

Consultation Paper: Considerations for CAREC's New Strategy "CAREC 2030"

I. Introduction and Purpose

1. The Central Asia Regional Economic Cooperation (CAREC) Secretariat was tasked by the 15th CAREC Ministerial Conference (MC) in Islamabad in October 2016 to develop a new long-term strategy for CAREC. The direction to prepare a new strategy came at the heels of the MC's endorsement of the Midterm Review (MTR) Report of CAREC Strategy 2020.¹ The MTR highlighted the changing global and regional landscape, and the urgency for CAREC to adjust its focus to become more effective and relevant to the region's long-term sustainable and inclusive development.

2. The process to prepare a new CAREC strategy will follow a fully consultative and participatory process involving officials from all eleven CAREC member countries, multilateral and bilateral partners, private sector, think tanks, and civil society. It is critical for the strategy to be informed by the perspectives of a wide range of stakeholders to ensure its relevance, ownership, and implementability for a coordinated response to the multi-dimensional development challenges by CAREC countries.

3. The purpose of this short paper is to identify and highlight key strategic and institutional issues for consultations with the various internal and external stakeholders of CAREC. The paper is being shared in advance of the planned consultations so that participants are prepared to discuss the identified issues and raise any other issues they feel are important in connection with the new strategy. The consultations will focus on both the "what" and the "how" questions pertaining to the new strategy.

II. Background: CAREC Strategy 2020 and the Midterm Review

4. CAREC 2020, the current overall strategy document, was approved at the 10th CAREC MC in 2011, and built upon a stocktaking of achievements and lessons learnt with the objective to guide the CAREC program during the decade of 2011–2020. CAREC 2020 articulated its agenda cascading from a vision ("Good neighbors, good partners, good prospects") and a goal ("Development through cooperation, leading to accelerated economic growth and shared prosperity") to two strategic objectives (trade expansion and improved competitiveness). To achieve these objectives, seven operational priority areas were identified: transport, energy, trade facilitation, trade policy, economic corridors, the CAREC Institute, and second-tier areas.²

5. The MTR, completed in 2016, noted the satisfactory implementation of CAREC 2020. It, however, recognized the need to review (i) CAREC's strategic coherence, and (ii) the program's relevance. This was in the backdrop of the unexpected and significant changes in the international economic environment that had had a major impact on several CAREC countries, beginning with the adverse impacts of the 2007–2008 financial crisis that have lingered on in some countries. The subsequent prolonged depression in oil prices damaged the financial

¹ The Midterm Review Report of CAREC Strategy 2020 is available at <http://www.carecprogram.org/uploads/docs/CAREC-Publications/2016-CAREC-2020-MTR.pdf> (English version); <http://www.carecprogram.org/uploads/docs/CAREC-Publications/2016-CAREC-2020-MTR-ru.pdf> (Russian version).

² As exemplified in the CAREC 2020, the second-tier areas could cover communicable disease control, agriculture, disaster risk management, and climate-change adaptation and mitigation, in the context of addressing social impacts of trade expansion and improved competitiveness.

balance sheets of hydrocarbon exporting countries, while the accompanying recession in such countries dampened prospects of migrant labor and reduced the flow of remittances to labor exporting countries. CAREC countries faced urgent economic problems, including fiscal pressures, devaluating currencies, rising current account deficits, and lowered foreign reserves that led to stagnating economic activity, higher unemployment and a rollback of structural and sector reforms. On top of this, an economic slowdown in major trading partner countries led to shrinking markets for exports originating in CAREC countries. As a result, the stated objectives of the CAREC program, i.e., expanded trade and increased competitiveness became harder to achieve, pointing to the need for revisiting CAREC's strategic coherence and relevance in these changed circumstances.

6. It was in the above perspective the MTR recommended to: (i) complete the CAREC 2020 agenda; (ii) revisit CAREC's objectives to ensure that they are strategically coherent; (iii) broaden the CAREC agenda; and (iv) prepare a new long-term strategy for CAREC.

III. Motivations for Preparing a New Strategy

7. In addition to the MC directions and MTR recommendations, there are strong strategic, circumstantial and operational reasons for CAREC to revisit and update its strategy and realign its operations in order to stay relevant and effective. These include the following:

- i. **New development goals.** All CAREC countries are signatories to the 2030 global development agenda, including the sustainable development goals (SDGs) and the Paris agreement reached at the 21st Conference of Parties of UN Framework Convention on Climate Change (COP21). This global development agenda highlights the need for CAREC countries to consider harmonized approaches to achieve the common agreed goals and to learn from the experiences of each other in this respect. Countries also need to assess how regional initiatives can complement national efforts to achieve the new goals. CAREC's new strategic directions need to be informed by the implications of the global agenda on national and regional development policies and programs in member countries going forward.
- ii. **The macroeconomic context in CAREC countries.** As mentioned in para. 5, the dive in commodity prices plummeting to record lows and economic slowdown of the major trading partners have been game-changing factors in the deterioration of economic performance of many CAREC countries. A key issue in this context for CAREC is to think-through how it can play a more active role in promoting policy dialogue on forestalling spillovers of regional and global economic crisis, maintaining macroeconomic stability, and innovating on countercyclical measures to mitigate the impact of crisis. CAREC can provide a platform for establishing responsive, adaptable and harmonized regional approaches to build resilience against economic crisis and revive and maintain growth in member countries.
- iii. **The external trade environment.** The new CAREC strategy will need to take into account the emerging global and regional trade patterns and forecasts. Since 2012, global trade growth is just keeping up with economic growth. Previously, it was growing twice as fast. With the failure to reach new global agreements on trade under the WTO, regional trade agreements should hold more potential going forward. At the same time, trade patterns may be affected by rising protectionist sentiments globally, with a growing discontent that the benefits from globalization are not spread fairly and have not benefited all sections of the population. There are also challenges

to globalization in other areas such as a pushback against movement of people across borders, fear of terrorism, implications of Brexit, and geopolitical tensions in some parts of the world. The new CAREC strategy will need to consider all these developments to reposition itself as a catalyst and agent for trade promotion and growth and development in the region.

- iv. **New regional players.** New regional frameworks such as PRC's One Belt One Road, Japan's Quality Infrastructure Initiative, US's New Silk Road; various multilateral initiatives such as the Eurasian Economic Union, Shanghai Cooperation Organization and the Economic Cooperation Organization; and new regional institutions such as the Asian Infrastructure and Investment Bank and the New Development Bank, require CAREC to carefully assess emerging opportunities of partnership and coordination with these bodies. At the same time, there is a need for CAREC to redefine its strategic positioning and relevance while building on the successes, strengths and comparative advantage of its program over the past 16 years of its existence.

Key questions for consultations:

- Besides the ones mentioned, what are some other important global, regional and national happenings and trends CAREC should take into account in preparing its new strategy?
- How can CAREC meaningfully seek to align itself with the new international development agenda (SDGs, COP21)? How can it play a useful role in promoting the implementation of the global agenda in CAREC countries?
- In what ways can CAREC serve as a platform to promote macroeconomic stability and advance structural and sector reforms in CAREC countries?
- How should CAREC position itself as a catalyst for boosting intra-regional and inter-regional trade for the benefit of member countries?
- How can CAREC best collaborate and cooperate with the new regional frameworks and development institutions?
- How should CAREC engage or interact with important non-CAREC countries in the region which play an influential role on regional development issues across the CAREC region?

IV. New CAREC Mission and Possible Operational Expansion

8. **A new mission statement for CAREC?** The current CAREC vision is anchored on the twin goals of expanded trade and increased competitiveness. This has served CAREC well over the past years, helping ensure focus on increasing connectivity and cross-border trade. However, as explained above, the regional landscape has evolved. Member countries are faced with a complicated set of challenges spanning different sectors and areas. The new international development goals have taken effect. CAREC now requires a new strategic positioning which may effectively broaden its focus beyond its current sectoral emphases and operational priorities. In this regard, a key question is whether CAREC should now work under a larger umbrella and attempt to become a more robust partner in conducting policy dialogue and operationalizing broad-based support both in existing and new sectors and areas. In this context, there is a need to consult member countries on possibly broadening CAREC's mission statement. Among various possibilities, a mission statement for CAREC along the following lines might be considered:

“A Regional Cooperation Platform for Sustainable and Inclusive Economic Development for the CAREC region”

9. **Possible Operational Priorities.** In support of a broader mission, CAREC might need to update and enlarge its operational priorities to be of greater relevance in addressing the development needs of the region. In doing so, CAREC would need to play to its comparative advantage in areas such as regional infrastructure, connectivity and trade. In addition, it might need to incrementally beef-up its support in other selected areas critical for regional development that are demanded by member countries and in which CAREC can provide value-adding support. To begin consultations with member countries on CAREC’s operational priorities under the new strategy, the following areas may be considered. Some of these might be dropped and others added depending on the outcomes of the consultations.

- i. **Regional Infrastructure Development and Trade Facilitation.** Regional infrastructure is a prerequisite for economic diversification and the need for infrastructure development to promote connectivity and trade in the CAREC region remains large. It will thus be important for CAREC to maintain emphasis on transport, energy and related trade facilitation support. Meanwhile, there is emerging interest in expanding regional transportation modes to include railways, aviation and ports/dry ports to maximize connectivity, mobility and accessibility, and increasing project investments in clean and renewable energy to ensure better energy security, more integrated regional energy markets, and better alignment with global commitments to contain climate change.

Trade facilitation and trade policy work continues to be critical to complement infrastructure development to result in holistic support to expand intra-regional and inter-regional trade volumes and lead to greater economic and business opportunities.

- ii. **Regional and global public goods.** Being a regional platform, CAREC can play a meaningful role in mobilizing collective action on regional and global public goods. It can reinforce its existing operations and operate in new areas to, for example, help address climate change and environmental issues in the region. It can also support cross-border health priorities, such as control and surveillance of communicable diseases and pandemic preparedness.
- iii. **Education and skills.** To promote competitiveness, job creation and bolster opportunities for migrant labor, CAREC could consider supporting regional education and skills initiatives such as mutual recognition in member countries of qualification standards, setting common standards on technical and vocational education and training (TVET) and faculty training, and collaboration among universities and other institutions of higher education and learning.
- iv. **Agriculture and water.** Given the centrality of agriculture and agricultural trade in most member countries, CAREC could explore support for regional initiatives in the areas of food safety and agro-food trade, building upon the existing effort to develop a common agenda of sanitary and phytosanitary measures. Water resource management is a key challenge cutting across all CAREC countries. If changing regional dynamics provide more opportunities for cooperation in the water sector,

CAREC can provide a platform to member countries to discuss possibilities of progress in this complex area.

- v. **Tourism.** CAREC countries enjoy great potential for tourism, which is a major generator of jobs, particularly for workers at the middle to lower end of the income scale and also for women and youth. CAREC could promote joint tourism cooperation while minimizing any adverse environmental, social, and cultural impacts.
- vi. **Improving fiscal, financial markets and monetary cooperation.** Greater financial and monetary sector coordination and cooperation in the region is essential to prevent spread of financial contagion in the CAREC region. In this regard, CAREC could promote collective actions in the areas of regional surveillance, local currency cross-border financial transactions, international tax cooperation, common regulatory standards, and promoting regional forums of central banks, ministries of finance and financial markets regulators.

10. **Role of the private sector.** The new CAREC strategy provides the opportunity of strengthening the role of the private sector in regional cooperation and integration. If member countries agree, CAREC could support, for example, enhancing small- and medium-sized enterprises (SMEs) involvement in regional value chains, capital markets development and cross-listing of companies, exploring private sector and public-private partnership (PPP) cross-border investments in infrastructure, strengthening the role of CAREC Federation of Carrier and Forwarder Associations (CFCFA), exploring setting up a multilateral trade credit and investment guarantee agency for CAREC, and enhancing cooperation among chambers of commerce and industry of member countries.

11. **Knowledge and analytical work.** CAREC can continue to support member countries through knowledge-based analytical and operational work. The CAREC Institute (CI) in this regard can play a vital role. In addition to supporting research, knowledge and training needs in the prioritized operational areas, CAREC and CI could provide knowledge and research outputs on demand in key areas of regional development when member countries seek support for such work. Targeted efforts to improving regional statistics in CAREC countries for evidence-based policy-making can be undertaken.

12. **Inter-regional cooperation.** Connecting CAREC region with its neighbors and economic centers is crucial to expanding markets and creating new opportunities for economic development. Under the new strategy, CAREC can explore possibilities for cooperation across regions, such as with South Asia Subregional Economic Cooperation (SASEC) and South Asian Association for Regional Cooperation (SAARC), and the Greater Mekong Subregional Economic Cooperation (GMS), among others.

13. **Financing for the CAREC Program.** Expanded operations under CAREC would require availability of greater financing to support existing and new activity areas. ADB will work with other development partners to consider lending and technical assistance commensurate with the strategic and operational reach of the program. Opportunities for greater cofinancing from multilateral and bilateral sources can be explored. Earnest efforts will need to be made to mobilize more financing from the private sector and through PPPs. Member countries may also consider more contributions to support CAREC's program and activities.

Key questions for consultations:

- How can CAREC strengthen its relevance, credibility and attractiveness as a regional cooperation platform for member countries?
- Should CAREC expand its mission statement? If so, what elements should an expanded mission statement emphasize?
- Do the proposed operational agendas offer sufficient alignment with the CAREC country needs in achieving SDGs and COP21 objectives? Are we missing out on any other important operational areas? Should any of the proposed operational areas be dropped?
- What is the potential of the private sector to support regional cooperation and integration in CAREC? What kind of role do member countries envisage for the private sector under the new CAREC strategy?
- How and in what specific areas can CAREC and CI play a more value-adding role in servicing the knowledge and analytical support needs of member countries?
- How can CAREC best finance its program and activities? What other sources of financing should be explored in this regard?

V. CAREC's Institutional Framework

14. If CAREC's mission is to be broadened and its operational priorities expanded, this needs to be backed up with a sound and effective overall institutional framework for CAREC to ensure the effective implementation of the new strategic framework. CAREC's institutional structure has generally worked well by providing member countries and development partners regular forums to discuss and agree on issues of regional significance. However, there are also concerns that the established sector-focused approach hinders CAREC from providing an adequate platform for conducting policy dialogue on major macroeconomic and crosscutting issues. There is the consideration as well that the structure needs to be made more flexible and adaptable given CAREC's evolving operational priorities. In addition, there is a felt need to constitute ad-hoc working groups on short notice to respond swiftly to emerging issues and challenges in different sectors and areas in the region.

15. **Possible Refinements in the CAREC Structure.** In response to these concerns and for better institutional efficacy, CAREC may consider:

- i. Elevating the MC to be a high-level stand-alone policy platform to discuss and debate important actionable policy and strategic issues of relevance to the development of the CAREC region. The MC could discuss issues such as common approaches to achieving the SDGs and climate agreement goals; macroeconomic policy issues and measures to promote regional economic stability, including through countercyclical financing; and discuss ways to strengthen cooperation with new regional institutions and players;
- ii. Empowering the SOM with sector and project-related endorsement authority so that routine matters related to CAREC projects and operations can be discussed and decided at the level of senior officials;
- iii. Streamlining and reforming existing sector committees to ensure results-oriented work stream and cost-effective use of resources;

- iv. Establishing task-based and issue-driven transitory expert groups to deliberate and provide operational and policy advice on key sectors and thematic issues;
- v. Aligning development partners' role and participation in line with the new strategic framework for CAREC; and
- vi. Capitalizing on CI's knowledge support at all levels.

16. **Role of Development Partners.** There are now numerous new regional and financial initiatives that impact the CAREC region. The scope for forging constructive partnerships has increased. So have the needs for coordination and the risks posed by lack of coordination. The new strategy provides an opportunity to find ways of strengthening coordination with existing CAREC development partners particularly from the point of view of maximizing each partner's value addition to the CAREC program. At the same time, the new strategy is an occasion to consider the role of new development partners in the program. Clearly, maximizing financing and creating synergy will be an important task for development partners. At the same time, partners will need to offer innovative knowledge-based solutions to contemporary development challenges of the region.

Key questions for consultations:

- What are the strengths and weaknesses of the current CAREC institutional structure?
- How can its structure be improved and strengthened for the CAREC program to truly become a platform for inclusive and sustainable development?
- How can the MC play a stronger role on policy dialogue on key issues challenging the CAREC region? Is the proposed distinction in the roles of the MC as a policy forum and the SOM as a projects' coordination body a suitable one?
- With its new mission and a broader mandate, should CAREC pursue a Summit meeting of CAREC countries' leaders at a certain point?
- How can CAREC better leverage the role of the other development partner institutions in addition to ADB? What role can existing and new development partners play to promote CAREC's strategic objectives?

VI. Next Steps and Intended Timeline

17. Feedback and inputs received from stakeholder consultations and ongoing analytical work will support the formulation of a zero draft of the strategy by the June SOM. The draft will provide the basis for discussions and SOM's guidance will be sought. A full draft of the strategy will then be prepared and will be ready by the time of the September National Focal Points (NFPs) meeting. The draft will subsequently be revised to take into account feedback received from the NFPs' meeting. The final draft is proposed to be submitted to the 16th MC for approval in early November 2017 in Dushanbe.

18. In summary, the proposed timeline for the preparation of the new strategy is as follows:

- Undertake country consultations during March–May 2017
- Prepare a “zero” draft of the new strategy and present at SOM in June 2017
- Further refine the strategy based on SOM's guidance
- Present at the NFPs' meeting in September 2017
- Further refine the Strategy during September–October 2017
- Present at the 16th MC for endorsement in November 2017