



**CAREC:  
Looking Back,  
Looking Forward**

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**CAREC**

The **Central Asia Regional Economic Cooperation (CAREC) Program** was initiated by ADB in 1997 in partnership with countries in the region in response to their shared development impediments and strategic challenges.

## **Regional Impediments**

- Landlocked status
- Small domestic markets
- Difficult access to external markets
- Weak natural resource management
- Policy/regulatory framework still in transition
- Political evolution

## **Strategic Challenges**

- Recognition of the benefits of regional cooperation
- Identification of transport/trade economic corridors
- Anticipating how the region will evolve over medium/long term
- Strengthening the private sector
- Resolving the water/energy nexus
- Ensuring development is pro-poor

## **Regional Cooperation - What's at Stake?**

### **Benefits of Regional Cooperation**

- Transaction costs sharply reduced
- Improved competitiveness of local industry
- Greater employment/income opportunities
- GDP for the region could increase substantially

### **Opportunity Costs of Trade Barriers**

- Poverty impact of high cost of goods and services
- Failure to capitalize on strategic trade location
- Diversification and modernization hindered
- Continued over reliance on commodity exports

## **CAREC**

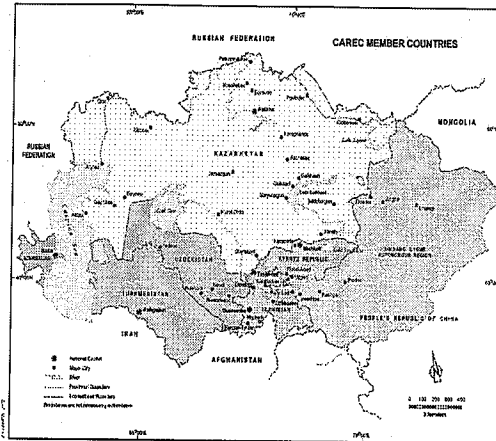
CAREC's objective is to facilitate economic growth, social development, and poverty reduction in Central Asia by promoting economic cooperation.

The Program is focused on financing infrastructure projects and improving the region's policy environment in the priority areas of transport, energy and trade.

## Participating Countries

### Participating countries:

Azerbaijan, People's Republic of China (Xinjiang UAR), Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan.



In September 2005, Islamic Republic of **Afghanistan** and **Russian Federation** were invited to join as full participants in the Program.

Afghanistan serves as a land bridge and an important potential trade route to markets in the south, and to ports in Iran and Pakistan.

Russia is a major trading partner for Central Asia and a key link to Europe.

## **CAREC**

**CAREC is also an alliance of 6 multilateral institutions (MIs)** comprising ADB, European Bank for Reconstruction and Development, International Monetary Fund, Islamic Development Bank, United Nations Development Programme, and World Bank.

## **CAREC Program (con't)**

**CAREC operates in partnership with other key regional cooperation initiatives,** particularly the Shanghai Cooperation Organization and the now merged Central Asia Cooperation Organization and Eurasian Economic Community.

**CAREC is the only forum that brings together the countries of the region with key multilateral and regional organizations within a single institutional framework.**

## **Overall Institutional Framework**

**The OIF** consists of

- (i)** an annual **Ministerial Conference (MC)** to provide strategic and policy guidance,
- (ii)** **Senior Officials' Meetings (SOM)** to support the MC,
- (iii)** **Sector Coordinating Committees** to oversee the identification, and implementation of regional projects, and
- (iv)** **national focal points, and regional cooperation specialists** for each country to coordinate regional cooperation activities.

## Progress in Priority Areas

- **Transport** (especially road transport)
- **Energy** (including the water-energy nexus)
- **Trade policy**
- **Trade facilitation** (especially customs cooperation)

## Transport



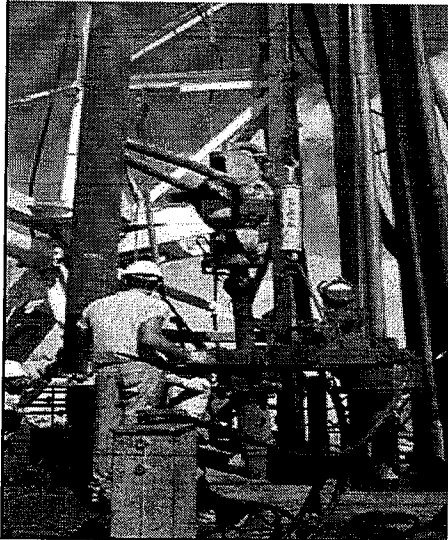
Transport investments in 2005-2006 total \$1.016 billion including:

- completion of road projects in Azerbaijan, Kazakhstan, Kyrgyz Republic and Tajikistan
- major new road projects in Kyrgyz Republic, Mongolia, and Azerbaijan
- Railway projects in Azerbaijan, Kazakhstan and Uzbekistan
- Air fleet upgrade in Tajikistan
- Progress in streamlining soft infrastructure

## Transport (con't)

- The Transport Sector Coordinating Committee is implementing a Comprehensive Regional Transport Sector Roadmap (2005-2010). The Roadmap identifies five strategic priorities:
  - (i) harmonizing and simplifying cross-border transport procedures;
  - (ii) harmonizing transport regulations;
  - (iii) development of transport corridors;
  - (iv) restructure/modernization of railways; and
  - (v) improvement of sector funding/management.
- Goal to develop an integrated and efficient multi-modal transport system for the region
- SCO Regional Road Transport Agreement (ADB, UNESCAP)

## Energy



### Focused on:

- Maximum use of existing infrastructure through rehabilitation of power stations etc.
- Establishment of the policies and institutions necessary for effective regional energy trade
- Improved access to export markets outside the region
- Capacity building



## **Energy (con't)**

### **CAREC energy investment projects include:**

- North-South Transmission Line Project in Kazakhstan
- Batken (KYG)–Kanibodom (TAJ) Transmission Line
- Regional Gas Transmission Improvement Project
- IsDB financing of energy projects
- MI support for Sangtuda I Hydropower Project
- MIs plan to invest about \$200 million in energy projects in 2005-2006.

## **Energy (con't)**

### **CAREC technical assistance projects include:**

- The CAREC Members Electricity Regulators Forum
- The Regional Electricity Export Potential Study (World Bank)
- International Water and Energy Consortium (CACO)

## **Trade Policy**

- Given priority to WTO membership and minimizing the distorting effects of regional trade agreements
- Focused on reducing the time delays and financial costs of entrance and transit, and the barriers to border trade
- Initiated studies to develop greater understanding about the importance of more open trade regimes
- Most recent studies on barriers to transit trade and delays in or costs of entrance or transit
- Next steps include work on barriers to border trade, quantitative restrictions, and trade taxes

## **Trade Facilitation/ Customs Coordination Committee**

Trade Facilitation Program builds on past initiatives:

- Information technology for automated customs services and data exchanges
- Risk management and post-clearance audit
- Joint customs control and single-window practices, and
- Regional transit development.

Non-CAREC trade facilitation activities also extensive (e.g., bilateral trade agreements)

## **Trade Facilitation (con't)**

### **CAREC Trade Facilitation Activities to 2007 include:**

- Continued activities of UNDP, EBRD, and IsDB
- Loan and technical assistance projects by ADB:
  - TAs totaling \$2.5 million in support of Insurance Industry/Regional Trade Facilitation; Integrated Regional Trade Facilitation Strategy; Regional Customs Modernization; and Logistics
  - Standby loan of \$10 million for Regional Customs Modernization and Infrastructure Development

## **MI Coordination**

The MIs agreed in May 2003 to work closely in support of regional economic cooperation under the CAREC OIF with ADB serving as the secretariat.

The 2nd MC in November 2003 endorsed the establishment of a **Working Group** (WG) to facilitate program management. The WG is comprised of regional program coordinators in the ADB, EBRD, IMF, IsDB, UNDP and World Bank.

## **Examples of MI Coordination**

- Cofinancing of investment projects (e.g., Almaty – Bishkek Regional Road Rehabilitation Project by ADB/EBRD; Southern Transport Corridor Road Rehabilitation Project (Osh-Sary Tash-Irkeshtam) by ADB/IsDB/PRC, Sanguda/Hydropower Project in Tajikistan with support of World Bank, EBRD and ADB)
- UNDP Human Development Report for Central Asia
- Trade Policy Papers
- CAREC Comprehensive Action Plan

## **Next Steps**

CAREC's future depends on how it responds to several challenges. Foremost among them are:

- Greater involvement of the private sector
  - Hosting of Regional Business Roundtable (Nov. 2005)
  - Link CAREC Program to private sector needs
- Encouraging CAREC to become a forum for discussion
- Managing the alliance of countries and MIs
- Maintaining CAREC's identity as a key regional cooperation mechanism vis-à-vis other regional cooperation initiatives
- Delivering measurable results