



Agriculture Sector: Concept Paper

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AGRICULTURAL SECTOR: CONCEPT PAPER

I. INTRODUCTION

1. During the Fourth Ministerial Conference of the CAREC Program, November 2005. Bishkek, Ministers urged that the pace of regional cooperation be accelerated, and expressed interest in broadening and deepening the Program to include new sectors. More recently, during a mission in January 2006 of the CAREC Secretariat to Beijing and Urumqi, PRC requested that consideration be given to including the agricultural sector (and tourism, HRD and the environment) in the CAREC Program. Following is a brief concept paper outlining the rationale for including the agricultural sector in the Program, possible areas for regional cooperation, and issues or questions that need to be resolved.

II. RATIONALE FOR INCLUDING AGRICULTURAL SECTOR

2. The basic rationale for including the agricultural sector in the CAREC Program is the importance of the sector for a large share of the regional labor force, the critical role it plays in reducing poverty, and the fact that regional cooperation is needed to address a number of factors fundamental to productivity and competitiveness.

3. In 2003, agricultural output CAREC countries accounted for the following shares of GDP, exports and the employed labor force:

Table 1: Importance of Agriculture in CAREC Countries: 2003

Country	% Share of GDP	% Share of Exports	% Share of Employed Labor
Afghanistan	48.5*	50 +	
Azerbaijan	14.1	5.0	
Kazakhstan	7.3	6.0	32
Kyrgyz Republic	38.7	11.1	42
Mongolia	20.0**	12.7	
People's Republic of China Xinjiang Uygur AR	14.6	4.3	
Tajikistan	24.3	25 (check)	52
Uzbekistan	33.0	40 (check)	44

*The IMF has estimated that opium exports from Afghanistan amounted to \$2.7 billion in 2004, or more than half the GDP of \$5.2 billion.

** Check, agriculture's share in 2000 was reported to be 29 percent.

4. In Tajikistan and Uzbekistan, agricultural products, particularly cotton, constitute 20-40 percent of exports. An estimated 22 million people depend directly or indirectly on agriculture in the Central Asian Republics (CARs).¹

5. The poverty/agriculture relationship is reflected in the fact that most poverty in Central Asia is rural based. Although the CARs do not appear to have suffered from widespread income poverty, social deprivation or marked income inequality at the time of independence, during the first five years of independence (1991-1995) about 30 percent of the population fell into poverty. The transition shock was particularly severe for Kyrgyz Republic, Azerbaijan and Tajikistan (civil strife greatly compounded the distress in the latter two cases). According to World Bank estimates, during the 1990s agricultural output decreased by 2 percent per annum in Uzbekistan and by almost 10 percent per annum in Tajikistan. Azerbaijan, Kazakhstan, Kyrgyzstan, and Mongolia experienced contractions in the 5 percent range annually during the decade. This near collapse of the agricultural sector

¹ UNDP, Central Asia Human Development Report, 2005.

fell heavily on rural people, who at the same time found that the social security systems of the former state farms were unable to continue providing support. Rural poverty increased sharply.

6. Fortunately, since 1998 or thereabouts the agricultural situation in Central Asia has improved. For example, between 1998 and 2003, Kazakhstan's and Uzbekistan's agricultural production increased at an average annual rate of about 8 and 5 percent, respectively. In the case of Xinjiang Uygur Autonomous Region, agricultural output has expanded strongly, reflecting policy reforms in the 1980s and 90s and more recently the "Going West" program of regional development. Still, some CAREC countries have continued to experience severe difficulties, notably Mongolia whose agricultural sector was hit hard by three consecutive years (2000-2002) of bad weather; agricultural production fell by more than 40 percent.

7. Poverty remains high among CAREC countries, averaging about 30 percent but ranging from about 10 percent in western PRC to more than 60 percent in the case of Tajikistan (poverty data for Afghanistan are unavailable). Throughout Central Asia, with the exception of Mongolia, rural poverty levels are significantly higher than urban levels, and income inequality is worsening. Social indicators have also worsened, including a decline in gender balance in access to both education and health facilities. The exception is the Xinjiang Uygur Autonomous Region.

8. All CAREC countries would benefit from strong agricultural sectors, especially the rural poor. In the case of petroleum rich countries (Kazakhstan and Azerbaijan), agricultural development is an important element of the strategy of diversification, so as to reduce dependence on oil and natural gas exports. The sector figures prominently in the poverty reduction and development strategies of all CAREC countries.

9. There is significant potential to expand agricultural production, as both crop and livestock productivity levels are well below those in countries with similar agro-ecological conditions. To illustrate, cereal yields per hectare in Kazakhstan are one-third those in Canada, and milk production per dairy cow is one-third that in New Zealand. Cotton yields in Uzbekistan during 2000-2004 averaged about 2.2 tons/ha, compared to 3.3 tons/ha in China. As a further illustration of the potential, household plots in Kazakhstan occupy only 1 percent of arable land, yet account for nearly 50 percent of the value of total agricultural output.

10. However, increased productivity and competitiveness of the agricultural sector, which is fundamental to reducing rural poverty, is hampered by a number of shared constraints:

- slow transition in the CARs (except for Kyrgyz Republic) from state farms to private farms, reflecting reluctance of shareholders to restructure into small units;
- reluctance based on lack of management skills, operating experience in open markets, and of input supply mechanisms;
- lack of effective research, extension and agricultural information services for private farmers;
- lack of property title, slow land registry systems;
- deteriorated state of irrigation systems and weaknesses in regional water supply agreements;
- poor water management, resulting in excessive use leading to water logging, salinization, and other forms of land degradation;
- unscientific use of fertilizers, pesticides;
- lack of agricultural quality standards, impeding trade;

- lack of cross-border agreements concerning livestock disease control, impeding trade;
- transport and transit impediments, impeding trade;
- limited access to loans/working capital;
- weak institutional capacity of ministries of agriculture; and
- state procurement prices, whereby the price received by farmers is typically considerably below export parity under market conditions.

III. AREAS FOR REGIONAL COOPERATION IN AGRICULTURE

11. In considering priority areas for possible regional cooperation in agriculture, it is instructive to draw upon the experience to date of the GMS Program (Greater Mekong Subregion Program of Economic Cooperation). The GMS Working Group on Agriculture (WGA) began initiating projects in 2003, aimed at reducing poverty, promoting food security and increasing – in a sustainable manner – income-generating opportunities in agriculture. The WGA has held two workshops, first on agriculture biotechnology (e.g., the need for regulatory frameworks concerning biotechnology), and second on agricultural investment, trade and technology and cooperation (e.g., public-private sector partnership). Most notably, the WGA drafted a regional cooperation framework to control transboundary animal diseases, which was formulated into a Memorandum of Understanding and signed by the six Heads of State during the Second GMS Summit in July 2005. A second phase of the initiative is being undertaken in 2006, designed to implement the provisions of the MOU through immunization of a large number of livestock and to result in significant reductions in the incidence of common animal diseases. Also in 2006, the WGA will monitor implementation of an initiative proposed by MOA of PRC to establish an agricultural information network; the initiative is supported by an ADB-TA and will include design of the required database and creation of a web site. The medium-term loan pipeline for the GMS Program includes a \$130 million loan in 2008 for flood management and mitigation.

12. In light of the GMS experience and in light of the special circumstances of CAREC countries, the following areas for regional cooperation are suggested for consideration:

A. Trade Facilitation Initiatives

13. Complementary to the Trade Facilitation and Trade Policy Coordinating Committees, and the Transport Sector Coordinating Committee, CAREC countries could:

- identify transport/trade routes and cross-border facilities of particular importance to the agricultural sectors of CAREC countries, and advise relevant Trade/Transport Coordinating Committees;
- identify the trade policy impediments of highest priority, both in terms of cross-border and transit trade, and advise the Trade Policy Coordinating Committee accordingly;
- identify logistical systems (e.g., refrigeration requirements, container assembly points, TRI rights) critical for exporting fresh produce to regional and extra-regional markets;
- identify the impediments to producing higher-value agricultural products;
- collaborate in identify and developing new export markets;
- harmonize efforts to comply with the Sanitary and Phytosanitary (SPS) Agreement of WTO, to guarantee food safety and animal and plant standards;
- collaborate in development of sufficient testing capacity, and facilitate cross-border usage to minimize transport/handling costs;
- adopt memoranda of understanding concerning transboundary animal diseases, with the aim of a region-wide agreement;

- encourage private firms to comply with the International Standards Organization (e.g., wheat classification according to protein content rather than the CIS classification based on gluten content); and
- network and strengthen the market information systems.

B. Know-How and Technology

- take stock of the investment climate for agriculture, particularly with regards to attracting foreign direct investment and the market access, management skills and technology transfer it occasions;
- where government procurement prevails, differentiate product prices to more clearly reflect product quality (e.g., as between class two and class three wheat), so as to encourage production of higher quality products;
- collaborate in strengthening agricultural research and in disseminating the findings;
- encourage private sector financing of agricultural research (e.g., in association with contract farming);
- collaborate in facilitating adoption of technology by farmers and agro-processors (e.g., public and private extension services; training in the proper use of fertilizers and pesticides);
- on-farm demonstrations on how to intensify crop production;
- collaborate in creating a positive legal and institutional framework for the agricultural sector; share in international best practices and regional experience;
- collaborate in strengthening linkages with development partners, such as the FAO and the Codex Alimentarius Commission (re the SPS Agreement);

C. Water and Land Management

- collaborate in strengthening and harmonizing cadastral systems, so as to clarify property titles (ownership or leasehold), thereby creating incentives for and means to finance improvements in land, irrigation and other agricultural investments;
- collaborate in setting user charges for water, to better reflect the cost of water provision (including the cost of storage) and irrigation services;
- collaborate in improving irrigation practices, learning from international best practices and regional experience;
- collaborate in irrigation and drainage rehabilitation;
- share training facilities/programs for water management operation and maintenance;
- encourage engagement of communities in water resource management (development of water users' associations);
- collaboration in capacity building (e.g., helping to realign ministries of agriculture to be supportive of private sector, replacing central planning).

14. The above lists are simply indicative of areas where regional cooperation in agriculture would yield benefits to the participants. CAREC countries would need to narrow the lists to a few highly practical initiatives, realizing that such a wide scope of collaboration will only occur very gradually, following evidence that cooperation in the agricultural sector is mutually beneficial. In the meantime, "shopping lists" should be avoided. To avoid potential duplication or ineffectual use of resources, a review is needed as to earlier and current initiatives by the governments, donor agencies, NGOs and others.

IV. ISSUES/QUESTIONS FOR CONSIDERATION

15. Consistent with the founding principle of CAREC that it be results-oriented and highly practical, a number of issues or questions need to be addressed in considering broadening of the Program to include agriculture-related interests:

- **resource availability, both technical and financial;** the question must be addressed as to whether one of the MI partners to CAREC is willing to take the lead in helping participating countries to identify and implement regional agricultural activities; the resource availability must be credible, and the level of commitment sufficient to achieve significant results; if sufficient technical and financial resources are not available from within the MI “six”, consideration may need to be given to inviting another donor partner to participate;
- **bilateral or the two plus principle;** a good deal of agricultural cooperation could be accomplished through bilateral arrangements or the two plus principle (i.e., subgroups of the CAREC countries); CAREC countries will need to ensure movement towards common goals and objectives (e.g., harmonization of quality standards);
- **overall institutional framework (OIF) effectiveness;** broadening of the CAREC Program to include new sectors (possibly tourism, environment and HRD, in addition to agriculture) will mean expanding the SOMs and MCs to include additional interests and stakeholders; questions need to be addressed as to the capacity of the CAREC Secretariat and the National Focal Points to take on additional responsibilities; also, questions arise as to maintaining the focus of the the SOMs and MCs on CAREC’s core economic sectors (transport, trade and energy);
- **coordination with other regional initiatives/organizations;** Ministers agreed during the Third Ministerial Conference that duplication and overlap in regional cooperation should be minimized; Ministers requested that the interrelationship of the CAREC Program with other regional initiatives, including the SCO and the EEC, be reviewed; in particular, consultations will need to be undertaken with the SCO to ensure that CAREC agricultural initiatives would be complementary.

V. INSTITUTIONAL OPTIONS

16. Senior Officials may wish to consider the following options concerning agriculture:

- **Agriculture as a subset of trade facilitation and transport:** as noted earlier, the trade and transport impediments to agricultural exports could be identified and addressed by CAREC’s trade facilitation, trade policy and transport committees; logistical issues and compliance with international standards could also be addressed by these committees;
- **Step-by-step-approach:** CAREC could engage the agricultural sector in a gradualist fashion, in collaboration with other organizations that have expertise in the subject; the first step could be review of the country-based agricultural programs, to determine where a regional dimension would be helpful;
- **Establishment of a Working Group on Agriculture:** the terms of reference for such a working group would need to be determined, drawing on experience under the GMS and other programs. It would likely be desirable to commence by focusing on areas where mutual benefits are most easily gained (e.g., bird flu and animal disease control).

VI. CONCLUSIONS AND RECOMMENDATION

17. Agriculture continues to be an important sector for CAREC countries, and there is considerable scope for improved performance through measures to strengthen productivity and competitiveness. Poverty reduction in the region depends to a considerable degree on realizing improved performance. While national measures are the primary solution, regional initiatives are also needed.

18. Regional initiatives could include trade promotion (e.g., market information and logistics systems), transboundary disease control, technology transfer, and water management (e.g., irrigation and drainage rehabilitation).

19. CAREC should focus on those areas where practical results are most likely, paving the way for progress in areas where more consensus building is required.

20. It is recommended that an Ad Hoc Working Group be established to develop a draft proposal on regional cooperation in agriculture. This proposal should be discussed at the next SOM.