

Globalization and Regional Economic Cooperation in Central Asia

ADB



A presentation at the "Seminar on Cooperation Among Central Asian National Chambers of Commerce", 25-26 September 2007, Hangzhou, PRC

Xianbin Yao
Central and West Asia Department
Asian Development Bank



The views expressed in this presentation are the views of the author and do not necessarily reflect the views or policies of the Asian Development Bank (ADB), or its Board of Governors, or the governments they represent. ADB does not guarantee the accuracy of the data included in this presentation and accepts no responsibility for any consequences of their use. Terminology used may not necessarily be consistent with ADB official terms.

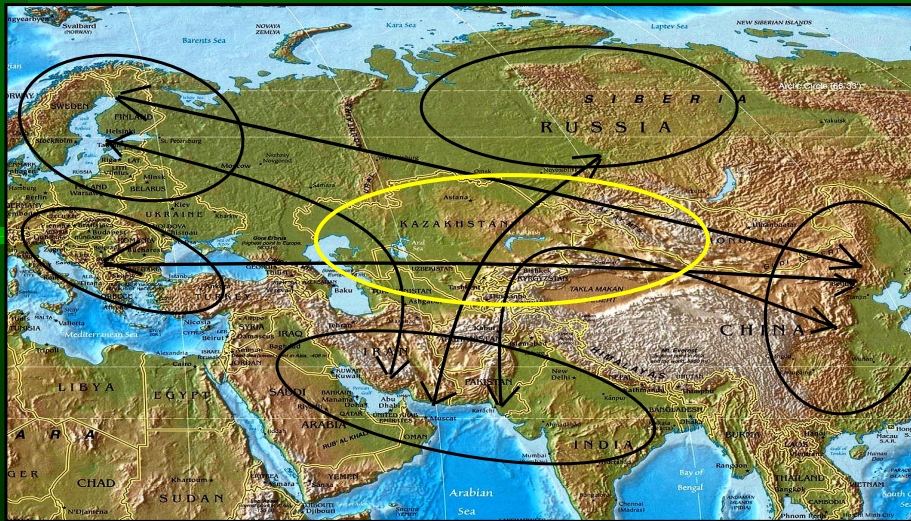
Outline of the Presentation

1. Globalization in many dimensions
2. Central Asia at the center of Eurasia
 - key transit links
 - potentially major economic players
3. Turning opportunity into reality
 - developing regional connectivity
 - improving domestic business climate
4. Partnering for regional cooperation
 - CAREC Program and priorities
 - Business communities

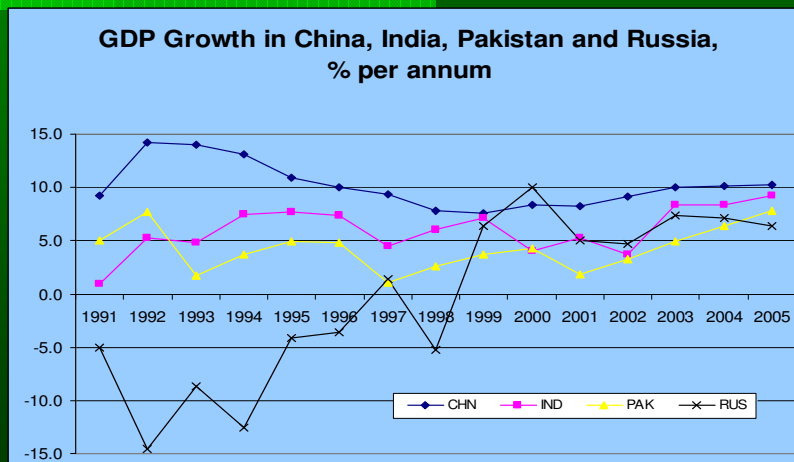
Dimensions of Globalization

- Trade
- Migration
- Finance and capital flows
- Technology
 - Telecommunications technology
 - Transportation technology
- > Global production networks and market expansion

Central Asia – transit links across Eurasia continent



East Asia, South Asia, and Russia on high growth path



Source: World Development Indicators, 2007

Bilateral trade among Eurasia sub-regions all more than doubled

- East Asia ↔ European Union
 - US\$ 244 billion in 1995; US\$ 604 billion in 2006
- East Asia ↔ Middle East
 - US\$ 57 billion in 1995; US\$ 276 billion in 2006
- European Union ↔ South Asia
 - US\$ 34 billion in 1995; US\$ 81 billion in 2006
- Russia ↔ South Asia
 - US\$ 1.8 billion in 1995; US\$ 4.9 billion in 2006

US\$1 trillion in combined trade across major sub-regions in Eurasia, 2006

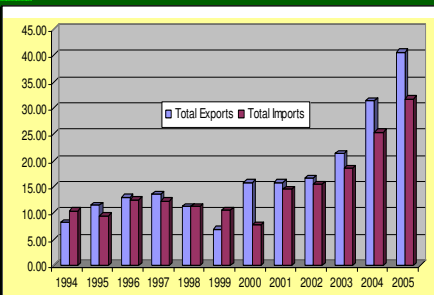
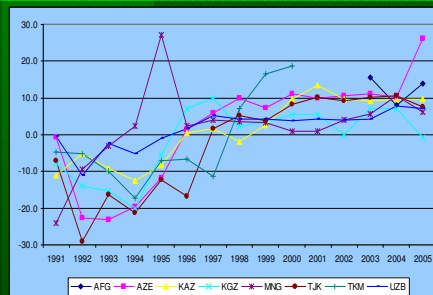
Importer	Exporter					
	EU	East Asia	South Asia	Russia	Middle East	Central Asia
EU		411,543	41,776	x	x	19,188
East Asia	192,544		x	23,196	197,636	5,214
South Asia	39,217	x		3,559	24,815	714
Russia	x	27,576	1,335		1,078	5,512
Middle East	x	78,484	23,809	6,640		3,041
Central Asia	7,900	9,143	236	11,223	877	

Source: IMF Direction of Trade CD RAM, July 2007

- How much of the US\$ 1 trillion trade across Eurasia is carried on Central Asia transport corridors?
- How much can improving regional transport corridors contribute to greater volume of transit trade across Eurasia?

Central Asia is more than transit links

Central Asian economies have recovered and are growing; external trade is expanding



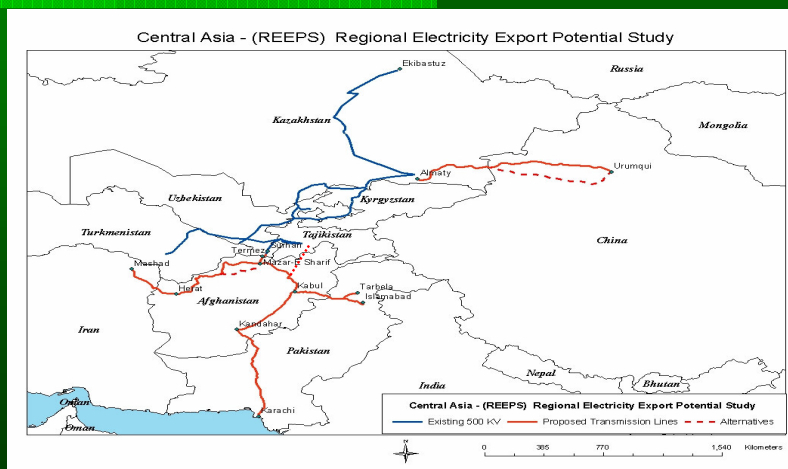
Source: World Development Indicators, 2007

A further impetus to develop regional connectivity

Central Asia's potential as a major player in ...

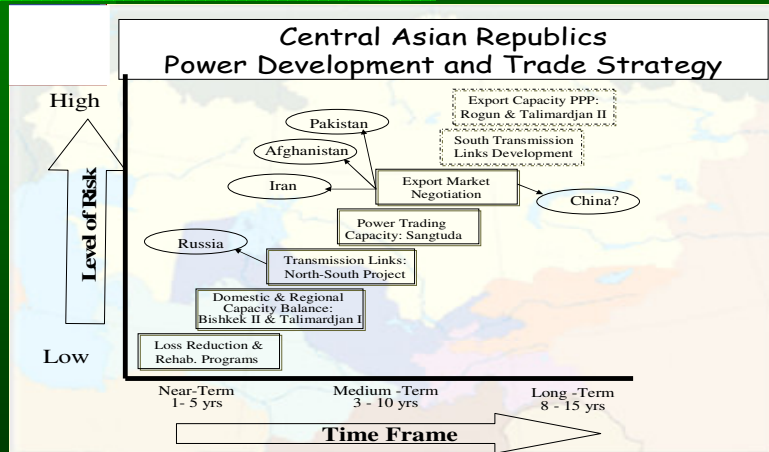
- **Energy** – regional gas & power exports to neighboring countries: regional energy market integration
- **Industry** – industrial integration into global production network, e.g. cotton and textile industries
- **Agriculture** – agro-processing and value chain
- **Tourism** – tourism development combining nature, culture, and history
- **Finance** – regional financial and capital market

Central Asia Electricity Export Potential



Source: World Bank

Electricity Export Prospects

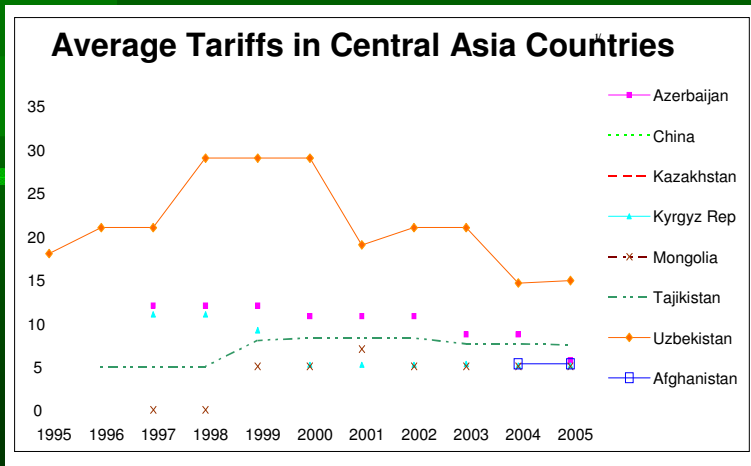


Source: World Bank

Turn opportunity into reality

- Developing regional connectivity
 - Investment in infrastructure networks
 - Policy reforms to reduce total cost of trade
- Improving domestic business climate
- Work together to achieve the common goal of shared prosperity

Trade reforms have reduced tariff rates significantly ...



Source: IMF CAREC Trade Tax Study, September 2006

... but costs of trading across borders remain high ...

	Exports			Imports		
	No. Documents	Days required	Cost (\$ per container)	No. Documents	Days required	Cost (\$ per container)
Kazakhstan	14	93	2780	18	87	2880
Kyrgyz	18	127	3032
Tajikistan	14	72	4300	10	44	3550
Uzbekistan	10	44	2550	18	139	3970
Afghanistan	7	66	2500	11	88	2100
Azerbaijan	7	69	2275	18	79	2575
Mongolia	11	66	3007	10	74	3030
China	6	18	335	12	22	375
Pakistan	8	24	996	12	19	1005
Germany	4	6	731	4	6	750

Source: World Bank Doing Business Survey, 2007

... plus other costs and impediments to transit trade ...

- Increased visa requirements
- Time consuming and expansive customs and other border inspections
- Informal and corrupt payments at border and interior check points
- Limited coverage and high expenses of the TIR
- Lack of communication between border posts on transcontinental routes
- Lack of, or poorly developed, private trade-forwarding institutions

Costs of doing business in Central Asia (1)

	Starting a business				Closing a Business		
	Procedures (No.)	Time (days)	Cost (% of income per cap)	Min Capital (% of income per cap)	Time (years)	Cost (% of estate)	Recovery rate (cents on the dollar)
Kazakhstan	7	20	7	23.1	3.3	18.0	23.6
Kyrgyz	8	21	9.8	0.5	4.0	15.0	14.9
Tajikistan	14	67	75.1	378.6	3.0	9.0	39.1
Uzbekistan	8	29	14.1	24.7	4.0	10.0	18.7
Afghanistan	3	8	67.7	n/a	n/a	n/a	n/a
Azerbaijan	15	53	9.5	n/a	2.7	8.0	32.5
Mongolia	8	20	5.1	115.3	4.0	8.0	18.0
China	13	35	9.3	213.1	2.4	22.0	31.5
India	11	35	73.7	n/a	10.0	9.0	13.0
Pakistan	11	24	21.3	n/a	2.8	4.0	39.9
Russia	7	28	2.7	3.4	3.8	9.0	28.7

Source: World Bank Doing Business Survey, 2007

Costs of doing business in Central Asia (2)

	Dealing with Licenses			Paying Taxes		
	Procedures (No.)	Time (days)	Cost (% of Income per cap)	Payments (# per yr)	Time (hours Per year)	Total tax Rate (% of profit)
Kazakhstan	32	248	35.0	34	156	45.0
Kyrgyz	20	218	510.4	89	204	67.4
Tajikistan	18	187	154.7	55	224	87.0
Uzbekistan	19	287	258.2	130	152	122.3
Afghanistan	-	-	-	2	275	36.3
Azerbaijan	28	212	977.4	36	1000	44.9
Mongolia	18	96	48.4	42	204	32.2
China	29	367	84.0	44	872	77.1
India	20	270	606.0	59	264	81.1
Pakistan	12	218	972.9	47	560	43.4
Russia	22	531	275.3	23	256	54.2

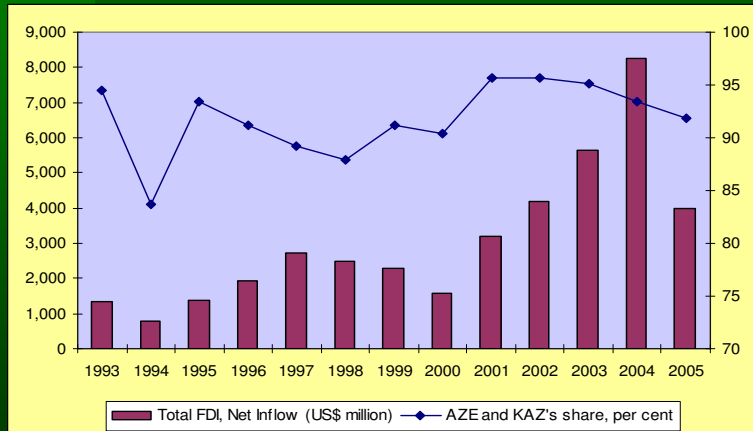
Source: World Bank Doing Business Survey, 2007

Costs of doing business in Central Asia (3)

	Registering Property			Enforcing Contracts		
	Procedures (No.)	Time (days)	Cost (% of Property value)	Procedures (No.)	Time (days)	Cost (% of claim)
Kazakhstan	8	52	1.8	37	183	11.5
Kyrgyz	7	8	1.9	44	140	12.0
Tajikistan	6	37	2.0	46	257	10.3
Uzbekistan	12	97	10.5	35	195	13.5
Afghanistan	11	252	9.5	-	1642	25.0
Azerbaijan	7	61	0.3	27	267	19.8
Mongolia	5	11	2.2	-	-	-
China	3	32	3.1	31	292	26.8
India	6	62	7.8	56	1420	35.7
Pakistan	6	50	4.4	55	880	22.6
Russia	6	52	0.3	31	178	13.5

Source: World Bank Doing Business Survey, 2007

FDI flows small though rising; most going to two oil-exporting countries



Source: World Bank Global Development Finance, 2007

CAREC – a unique partnership

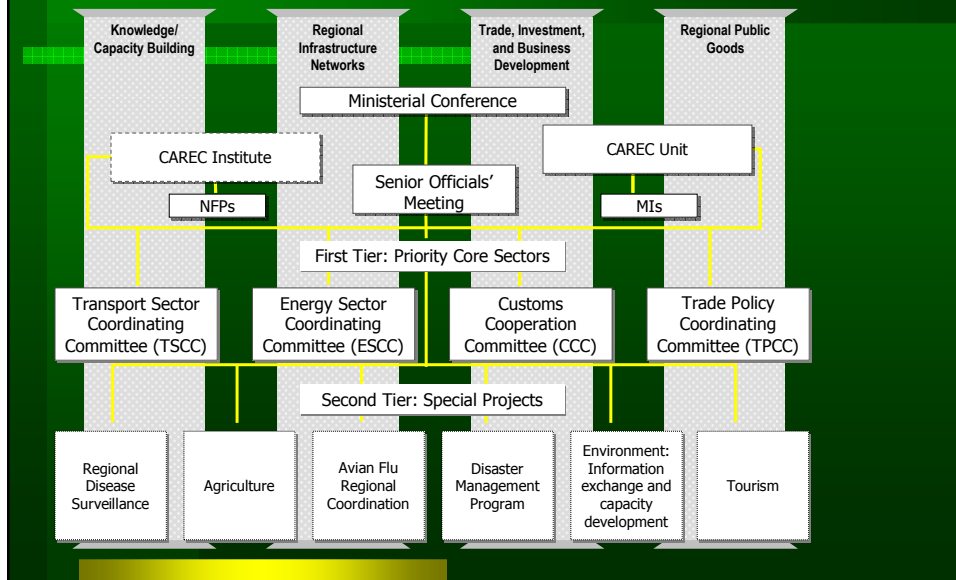
Eight countries: Afghanistan Kyrgyz Republic
 Azerbaijan Mongolia
 PRC Tajikistan
 Kazakhstan Uzbekistan

Six multilateral institutions:

Asian Development Bank
 European Bank for Reconstruction and Development
 International Monetary Fund
 Islamic Development Bank
 United National Development Programme
 World Bank

Business Communities

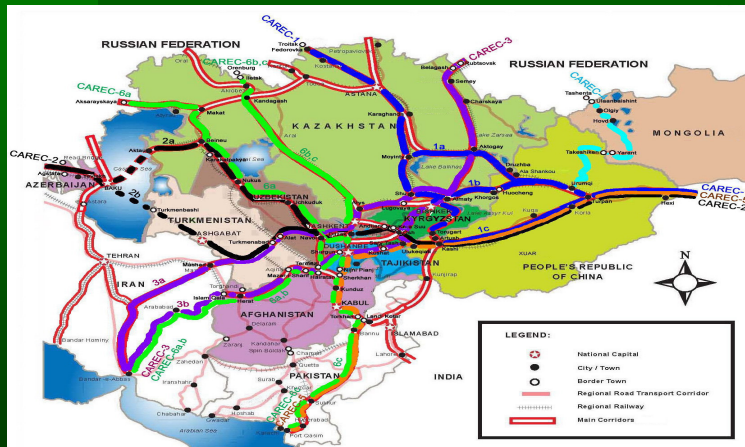
Urumqi Comprehensive Action Plan



CAREC Program Focus in 2007

- Developing regional strategies in priority sectors
 - Transport and trade facilitation
 - Trade policy
 - Energy
- CAREC Institute
 - Policy research, outreach, capacity building

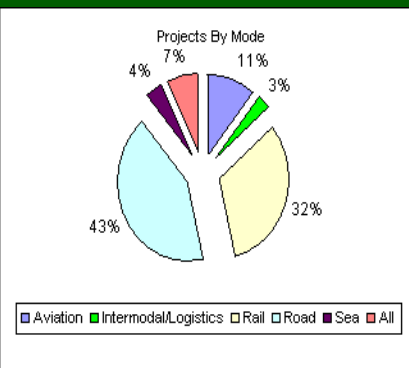
CAREC integrated transport and trade facilitation strategy



Source: CAREC Transport Sector Coordinating Committee Report, 8-9 September 2007

Indicative Corridor investment plan to 2018, totaling US\$20 billion

Summary of Projects			
Corridor/Mode	Project Type (number)		
	Investment	TA	Total
Corridor			
1	23	2	25
2	24	5	29
3	25	3	28
4	1	2	3
5	16	4	20
6	31	6	37
Multiple Corridors	38	7	45
All Corridors	1	21	22
Other/Not Applicable	4	9	13
Subtotal by Corridor (*)	163	59	222
Mode			
Aviation	8	6	14
Intermodal/Logistics	1	3	4
Rail	32	8	40
Road	36	18	54
Sea	3	2	5
All	1	8	9
Total Projects	81	45	126



Source: CAREC Transport Sector Coordinating Committee Report, 8-9 September 2007

Business communities – a key partner for regional cooperation

- 4th MC, Astana – CAREC's basic principle of "involving the business communities more closely in regional cooperation in Central Asia"
- 5th MC, Bishkek – Central-South Asia Business Roundtable
- 6th MC, Urumqi – CAREC Business Development Forum

Consultative process of Business Communities

- To ensure CAREC Program continuing relevance to business communities
- To advocate and pressure the CAREC countries for policy and related reforms – "money comes from reforms"
- To establish regular, close information ties among businesses across CAREC

Cooperation among Chambers of Commerce in Central Asia

- A major step forward in strengthening the consultative process of business communities
- Chambers of commerce to be national focal points of business communities

Key Messages

- Globalization presents opportunity and challenge for Central Asian countries
- The countries can succeed, but must address regional connectivity and business climate
- CAREC is a unique platform for regional cooperation. It has clear priorities and implementing plans
- Business communities are key partners of CAREC Program, and major players for policy advocacy, investment and business promotion