

**Seminar on Trade Logistics Development in CAREC Region
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Summary Paper

Objectives of study

This paper seeks to achieve the following deliverables:

- identify common sector issues and challenges
- implications for regional logistics co-operation
- present some phased in, time-specific action plans and sector strategies

Background

The Central Asia Regional Economic Co-operation (CAREC) program is a partnership between 8 countries in Central Asia and 6 multi-lateral institutions, established to develop the region through on-going co-operation in transport, trade, energy, and other keys areas of mutual interest. In this regard, this paper pertains to trade logistics and the CAREC corridor.

Central Asia is a historical land bridge between two sets of cardinal points, namely, East Asia and Europe (a.k.a. the silk route), as well as between South Asia and the Russian Federation. Today, this region of central Asia is also a potential important transit route connecting East/South Asia and Europe, by road, rail and air.

Traditionally, railways carry the majority of freight and inter-regional passengers, while roads are the dominant mode of transport for passenger traffic within the region. Civil aviation plays a key and increasingly critical role in providing international access and linking major cities to the capital cities of Central Asia. Notwithstanding this, waterway transport, while secondary to that of inland waterways, serve a secondary role as the Caspian Sea links Baku in Azerbaijan and Aktau in Kazakhstan.

The economic recovery of the past decade for these countries has resulted in an increase in the volume of freight and passenger traffic. Railway traffic has also increased on the back of strong growth of such trade activities. Road traffic will continue to rise due to the increase in vehicle ownership and improvement of the national and regional road networks. Likewise, air traffic will grow given the rapid increases in external trade, tourism, and transit traffic between Asia and Europe.

Issues

The transport and logistics sector in the CAREC countries faces the following key issues on regional transport:

- Inefficient cross-border and transit movement of people and goods due to excessive (and sometimes unnecessary) bureaucratic procedures, high cost, unreliable cross border transits, and poorly equipped border posts. The cross-border procedures, formalities, and documentation (e.g., customs, immigration, and quarantine) at borders are not entirely based on international conventions or best practices, and can be relatively time-consuming, complicated, and expensive.

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- Lack of unified transport regulations among CAREC countries. This includes the lack of compatible standards based on international best practices (e.g. technical aspects, road clearance, axle load control, vehicle emission control, tariff, and traffic safety); road permit quotas for foreign vehicles that restrict competition; skewed rules for transport services; road user charges which are not related to the cost of road use; discretionary tariff setting for railways; discriminatory transit fees; and limited private sector participation in infrastructure development (lack of PPP programs or BOT).
 - Less than desired regional transport networks. Without a burgeoning economy supported by external trade prospects, the existing transport links and logistics infrastructure need to improve to and match international standards. The element of adoption of an integrated and regionally oriented multimodal transport approach in the planning and operation for transport infrastructure development is lacking, without the requisite concerted effort by government, associations, and other interested parties to make this into a reality. The arterial and collection roads connecting some production centers, markets, and ports are under-developed. The existing regional transport infrastructure is in danger of further deterioration due to insufficient funding for maintenance or re-surfacing.
 - Lack of competition in railways due to the monolithic and monopolistic nature of the organizations. This has resulted in inefficient railway service, lack of commercial sense and urgency to the management of rail operations and investment, obsolete track and rolling stock, outdated internal telecommunications technology, excessive tariffs for international traffic, tariffs that do not separate movement and terminal costs, and the lack of convenient billing systems and consignment information for shippers.
 - Lack of regional approach in civil aviation and lack of commonality in aviation policy and liberalization prospects across the region. There is no uniform industry structure and ownership model in the region, and bilateral agreements are the predominant mode to regulate international air service. The frequency of intra-regional (within CAREC) and inter-region (to Dubai and elsewhere) air services are low. There is also a fear that in a liberalized environment strong and larger foreign airlines could undermine the local aviation industry.
 - Limited institutional and human resource capacities in the transport and logistics sector. This is reflected by the weak planning for public investment in soft infrastructure such as training and development of professionally recognized logistics personnel, inadequate design standards for transport investment projects, weak financial and project implementation management, and lack of effective monitoring and evaluation tools and techniques.

Recommendations

Given the above issues and challenges, this paper proposes the following strategic options on the effective investment in technology, management and infrastructure, for consideration and immediate action. Three champions are identified in this report, the donor agencies or international organizations such as ADB, the respective CAREC governments, and the private sector. A priority schedule is also provided for the decision makers to reflect the urgency and importance of each strategic option (SO):

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- Leap-frog and design a rail super highway network for goods transport from east to west and from north to south. CAREC should work closely with the donor agencies or international organizations such as the ADB to promote the development of the high speed transit trains, reduce unnecessary lead times from factory to port and onto market. The time to value attribute of faster response should outweigh the cost to serve by the service provider. (Action: CAREC, ADB)
 - More international standard, fast-speed 3-lane, dual carriageways for cross border transit should be built to facilitate inter-regional flow of commercial vehicles. These arterials roads in the form of freeways or expressways should have dedicated ‘green’ lanes for commercial traffic (container trucks). Toll stations can be established electronically, again to minimize unnecessary delays and optimize the transparency in the revenue collection process. Private –public-partnerships may be needed to ensure that there is a smooth transition for the management and maintenance of these roads under a build operate transfer program. (Action: CAREC, Private sector)
 - CAREC should develop their airport and air side infrastructure immediately to ensure that they remain competitive on the international arena. The number of internationally accredited airports must increase for air-borne trade flows to increase exponentially. In this regard, existing airports and their accompanying infrastructure such as ramps, cargo handling facilities, cargo handling equipments (ETVs) must be upgraded immediately or run the risk of losing critical business in the lucrative air sector. (Action: CAREC, ADB)
 - Encourage foreign integrators and carriers to invest in air terminal facilities through generous tax incentives and preferential business schemes. Some of the air terminal facilities should be privatized to foster greater knowledge transfer and competition. This will foster the rapid of technology transfer between local airfreight and air cargo players, and the larger foreign aviation players. (Action: CAREC)
 - Institute immediate legislation to promote multi-modal transport to facilitate the flow of goods with CAREC. One aspect of legislation is to adopt a harmonized system of codes for components and finished goods. Components should “travel” within CAREC duty-free. Documentation related to trade and logistics should be simplified where possible, and be allowed equal if not better recognition in all countries within CAREC so long one port of entry in CAREC has qualified and determine rules of origin for a particular consignment. Also, a green lane should be established by customs to facilitate the transport of high value goods. (Action: CAREC, ADB)
 - CAREC must immediately ratify an open agreement to harmoniously and collectively develop a long term logistics development framework which will seek to structurally improve the quality of life and foreign investment for the region. This framework, should embrace both hard logistics infrastructures such as FTZ, SEZ, EPZ, and soft infrastructure such as ICT, e-Commerce, training, and so on. (Action: CAREC, private)
 - On the structured training and development of human resource and talent for the logistics and transport sector, CAREC must work closely with the universities, institutions of higher learning and the vocational institutes to determine the overall manpower requirements for CAREC over the next decade. The training should be focus on developing both the vocational and managerial needs of this sector. Where needed, implants, in the form of professional and subject matter experts, from other

countries should be encouraged to reside in CAREC on a rolling basis for at least the first five years to ensure a steady transfer of knowledge, best practices and technology to lift the local logisticians to the globally acceptable standards. (Action: CAREC, Private Sector, ADB)

- On the aspect of ICT, CAREC must work closely with the international organizations and the private sector to identify the right set of information service providers to upgrade the existing legacy systems and match internationally accepted standards of performance. One example is the advanced cargo information or manifest system which if instituted correctly can help to facilitate the paper work needed to ensure the smooth passage of goods through Central Asia. To facilitate this shrewd use of information, a one-stop electronic portal should be established to modernize and reform the current state of information delivery practices of border control agencies such as the Customs. (Action: CAREC, Private sector)

Proposed Timelines

This paper presents a draft timeline for the implementation of the above recommendations. These timelines are by no means rigid and are only based on the author's experience in this field of work. In terms of immediate actionables, SO#4,5,7 should be acted immediately especially SO#7 as the supply of human capital needed for the professional conduct and management of the logistics sector requires a gestation period of 3 years (for the managers). SO#1,2,3,6,8 should be started within the next two years and a firm time fence must be set to ensure the timely completion of the logistics infrastructure improvement projects. As to whether road, rail or air should be given priority for the purpose of allocative efficiency, CAREC must determine the relative synergies derivable from each of these modes of transport. For those PPP programs, CAREC must jointly determine with the private sector the appropriate time to conduct the handover. The proposed timeline must also coordinate with the implementation of the trade policies adopted by CAREC and the rollout of the industrial clusters.

Conclusion

Central Asia can witness a renaissance of the silk route through road, rail and air. To achieve this dream, CAREC needs to possess the political will to provide sound infrastructure for the development of trade logistics, foster greater trade efficiencies through barrier removal or tariff reduction, and equipping the requisite manpower for the sustained growth of the logistics and transport sector. In concert with this vision, the modernization of the regulatory environment must be effected, to embrace new technologies for the seamless movement of goods. On a part note, CAREC and ADB must involve the private sector (or least key players in the international logistics community) as early as possible to solicit their buy-in and involvement in all the projects.

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