



Reference Document
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Trade Sector Progress Report and Work Plan (July 2017–June 2018)

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I. Sector Progress

A. Background and Summary

1. The new *CAREC 2030 Strategy* builds on the progress made under *CAREC 2020* and expands the previous strategy into creating an open and inclusive regional cooperation platform that connects people, policies, and projects for shared and sustainable development. The new strategy called for the creation of a trade group that would discuss and deliberate on the increasingly intertwined issues of trade policy and trade facilitation in a synergistic manner and the development a forward-looking regional trade strategy.

2. In the previous strategy (*CAREC 2020*), trade was under two separate sub-sectors – trade policy and trade facilitation coordinated by the Trade Policy Coordinating Committee (TPCC) and Customs Cooperation Committee (CCC), respectively. The Regional Trade Group (RTG) will take charge of the integrated trade work combining trade policy and trade facilitation and a broader scope such as trade-related linkages with *CAREC 2030*'s operational clusters and priorities. Meanwhile, CCC will continue to carry out customs cooperation functions related to trade facilitation.

3. This report provides the key developments and progress in CAREC trade sector, particularly during the period of transition with the expiration of the Trade Policy Strategic Action Plan 2013-2017 and the development of the CAREC Integrated Trade Agenda (CITA) 2030 and its accompanying three-year Rolling Strategic Action Plan (RSAP 2018-2020). Specifically, the report presents the status, progress and key issues on the: (a) development of CITA 2030 and RSAP 2018-2020; (b) establishment of the RTG; (c) trade policy reforms; (d) customs cooperation; (e) implementation of World Trade Organization (WTO) Trade Facilitation Agreement (TFA); (f) investment projects on Regional Improvement of Border Services (RIBS); (g) implementation of CAREC Common Agenda for Modernization of Sanitary and Phytosanitary (SPS) Measures for Trade Facilitation (CAST) including technical assistance projects and investment project on Regional Upgrades of SPS Measures for Trade (RUST); (h) cross-border economic zone development; (i) trade finance; (j) collaboration with the private sector; and (k) corridor performance measurement and monitoring. The report also includes the trade sector work program for 2018–2019 and key issues for guidance by the Senior Officials' Meeting (SOM).

B. Key Developments

4. **Development of CITA 2030 and RSAP 2018–2020.** Under the framework of *CAREC 2030* strategy, CITA 2030 will integrated trade work combining trade policy and trade facilitation and include cross-cutting priorities in CAREC 2030 operational clusters. In December 2017, ADB and CAREC Institute jointly organized a workshop attended by officials from CAREC trade-related agencies, international organizations and development partners to discuss the possible scope and elements of the strategy. The outcomes of the workshop supported the development of a consultation paper for CAREC Integrated Trade Agenda (CITA) 2030 which was circulated for official comments of CAREC countries in February 2018. On the basis of the consultation paper, a series of sub-regional and national stakeholder consultations and high-level private sector session were held from March to May 2018 for the development of CITA 2030 and its accompanying RSAP 2018-2020.

5. The consultations confirmed that the proposed impact, outcome and outputs of CITA 2030 are aligned with CAREC members' national priorities and that they have formulated action plans to address the same challenges and issues as (a) poor market access, (b) limited economic diversification, and (c) weak institutions for trade. Stakeholders also agreed to adopt a phased and pragmatic approach towards CITA's implementation and will prioritize projects that are specific, measurable, achievable, realistic and timely. Countries proposed and identified specific RSAP activities for 2018-2020 for investment projects, policy dialogues and cooperation, and knowledge product and services. The outcomes of the consultations were consolidated and reflected into a Working Paper of the CITA 2030 for consideration at the RTG Inaugural Meeting.

6. **Establishment of Regional Trade Group (RTG).** As envisioned under *CAREC 2030*, the RTG will be established to discuss and deliberate on the increasingly intertwined issues of trade policy and trade facilitation in a synergistic manner. The RTG will have the lead and full operational authority as the coordinative and consultative body for trade sector in the CAREC Program – with the CCC to continue to carry out customs cooperation functions related to trade facilitation. The RTG's proposed key functions are (i) policy dialogue and strategy formulation, (ii) project pipeline development and implementation, and (iii) institutional strengthening and stakeholder coordination. It is proposed that membership will be per country, represented by respective Appointed Representative of the Country (ARC) for the RTG. The inaugural meeting of the RTG is held back-to-back with the Senior Officials Meeting in June 2018 in Bangkok. The RTG will finalize the CITA 2030 and its accompanying RSAP 2018-2020 as a priority and as a key deliverable at the 17th CAREC Ministerial Conference in November 2018.

7. **Trade policy reforms.** As reported in SOM in June 2017, most CAREC members implemented the first set of trade policy measures under Trade Policy Strategic Action Plan (TPSAP) 2013-2017 which were related to WTO commitments and efforts to build capacity and increase knowledge-sharing. Progress on the second set of measures—linked to eliminating non-tariff barriers, creating of private-public dialogue in national joint committees, and assessing trade in services—has been uneven and with little headway in applying the final set of measures focused on deepening trade in services and expanding labor mobility. The proposed CITA includes these measures for action and support taking into consideration recent economic reforms and international agreements (e.g., Eurasian Economic Union or EAEU) which were recently implemented by CAREC member countries. For example, Uzbekistan abolished customs duties for exports, resumed work towards WTO accession and introduced customs and transit procedure reforms.

8. **Customs cooperation.** The 16th CCC Annual Meeting, held in Dushanbe, Tajikistan in September 2017 endorsed the piloting of a CAREC Advanced Transit System (CATS) and the Information Common Exchange (ICE). To enable the pilot testing of the CATS and the ICE, a trilateral agreement between Azerbaijan, Georgia and Kazakhstan (the pilot countries), has been drafted and details of pilot implementation are being threshed out. A roundtable discussion with insurance companies from the three countries was held in April 2018 in T'bilisi, Georgia. The actual pilot is expected to start in the third quarter of 2018.

9. At the request of the Uzbekistan State Customs Committee, the services of an expert on customs automation and development of single window was provided by ADB to review and recommend an implementation plan for the Uzbekistan Roadmap on Customs Information and Communications Technology Development. Automation of the unified manifest under the joint customs control (JCC) project between People's Republic of China (PRC) and Mongolia continue to be supported. In addition, a training and study visit to PRC for Mongolian customs

officers in the areas of risk management container scanning image identification and smuggling combating was organized with support from ADB. Azerbaijan and Georgia requested possible assistance from ADB in building a common customs control border post to be used as a joint facility, expand capacity and adopt one-stop principle for both countries. Additional JCC pilot project between PRC and Kazakhstan is also being proposed.

10. The 16th CCC Annual Meeting also endorsed the (i) formulation of a new technical assistance project to support TFA implementation; (ii) preparation of more investment and technical assistance projects for trade facilitation; and (iii) the formulation of a new trade agenda.

11. **Implementation of the WTO TFA.** The WTO TFA, which entered into force in February 2017, seeks to expedite the movement of goods and sets out measures through effective cooperation between customs and other authorities on trade facilitation. An ADB assessment of CAREC country readiness showed varying levels of alignment of national laws or regulations with TFA provisions, and some progress in the establishment of National Committees on Trade Facilitation (NCTF) or similar mechanisms.

12. A workshop co-sponsored by ADB and CAREC Institute was held in Bangkok, Thailand on 12-13 December 2017, to discuss CAREC countries' readiness to implement the TFA. CAREC member countries that are WTO members confirmed and/or updated the results of the ADB assessment and highlighted areas under Categories B and C where assistance is needed - most of which are related to CCC initiatives under the CAREC program. Non-WTO member countries stated their legislations/regulatory alignment with many TFA provisions in law and practice, as the majority of these provisions reflect the Revised Kyoto Convention – a priority area of the CCC. Support for establishing and sustaining the NCTF, which is a key to effective policy deliberation and institutional cooperation, was also underscored. Participants affirmed that a regional approach under CAREC program would facilitate TFA implementation through knowledge sharing, policy dialogue and investment projects.

13. Based on the assessment results per country and consultation with development partners to avoid overlap and ensure more comprehensive coverage, new ADB technical assistance is expected to support TFA implementation among CAREC countries and potentially promote inter-regional sharing of best practices with an inter-subregional workshop planned in October 2018.

14. The **Regional Improvement of Border Services (RIBS)** project aims to include: improvement of border crossing points (BCP); establishment of national single window system and facilities; and project management and supervision capacity strengthening. RIBS is currently being implemented in four countries – (a) Kyrgyz Republic: Karamyk BCP and National Single Window (NSW); (b) Mongolia: Altanbulag and Zamyn Uud BCPs; (c) Pakistan: Torkham, Chaman and Wagha BCPs; and (d) Tajikistan: Guliston BCP and NSW.

15. Civil works for the improvement of Karamyk BCP is scheduled for completion by November 2018. As part of the NSW component, further development of the single window information system (SWIS) is planned. Technical requirements for SWIS improvement and procurement activities for the software development have been completed and awaiting contract award. Construction activities to upgrade BCP infrastructure and installation of equipment were completed at Guliston BCP in Tajikistan in 2016 and the procurement of the SWIS hardware is planned in the second half of 2018.

16. In 2015, two RIBS projects supported by ADB with total amount of \$250 million was approved for Pakistan. The Project outputs will be (i) improvement of the infrastructure, facilities and equipment at all the BCPs Torkham, Wagha and Chaman, (ii) establishment of the Pakistan Land Port Authority; and (iii) improved knowledge and skills of BCP operating agencies. Detailed design of the Torkham and Chaman BCPs is ongoing with civil works to commence at the end of 2018. Procurement of the BCP Wagha civil works is also planned by the end of 2018.

17. The implementation of Mongolia RIBS project is underway. Additional financing to cover new BCPs in Bichigt (bordering the PRC to the East) and Borshoo (bordering the Russian Federation to the West) is under preparation. Scoping for possible RIBS projects were also conducted for Turkmenistan and Uzbekistan. Azerbaijan and Georgia requested possible ADB support for RIBS project which could complement the ongoing development of Red Bridge BCP project on joint customs and border SPS management funded by EU and implemented by UNDP.

18. **Implementation of the CAREC Common Agenda for Modernization of Sanitary and Phytosanitary (SPS) Measures for Trade (CAST).** A regional technical assistance project was approved in February 2018 to assist CAREC countries in implementing the CAST. It seeks to (a) establish national and regional SPS working groups to lead the SPS modernization process, (b) align regulations, procedures, and requirements with the principles of the WTO Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement) and international standards under the World Organisation for Animal Health (OIE), International Plant Protection Convention (IPPC), and Codex Alimentarius Commission, and (c) improve capability to implement these modernized measures at selected common borders. A regional workshop in May 2018 was organized to kick-off the TA's implementation where CAREC countries prioritized regional actions and prepared country work plans to establish SPS working groups and align regulations with international standards in plant health, animal health and food safety.

19. The **Regional Upgrades of SPS Measures for Trade (RUST)** project in Mongolia supported by ADB aims to improve SPS inspection and control systems with the objective of increasing agri-food trade and diversifying the economy. Investment focuses on the three aimags of Dakhan-Uul, Altanbulag, and Zamyn-Uud which are part of CAREC Corridor 4b. Work is proceeding to build or rehabilitate laboratories and equip them with new diagnostic equipment, which will decentralize testing and diagnostic capacity and support the early detection of diseases. Technical proposals to construct border facilities for inspection, quarantine, and disinfection are being finalized, and an inspection management system that will integrate risk assessment is being developed. An International Organization for Standardization (ISO) assessment of laboratories was conducted with the aim of obtaining international accreditation of laboratory tests, and laboratory manuals for testing and sampling in line with international standards will be prepared. Scoping study was also completed for a possible RUST project in the Kyrgyz Republic which includes needs assessment and recommendations regulatory alignment with international standards, laboratory capacity, inspection facilities and training.

20. Several TA projects support food safety standards. The TA which supported Turkmenistan's SPS modernization through the alignment of national food safety regulations, development of implementation guides such as Hazard Analysis and Critical Control Points (HACCP) and provisions of training on Codex standards was completed in March 2018. Another regional TA, approved in 2016, aims to strengthen international food safety standards in agricultural value chains is under implementation. The outputs of the TA are (a) regulations for

meeting international food safety standards, (b) laboratory rationalization and infrastructure requirements for applying international food safety standards, (c) capacity of value chain actors to implement food safety to international standards and (d) establishment of CAREC Food Safety Network – with a proposal to be presented at the RTG and SOM in June 2018.

21. **Development of cross-border economic zone (CBEZ).** A Multi-tranche Financing Facility (MFF): Xinjiang Regional Cooperation and Integration Promotion Investment Program (amounting to \$490 million) is being prepared to support the development of cross-border economic zones in the border areas between Xinjiang (PRC), Kazakhstan and Mongolia. The investment program will develop essential trade-related facilities and services, support border transport connectivity, and provide support for small and medium-sized enterprises in the border areas of Alashankou, Khorgos, Altay, Jeminay and Qinghe of Xinjiang.

22. The proposed MFF: Inner Mongolia Regional Cooperation and Integration Promotion Investment Program will support Inner Mongolia Autonomous Region's (IMAR) participation in the CAREC program and other RCI initiatives. The MFF will strengthen cooperation between IMAR and neighboring countries by improving connectivity, increasing cross-border trade and investment, improving infrastructure and social services in the border areas (including Erlian with Mongolia and Manzhouli with Russia), and promoting cross-border people-to-people exchanges. The total cost of the investment program is estimated at \$1.2 billion, of which \$420 million will be financed by ADB.

23. The development of Mongolia's CBEZ is an identified government priority and a transaction TA will support the development of a roadmap for Mongolia's CBEZ. This will include the review of masterplans and pre-feasibility studies for the development of Zamyn-Uud and Altanbulag free zones, institutional strengthening and capacity building, and development of framework for policy and project coordination mechanisms for cross-border economic cooperation with PRC. The TA will support project preparations for an ensuing \$30 million loan project covering hard and soft infrastructure in Zamyn-Uud free zone.

24. **Trade finance.** Since 2009, ADB's Trade Finance Program (TFP) provides guarantees and loans to over 200 partner banks and supported more than 12,000 small and medium enterprises (SMEs) valued at over \$30 billion in Asia and Pacific. In CAREC countries (excluding PRC), ADB's TFP has supported over \$1.6 billion in trade through 571 transactions in 2017, 75% of which have been SME-related deals. TFP complements its financial support with online trainings and a regular series of regional seminars to help banks establish business relations and increase knowledge in trade finance operations, risk management, and fraud prevention. In 2017 TFP signed agreements with new partner banks in Kazakhstan and Uzbekistan and held a two-day conference for trade finance professionals in Almaty with a total of 80 participants representing 50 banks from countries in Central Asia, the Caucasus and Mongolia. In addition to TFP, work is underway to expand ADB's Supply Chain Finance Program (SCFP) to CAREC countries. SCFP works with corporates and partner financial institutions to enhance SME access to working capital.

25. **Collaboration with the private sector.** The CAREC Federation of Carrier and Forwarder Associations (CFCFA) remains as an active partner in the implementation of the CAREC trade facilitation program. CFCFA finalized the standards on liability insurance, information technology, logistics equipment, document preparation, container consolidation services, and contract and trading conditions after a series of reviews by the members and consultations with an International Federation of Freight Forwarders (FIATA) expert in August 2017. CFCFA has also completed drafting Extensible Markup Language (XML)-based transport

message standards as part of their commitment in their partnership with the China National Institute of Standardization (CNIS). CFCFA is also cooperating with CNIS and other standardization agencies to launch a research institute for international regional standardization.

26. At the CFCFA meeting in September 2017, CFCFA members from the PRC, Kyrgyz Republic and Uzbekistan agreed to participate in a pilot project to promote the new international transport corridor "Andijan-Osh-Irkeshtam-Kashgar". This new international transport corridor will ensure fast and efficient transshipment of foreign trade goods from Uzbekistan through the logistics center in Kashgar, sent to eastern seaports of PRC. The route opens up new opportunities for the delivery of international transit cargo through Uzbekistan to Afghanistan, Iran, Pakistan, as well as to other countries of southern Asia via the seaport of Karachi. Furthermore, CFCFA members continue to support by providing data for the Corridor Performance Measurement and Monitoring (CPMM).

27. **Corridor performance measurement and monitoring.** Trade Facilitation Indicators (TFIs) under the CPMM provide a benchmark to assess progress of the CAREC trade facilitation program and reported on annual and quarterly basis. Table 1 summarizes the overall road and rail performance metrics for the period 2014-2017:

Table 1: Trade Facilitation Indicators (2014–2017)

Road Indicators	2014	2015	2016	2017	YoY
TFI1 Time taken to clear a border crossing point (hr)	9.9	9.3	11.3	16.7	48%
<i>Without AFG and PAK borders^a</i>	5.8	4.3	4.5	4.5	0%
TFI2 Cost incurred at border crossing clearance (\$)	177	149	160	158	-2%
TFI3 Cost incurred to travel a corridor section (per 500km, per 20-ton cargo)	1,359	1,341	1,174	947	-19%
TFI4 Speed to travel on CAREC corridors (kph)	22.9	23.2	22.3	22.2	-1%
Rail Indicators*					
TFI1 Time taken to clear a border crossing point (hr)	32.6	27.4	25.9	26.8	4%
TFI2 Cost incurred at border crossing clearance (\$)	148	208	215	209	-3%
TFI3 Cost incurred to travel a corridor section (per 500km, per 20-ton cargo)	1,364	1,250	966	975	1%
TFI4 Speed to travel on CAREC corridors (kph)	11.4	14.0	14.3	14.8	3%

\$ = US dollar; kph = kilometers per hour; TFI1 = trade facilitation indicator #1; YoY = year-on-year. *Rail sample is comprised of records from Corridors 1, 4, and 6** only. **No rail data for corridor 6 collected in 2014 and 2015. ^a TFI1 estimates excluding border crossing delays at Afghanistan and Pakistan BCPs.

Source: ADB estimates using CPMM database.

28. The significant increase in TFI1 for road transport is mainly in Corridors 5 and 6 and attributable to the stricter border controls at the Afghanistan-Pakistan BCPs. Although TFI1 for rail transport is relatively constant, issues on delays due to shortage of wagon and the change of gauge operations were reported. In terms of TFI2, both road and rail transport showed some slight cost reduction partly attributable to fluctuation in oil prices. The regional average of TFI3 declined by 19% (or in nominal terms, to \$907) for road transport cost suggesting a region-wide lower vehicle operating cost. TFI3 for rail transport sustained the improvements gained since 2016. Trucks registered faster speeds under the TFI4 in 2017 which could show improved road and better traffic along the corridors. Average Speed Without Delay (SWOD) rose from 41.7 kph in 2016 to 45.0 kph in 2017 for road. Meanwhile, estimates of Speed with Delay (SWD take into account border crossing delays and intermediate stops) dropped to 22.2 kph. Meanwhile, rail sustained its average speed level registering an average SWOD of 37.6 kph and SWD of 14.8 kph in 2017.

29. **CAREC Institute's support.** The Intergovernmental Agreement establishing the CAREC Institute entered into force on 24 August 2017 and a Strategic Framework for CAREC Institute 2018-2022 is being developed which is planned to initially focus on the CAREC 2030 sectoral clusters of (i) trade, tourism, and economic corridors; (ii) infrastructure and economic connectivity and (iii) economic and financial stability. Thus far, trade-related capacity building activities were undertaken including regional knowledge-sharing forum on exploring cooperation for cross-border trade logistics and facilitation (August 2017) and workshops on trade and trade facilitation reforms, e-commerce and public-private partnership (December 2017).

II. Work Program 2018–2019

30. The RTG will finalize and submit the CITA 2030 for endorsement at the 17th Ministerial Conference in November 2018. The accompanying RSAP 2018-2020 will cover the first three years of CITA implementation. The RTG will also finalize the results framework that will measure and assess progress of CITA implementation and develop a communications plan for dissemination of the CITA and RSAP to public and private stakeholders.

31. A regional technical assistance project is expected to support implementation of RSAP 2018-2020 including to strengthen member countries capacities to meet their TFA commitments.

Among the proposed RSAP interventions on new areas include feasibility studies and investments in development of cross-border economic zones; knowledge product on potential enhancement of trade in services (financial, health, education, transport and tourism); economic corridor development, cooperation centers, regulatory framework and best practices on digital trade, e-commerce and innovation; and policy dialogue for facilitated visa arrangements or special permits for traders and truck drivers and labor migrants.

32. Customs cooperation will continue to focus on the five priority areas: simplification of customs procedures, risk management, regional transit, ICT modernization, and joint customs control. The 17th CCC Annual Meeting on 5 September 2018 in Ashgabat, Turkmenistan is expected to discuss the CCC priority areas and finalize the customs cooperation activities under the CITA 2030 and RSAP 2018-2020. The piloting of the CATS and ICE will be pushed for implementation in the third quarter of 2018. Automation of the unified manifest and expansion of JCC pilots for Mongolia-PRC BCPs will be followed up.

33. To continue supporting the implementation of CAST, national strategies or action plans will be developed to establish or strengthen national and regional SPS working groups and support alignment of SPS measures in accordance with WTO SPS Agreement and international standards. Sector-specific workshops will be organized to enhance technical capacities of SPS authorities or inspection agencies. The national action plan will include preparation of official lists of regulated pests based on pest risk analysis, improve capacity to identify and prevent introduction of animal diseases, including transboundary animal diseases and help develop risk-based approach to inspections of agri-food products.

34. Partnership with the private sector will continue to be strengthened including enhanced participation at joint meetings or consultations between private sector on the one hand and customs and other trade agencies on the other hand. As with the public sector, adoption of international standards to professionalize private sector services will be encouraged and supported. CPMM workshop and training on its enhanced methodology that includes collection of behind-the border indicators will be conducted. Capacity-building activities in collaboration

with CAREC Institute in the pipeline for 2018 include CPMM and development of behind-the-border indicators, WTO TFA and special economic zones.

III. Key Issues for Guidance by the SOM

35. The CITA 2030 working paper, including its accompanying three-year RSAP, was developed through inclusive consultations held with government agencies, development partners and the private sector. The RTG is expected to lead and have full operational authority as the coordinative and consultative body for trade sector. With further guidance from the Senior Officials, Ministerial endorsement of the Working Paper on CITA 2030, its accompanying RSAP and the Terms of Reference for the RTG is proposed. Guidance and endorsement of the SOM on approach to expanded trade areas is also sought.

36. The proposed CATS has a real potential to substantially expand transit trade within the region and with non-CAREC countries. However, there are perceived issues such as incompatible transit procedures between the EAEU and the CATS. As technical solutions are being proposed, support from CAREC countries to pilot test the CATS and the strong interest to scale-up the initiatives to additional members will help move this initiative forward.

37. The WTO TFA readiness assessment highlights the need to implement mandatory provisions of WTO TFA (under Category A) as well as the establishment of the NCTF. SOM support to achieve this will help accelerate TFA implementation among WTO members from CAREC. Additional projects to implement the CAST have been included in the proposed RSAP. SOM endorsement to set up or strengthen existing mechanisms to serve as SPS working groups at national and regional level will be critical for the successful implementation of the CAST. Guidance is also sought on the options for the establishment of CAREC Food Safety Network.