trade. Export diversification is a common challenge across all CAREC economies. How have these issues been handled in the region, and what are the implications for regional integration and for resource management?

10. Moreover, several CAREC countries suffer from overdependence on natural resources, and face the threat of Dutch disease. This term refers to the paradoxically negative effect that the availability of valuable natural resources tends to have on a country's growth prospects. There is evidence that the surplus from natural resource exports significantly reduces growth. Why does this happen? Resource exports cause the country's currency to appreciate. This makes the other export activities uncompetitive. Yet, these other activities might have been the best option for the country's development. In other words, Dutch disease can damage the growth process by crowding out export activities that otherwise have the potential to grow rapidly. These activities are commonly labor-intensive manufactured exports and services, the key sectors that have the potential to drive a country or a region through the path of structural change. Dutch disease (and volatility in commodity prices) may reduce a country's chances of diversifying into manufactured and service exports. And in an integrated regional economy, Dutch disease in one country likewise affects growth prospects among its neighbors.

(iii) Overcoming problems of landlocked economies

11. Being a landlocked economy also poses significant problems for developing countries, although these are not insurmountable, as the experience of Switzerland shows. Landlocked economies incur much higher transport costs, and hence the option of rapid industrialization is a difficult one. But what is surprising is that these costs do not vary with distance. For landlocked economies, what matters is how much the coastal neighbors have spent on transport infrastructure. This is the key to understanding Switzerland: its access to the sea depends on the excellent German and Italian transport infrastructure. CAREC countries do not have "good neighbors" from this point of view. Research also shows that the extent to which being landlocked is a handicap depends on other opportunities that a country may have. For example, researchers have found that having natural resources outweighs the disadvantage posed by being landlocked. The key is the quality of the management of the resources. This means that a landlocked resource-rich country does not have a large disadvantage (with respect to a coastal country) provided the natural resource it exports is valuable, as this fact plays a more important role than the higher costs associated with being landlocked. The conclusion is that being landlocked matters only for countries that are not abundant in natural resources.

12. Likewise, intuitive reasoning would argue that the gains from integration should be particularly large for landlocked economies and with an uneven distribution of endowments of natural resources, both because of the high costs they face in trading with the rest of the world, and because some of the problems of resource-rich economies might be mitigated if they are spread across a larger region. But the case is far from clear cut. The literature on "natural trading blocks" and on integration between low income countries suggests that integration between such countries may be particularly prone to trade diversion, and that simple intuition needs to be subject to critical scrutiny.

13. CAREC countries are, to different degrees, both resource-rich and landlocked. For this reason it is important that they orient their policies and infrastructure toward their neighbors. Standard policies may not work in these countries given that, for example, Dutch disease may

make it difficult for them to diversify their export base. What can they do? These some possible strategies for overcoming the various problems of landlocked economies that will need to be tested through research:

- (i) Increase neighborhood spillovers through better transport infrastructure and sensible trade policy. Regional integration is an important aspect (i.e., elimination of intra-regional trade barriers), although countries should also reduce their external trade barriers. This is especially important for landlocked countries;
- (ii) Since faster growth of neighbors is better for a landlocked economy, efficient policy coordination is important;
- (iii) Likewise, since coastal access is vital for landlocked economies and the costs of access depend on transport infrastructure, landlocked economies depend on the decisions made by their coastal neighbors. Landlocked economies may volunteer to finance their neighbors' coastal infrastructure;
- (iv) Is there any niche area that at least one country in the region can find to become a center in the provision of a good or service?;
- (v) Although land transportation might be a problem for landlocked economies, air transport need not be. A policy of open skies is the key;
- (vi) When remittances are an important source of income, try to make the most out of them by encouraging the diaspora to invest in the country;
- (vii) Create a transparent and investor-friendly environment for resource prospecting. This will help diminish risks perceived by resource extraction companies;
- (viii) Given that landlocked economies have a natural handicap to industrialize quickly, policies for rural development should receive priority. These should be country specific; and
- (ix) When a country may not see fast growth, it may require external assistance. It is therefore important to establish governance systems that make international donors comfortable. Aid can play an important and positive role as long as it does not play a role similar to that of the revenues derived from natural resources. Aid directed toward infrastructure and toward linking landlocked economies to coastal areas and for the purpose of developing transport corridors can play a key role in the development of landlocked economies.

Appendix 5: CAREC Institute Small Research Grants Program

Background and Objectives

1. The purpose of the CAREC Small Research Grants Program is to encourage research by local researchers and institutes that will advance regional cooperation among CAREC countries.
2. Each year, beginning in 2009, the program will finance one research project in each participating CAREC country. Each research grant would be for a maximum of \$25,000. The research project would have to be completed within a 12-month period, with a report and seminar presentation required at the end of the research period.
3. The proponents of the research should be from the CAREC country where the application is received; however, partnerships with researchers and research institutes from other CAREC countries are encouraged and will be given due recognition in the evaluation/ranking of the grant applications.

Procedures

4. At the start of each year, the competition for the small research grant will be announced in each country. The announcement, which will be advertised in local newspapers, posted on relevant websites and at research and academic institutions, will indicate the procedures for applying for the grant. A related website will contain detailed application procedures, application forms, evaluation criteria, and deadlines. Grant applications would be submitted to the ADB Resident Mission in each country.
5. The announcement of the small research grant and the invitation to submit applications may restrict the applications to special topics or specific themes that are aligned with or support the research focus of the flagship research programs of the CAREC Institute,

Evaluation and Selection

6. Proposals received will be reviewed by the CAREC Institute for compliance with the application requirements. Those applications that have not complied with the application requirements will be disqualified and a letter will be sent to the applicant notifying him/her of this result.
7. Applications that are compliant with the application requirements would be reviewed and evaluated by the CAREC Institute. From the pool of compliant applications, a shortlist of 3-5 applications will be identified.
8. A three-person final selection panel will be convened to select the grantee from the shortlist. The panel will consist of the relevant ADB Country Director, CAREC National Focal Point, and a third person (to be determined by mutual agreement of the other two panelists). Once the grant recipient is announced, the CAREC Institute will administer the grant.

Appendix 6: CAREC Program Research and Studies (2008 and ongoing)

1. National Trade Logistics Studies

Trade logistics studies have been completed for Kyrgyz Republic, Mongolia, Tajikistan, and Xinjiang Uyghur Autonomous Region, Peoples' Republic of China. Studies are on-going in Kazakhstan and Uzbekistan, and recently started in Afghanistan and Azerbaijan.

2. The Experience with Regional Economic Cooperation Organizations: Lessons for Central Asia

This paper, prepared by Johannes F. Linn and Oksana Pidufala, Wolfensohn Center for Development at Brookings, reviews the experience with regional cooperation initiatives and organizations in Central Asia and the rest of the world. Based on a typology of regional organizations, the paper reviews the functions and performance of selected regional organizations and compiles evidence more generally on the experience with regional cooperation around the globe. Based on this analysis, lessons are identified to help Central Asian countries, their partners and their regional organizations effectively respond to the opportunities and challenges of regional cooperation and integration.

3. Deepening Integration in Border Regions within CAREC

The study will address the use of an institutional innovation, transplanted from the European experience (the "Euroregions"). Euroregions are areas of widened cooperation across cross-border regions including issues such as trade and tourism activities as well as business and trade facilitation measures. The study would reshape the Euroregion model of cross-border cooperation, as it has evolved in Europe, taking account of Central Asian conditions. The establishment of Asiaregions cannot take place spontaneously at the level of contiguous communities but requires a bilateral (or regional) framework granting local authorities to proceed with relaxing arrangements governing movement of people, goods and services and easing business regulation and introducing greater regulatory compatibility specifically for inhabitants of bordering regions. The study would provide the framework and the design for such a program. The study is ongoing and a draft is due to be discussed at the September 2008 Trade Policy Coordinating Committee meeting.

4. Bazaars and Trade Integration of CAREC Countries

Foreign trade transmission channels in CAREC Central Asian economies are unique. Intra-CAREC trade may be characterized as three-tier (varying in amount and impact on local economies), i.e., through three distinct channels: (a) formal or standard trade, (b) shuttle large-bazaar-destined (hub) trade, and (c) cross-border trade. The study will focus on channel "b", i.e., shuttle large-bazaar-destined (hub) trade together with the identification of "spoke-bazaars." Except for a study based on mirror statistics examining re-export activities of Kyrgyz Republic, which are almost exclusively taking place in its two major wholesale bazaars in Dordoi (near Bishkek at the border with Kazakhstan) and Karasuu (near Osh at the border with Uzbekistan),⁸ there have been no serious examinations of this channel through which most intra-CAREC trade appears to be moving. Given the scope of this trade and its likely welfare impacts, another objective would be to identify policies that would create similarly attractive conditions in formal or standard trade. The study is ongoing and a draft is due to be discussed at the September 2008 Trade Policy Coordinating Committee meeting.

⁸ Bartłomiej Kaminski. 2008. "How Kyrgyzstan seized Opportunities offered by Central Asia's Economic Revival." Mimeo, ECA, World Bank, February.