

CENTRAL ASIA REGIONAL ECONOMIC COOPERATION

Summary of Proceedings Senior Officials' Meeting 14 October 2005

1. A Preparatory Senior Officials' Meeting (PSOM) on Central Asia Regional Economic Cooperation was convened in Bishkek, Kyrgyz Republic, on 14 October 2005. The PSOM followed-up on the views and instructions of Ministers made during the Third Ministerial Conference held in Astana, Kazakhstan in November 2004. Morning sessions included review of the progress and plans regarding CAREC's four priority areas (transport, trade facilitation, trade policy and energy) and an update of arrangements for the Central and South Asia Regional Business Roundtable and preparation of a private sector strategy note. Afternoon sessions included discussion of the overall conclusions and recommendations of UNDP's Central Asia Human Development Report, the draft Interim Comprehensive Action Plan for the CAREC Program, and the key messages for Ministers that emerged from these sector updates and regional cooperation perspectives. Also, arrangements for the 4th Ministerial Conference were reviewed.

2. Distinguished delegations from Islamic Republic of Afghanistan, Republic of Azerbaijan, People's Republic of China (PRC), Republic of Kazakhstan, Kyrgyz Republic, Mongolia, Russian Federation, Republic of Tajikistan, and Republic of Uzbekistan participated in the meeting. For the first time representatives from Afghanistan and Russian Federation were participants in the proceedings of the meeting. In addition, each of the six multilateral partners to the CAREC Program (Asian Development Bank, European Bank for Reconstruction and Development, International Monetary Fund, Islamic Development Bank, United Nations Development Programme, and World Bank) were represented at a senior level.

3. H. E. Akdahan Madumarov, Vice Prime Minister of the Kyrgyz Republic, emphasized that economic integration and strengthening of links with regional and global markets is the only way to achieve economic growth and reduce poverty. He urged that steps be taken to liberalize regional trade taking into account that trade development and growth in investments are beneficial for all participating countries. It is also necessary to eliminate barriers to trade, which impede mutually beneficial and effective cooperation among the countries in the region, and to accelerate formation of a free trade zone which is fully in line with the common economic interests of countries in the region. H. E. Madumarov suggested that joint efforts should be taken to create a favorable environment for private investments and entrepreneurship. He also stated that infrastructure development is an important factor to ensure access by the region to global markets, particularly since all countries are interested in developing the road network linking Europe and Asia. Doing so would enable the region to improve the level of regional economic cooperation and trade relations with other countries.

4. Mr. Emirlan Toromyrzaev Permanent Secretary, Ministry of Finance, Kyrgyz Republic, and Mr. Xianbin Yao, Deputy Director General, East and Central Asia Department (ECD), ADB, co-chaired the meeting.

I. Session 1: Update on Work Plans and Activities of Priority Sectors

A. Energy Sector

5. A summary of the ESCC meeting held on 13th October 2004 was presented by Mr A. Tumenbaev, Deputy Director, State Energy Agency of the Kyrgyz Republic. Delegates were

generally satisfied with the progress made since the last SOM in April 2005. Active consultations are underway for new projects to complete the Sangtuda I Hydropower Plant in Tajikistan and to export the power produced towards South Asia. Work on the Water and Energy Consortium has been slow but it is anticipated that the draft framework agreement will be finalized by January 2006 under the merged CACO and EEC organizations. Dissemination of the Regional Electricity Export Potential study is complete and the countries included in the study are in broad agreement with the strategy proposed by the World Bank. IFIs should continue to provide support for meeting the annual and seasonal electricity demand and to increase export generation and transmission capacity for electricity trade with CAREC participants and other countries.

6. A Memorandum of Understanding for the establishment of the CAREC Members Electricity Regulators Forum (CMERF) was agreed by country delegates at the CMERF meeting on 4-6 July 2005 in Beijing and was referred to their respective Governments for review and signing during the CAREC 4th Ministerial Conference (MC) on 5-6 November in Bishkek. The SOM endorsed the MOU, and requested the Secretariat to undertake arrangements for its signing by their country delegations during the 4th MC.

7. The ESCC made recommendations on the scope of issues to be addressed by the ESCC in future. As a basic minimum the ESCC provides a platform for reporting on progress in energy sector activities and ensuring that government and IFI investments are consistent with the overall objectives of regional energy cooperation under CAREC. In addition to power sector development, it was recommended that oil and gas exports, energy efficiency and opportunities afforded by the Clean Development Mechanism of the Kyoto Protocol also be considered under the ESCC. Further work is needed on the terms of reference for this group to ensure that it avoids duplicating the work of a number other regional energy coordinating bodies, and to develop a regional monitoring framework against which overall performance of the energy sector can be assessed.

B. Trade Facilitation

8. A trade facilitation session was held as part of the SOM. Mr. Kubanychbek Kulmatov, Deputy Director, State Customs Inspectorate of the Kyrgyz Republic, highlighted progress and major initiatives endorsed by the Customs Cooperation Committee (CCC) in its 4th Meeting on 7-9 September 2005 in Ulaanbaatar, Mongolia.

9. Senior officials broadly endorsed the Progress Report, i.e., the medium- to long-term goals, priority areas and performance indicators stipulated in the Report. They broadly recognized the success of the Program and the CCC as an effective coordinating mechanism for the CAREC's Trade Facilitation Program. They welcomed the CCC's efforts to broaden the Program in partnership with private sector stakeholders and agencies relevant to the Program priorities.

10. To further strengthen the coordinating mechanism, the Senior Officials stressed the need to establish an effective national interagency coordinating mechanism and called upon the Customs Administrations to act as the lead agency and champion in establishing such national trade facilitation coordinating mechanisms. It was suggested that the Border Guard and Ministries relevant to the Program priorities could also be invited to attend the annual CCC Meeting as a concrete measure to strengthen the coordinating mechanism.

11. Senior officials reaffirmed their support for the Program's phased and pragmatic approach with a combination of (i) promotion of bilateral cooperation initiatives and (ii) training

and regional knowledge forums. Bilateral initiatives have demonstration effects and minimize financial and institutional burdens of implementation; and training and knowledge sharing not only supports capacity-building but also contribute to trust- and confidence-building among the CAREC's participating countries. In this regard, the Senior Officials noted with satisfaction the (i) new joint customs control initiatives proposed by MON and PRC following the pilot-testing by KGZ and KAZ at the Akzhol-Kordai border-crossing, (ii) the five regional forums organized in 2005 on the priority areas of the Program, and (iii) bilateral transit and cooperation agreements signed in 2005 between Kyrgyzstan and Tajikistan, Azerbaijan and PRC, and between Uzbekistan and the PRC.

12. Senior officials also noted with satisfaction the efforts to disseminate the Program activities, including (i) launch of a CAREC's Trade Facilitation Program website, (ii) forum proceedings through the CAREC Newsletter, and publications of the *Risk Management Guide* and two country studies.

13. Senior officials reaffirmed their support for the initiatives endorsed by the CCC:

- (i) bilateral initiatives on (a) harmonization of cargo manifests by KAZ and PRC, (b) potential pilot testing of joint customs control between MON and PRC, and between KAZ and KGZ, (c) pilot-testing on data exchanges for cargo clearance between KGZ and UZB, (d) preparation of an agreement on mutual administrative assistance and customs cooperation between MON and TAJ; and (e) implementation of the Regional Customs Modernization and Infrastructure Development Project by KGZ and TAJ;
- (ii) in-country activities on (a) business process reengineering and development of an "ICT master plans" by KGZ and TAJ; (b) customs modernization assessments by MON and AZE; and (iii) accession to the TIR Convention by PRC; and
- (iii) Regional events on (a) WCO's New Framework of Standards and Common Data Model hosted by PRC Customs, (b) trade facilitation and customs modernization hosted by the Japan, and (c) a study tour hosted by the Government of Singapore.

14. The session was concluded with Senior Officials' appreciation of the offer by Kazakhstan to host the Fifth CCC Meeting, tentatively scheduled on the first week of September 2006.

C. Trade Policy

15. TPCC discussions focused primarily on the barriers to transit trade. In that context, the SOM noted the TPCC recommendations for measures aimed at reducing the existing barriers to transit trade in Central Asia:

- (i) Ensure full compliance with the provisions of the TIR Convention by customs services and other agencies; PRC will take steps to accelerate TIR accession and promote the TIR Customs Transit System in the region;
- (ii) Reduction in the rate of charges for customs convoy under the national transit systems in appropriate countries with simultaneous reductions in the list of goods subject to such convoys; concrete proposals to these ends will be developed by the time of the next Trade Policy Coordinating Committee meeting;

- (iii) Abolition of all other charges and fees on entry and transit of foreign road carriers;
- (iv) Reduction of the cost of entry visas for drivers of foreign road carriers and foreseeing the issuance of visas to them at international pass points in a simple way;
- (v) Harmonization of transport, customs, and border documentation in order to simplify procedures of control at and to minimize time to pass at the border; and
- (vi) Taking measures to prevent and eradicate cases of unofficial payments from road carriers in transit.

16. In addition, the TPCC had recommended the reduction in the cost of non-reciprocal road transport permits to levels that will cover related costs without discouraging transit trade. However, the SOM proposed that this issue be considered by the Transport Committee.

17. Preliminary discussions were also held on the issue of barriers to border trade. While committee members agreed that this was an important issue, it was felt that substantial work was needed in this area. This work should first seek to clearly define the concept of border trade, and should then look at the legal framework for border trade, tax and infrastructure issues, and others related aspects.

Next Steps

18. The SOM supported the TPCC proposed agenda going forward, focusing on three aspects of barriers to trade: (i) the work noted above on barriers to border trade; (ii) work on quantitative restrictions to trade in CAREC countries; and (iii) work on trade taxes in CAREC countries.

19. In addition, it was agreed that the country delegates to the TPCC should take responsibility for monitoring the implementation of the recommendations related to barriers to transit trade—assuming they are endorsed by the SOM and eventually the Ministerial Conference. Thus, each country delegation will report to the next meeting of the TPCC on the status of implementation of the recommendations in its country, and the TPCC will in turn produce a consolidated report on the implementation of these recommendations for consideration by the next SOM.

20. Finally, it was agreed that there is a need to increase the awareness of the analytical work that has been done in and by the TPCC among key decision makers in all CAREC-member countries. Thus, the TPCC agreed to ask the International Monetary Fund and Asian Development Bank to arrange seminars in each CAREC-member country, designed to summarize the work done for the TPCC to date and the implications of this work for the various countries in CAREC.

D. Transport

21. Mr. Kubanychbek Mamaev, First Deputy Minister, Ministry of Transport and Communications, Kyrgyz Republic, informed senior officials of the recommendations from the 4th Transport Sector Coordinating Committee (TSCC) Meeting convened in Bishkek on 12-13 October 2005. This was the first TSCC meeting since the endorsement of the Central Asia Regional Transport Sector Roadmap (2005–2010), developed at the 3rd Transport Sector

Coordinating Committee (TSCC) Meeting in Bishkek on 1–2 March 2005, and endorsed at a Senior Officials Meeting (SOM) in Manila on 26–27 April 2005. The Roadmap aims to address the key sector issues related to regulatory differences, lack of transport connections, poorly equipped border posts, bureaucratic cross-border procedures, poor infrastructure maintenance due to insufficient funding, lack of competition in the rail system, institutional and human resource capacity, and guiding future transport cooperation activities among CAREC participating countries. The Roadmap's five strategic priorities are:

- (i) Harmonizing and simplifying cross-border transport procedures and documentation among the CAREC countries to facilitate the movement of passengers and freight across borders;
- (ii) Harmonizing transport regulations among the CAREC countries to create a level playing field for transport operators and promote efficient and better services;
- (iii) Developing and improving regional and international transport corridors to link production centers and markets within the CAREC countries, and to improve the countries' access to neighboring regions and markets;
- (iv) Restructuring and modernizing railways through private sector participation and improved corporate governance; and
- (v) Improving sector funding and management to ensure that the regional transport network is properly developed and maintained.

22. Senior officials were briefed that the combined investment program of the MIs for 2005-2006 totals \$1.016 billion in investment projects and \$6.8 million for non-lending projects.

23. The SOM endorsed the report submitted by the TSCC including:

- (i) Approved regional investments and technical assistance projects planned for 2005 and 2006.
- (ii) TSCC 2006 Work Program and the Action Plan for implementing the Regional Transport Sector Roadmap.
- (iii) ADB study on harmonization and simplification of cross border transport procedures and transport regulations in the road and railway sub-sectors in CAREC participating countries (phase I).
- (iv) The criteria for classification of investment projects and studies as regional cooperation in CAREC participating countries.
- (v) ADB's proposal of regional technical assistance for facilitation of transport cooperation in CAREC participating countries (phase I).
- (vi) Information on the progress of the WB study of the potential for liberalization of the aviation sector in Central Asia.

24. The SOM noted the proposed next steps by the TSCC in 2006:

- Incorporate the TSCC participants' comments into the draft action plan following the study on harmonization and simplification of cross-border transport procedures and documentation, and harmonization of transport regulation for CAREC countries (Phase 1). Present the final draft action plan to the 5th TSCC meeting.
- Initiate a study on improvements in transport sector funding and management in CAREC countries in 2006.
- Initiate a study on restructuring and modernizing the railway sector in CAREC countries in 2006.
- Finalize and implement regional technical assistance from ADB to facilitate transport cooperation in CAREC countries (Phase I) during 2006-2007.

E. Regional Business Roundtable and Private Sector Development Strategy

25. Mr. Peter Brimble, Private Sector Specialist, consultant to CAREC, updated the SOM on the ongoing preparations for the Regional Business Roundtable – an initiative designed to enhance the role of the business community in CAREC and other regional initiatives. The RBR Preparatory Meeting will be held from November 3-4 in Bishkek, immediately prior to the Fourth Ministerial Conference, enabling RBR Preparatory Meeting participants to present a report on their deliberations to the CAREC Ministers. The RBR initiative includes CAREC participating countries plus India and Pakistan, with the business communities of Iran and Russian Federation as observers. Three business leaders and one public sector stakeholder have been carefully selected and invited to be participants, and representatives from international business groups and from all major multilateral institutions and development partners will also be attending the Meeting.

26. The SOM was briefed on the objectives of the RBR, the activities undertaken in preparation, and on issues requiring the attention of the SOM – in particular the structure of the meeting. Two co-chairs for the meeting have been selected: (a) Mr. Djoomart Kaipovich Otorbaev, Executive Director of Kyrgyz Investment Roundtable and former Vice Prime Minister of the Kyrgyz Republic on Economic Development, Trade and Investments; and (b) Mr. Robert Bestani, Director General of the Private Sector Finance Department at ADB. Three critical success factors for the RBR Preparatory Meeting were highlighted: (a) ensuring that the meeting allows for the business community to drive the proceedings; (b) identification of activities that will be of value to the business community; and (c) agreement on key next steps – proposed to be embodied in an RBR Strategic Action Plan, with possible activities in each of the three key areas of focus.

27. In response to the request of the April 2005 SOM, a concept paper was presented by Mr. Brimble on an overall approach to support private sector participation in CAREC. The concept paper outlines two major thrusts: first, the Regional Business Roundtable initiative (as discussed earlier); and second, the development and implementation of the CAREC private sector development strategy (PSDS). The PSDS, with the overarching objective of “Building National and Regional Competitiveness in CAREC”, was proposed to include three elements: (a) improving the policy, legal, and regulatory environment for private sector development (PSD) in the CAREC economies; (b) extending the range of business development services in place to support the CAREC business community, especially SMEs; and (c) strengthening business associations to enhance the business environment in CAREC.

28. The final section of the PSDS Concept Paper outlined a potential timeline for developing the PSDS, with the final Strategy being concluded by the end of 2006 following extensive consultations with CAREC member economies, a participatory meeting with all key stakeholders, and approval of the final PSDS by the Fifth Ministerial Conference. A number of key operating guidelines for the PSDS preparation were presented: (a) mobilizing highly professional resources in each country as well as an international team; (b) very careful coordination of all activities with MIs and other development partners; (c) building on the ADB commissioned study in early 2004, entitled “Issues in and Options for Private Sector Development in the Central Asian Region” as well as national Private Sector Assessments of ADB and others.

29. Following the two presentations there was a wide-ranging discussion of the importance of enhancing the role of the business community in CAREC. Participants highlighted the importance of creating a much stronger partnership between the public and private sectors in

the CAREC program and activities, and generally endorsed the contributions of both the Regional Business Roundtable (RBR) and the proposed Private Sector Development Strategy (PSDS) in this regard. With regard to the RBR, the importance of allowing the business communities to determine the content and direction of the initiative, and the need to listen to business, were seen as key elements of unleashing the creative thinking of entrepreneurship to stimulate CAREC economic development. The value of a focus in the PSDS on strengthening business skills among the CAREC business communities was raised. Certain participants suggested that the definitions of the “private sector” in the PSDS should be broadened to ensure coverage of all business entities that engage in regional trade and investment, and also to distinguish between different sizes of entrepreneurs in the PSDS. The focus on involving and strengthening business associations in both the RBR and PSDS was appreciated by several delegations.

II. Session 2: Regional Cooperation Perspectives

A. UNDP Central Asia Human Development Report

30. Mr. Johannes Linn, Fellow, Brookings Institution, presented a summary of the UNDP’s Central Asia Human Development Report for 2005. He noted that the Report presents a comprehensive overview of regional cooperation and integration in Central Asia. The Report is a valuable source of information and provides an indepth analysis of the key issues confronting governments in the region, regional organizations and development partners. Through case studies and surveys, the Report draws on the voices of the people in the region. Wherever possible, it aims to quantify the benefits from cooperation for human development and human security in the region. A team of national and international experts prepared the report, drawing in country background studies prepared by national teams and in inputs from the international organizations, especially the ADB and UNDP. An executive summary of the report will be distributed in advance of the CAREC Ministerial Conference on 5-6 November 2005 and the full report will be launched in early December.

31. The report concludes that Central Asia is a pivotal region in Eurasia, but the disintegration of the Soviet Union left a legacy of difficult human development and human security challenges for the Central Asian Republics (CARs), many of them related to the creation on new borders. Today the CARs are highly differentiated in terms of size, resource endowment, human development, political orientation, readiness to cooperate and integrate. And while there have been important efforts and some progress towards regional cooperation, surveys and case studies show that people are much affected by and care deeply about the barriers created by borders. Therefore it is important to move forward with the regional cooperation agenda to achieve a key goal: *“Borders with a human face!”* Indeed, regional cooperation and integration – with each other, neighbors and rest of world – are the key for CAR’s success. *Intensive cooperation could double regional GDP over 10 years, especially for the poor and for border communities.*

32. The biggest gains of cooperation come from improved *trade, transport and transit* and improved water/energy development and use, while the biggest potential threats of non-cooperation arise in the areas of *natural disasters, communicable diseases and regional conflict*. Hence these are the priority areas for action to bring down barriers and create “borders with a human face” in Central Asia.

33. But cooperation should be promoted also in other areas, using opportunities as they occur, both to address important regional issues, but also to build trust and show that cooperation can help. Domestic reforms are an essential complement to regional cooperation,

especially *good governance, trade and investment climate, and social and environmental policies*. Without progress in these areas regional cooperation efforts cannot be effectively implemented and achieve their desired benefits for human development and human security in the region.

34. For maximum benefit all countries in the region should participate. But even partial cooperation will bring benefits, and may demonstrate the risk of being left behind for those who stand apart. Moreover, cooperation is not only for governments: all actors – governments, business, academia, civil society – should network across borders. The main regional institutions need to be strengthened and streamlined, with clear mandates being given to them. Neighbors and international organizations should support regional cooperation and integration. The report also recommends that the UN Secretary General should appoint a Special UN Envoy of Central Asia to assist in this regard.

35. In the area of *trade, transport and transit* the report recommends that the governments of Central Asia pursue multilateral trade liberalization with WTO membership while they focus bilateral and regional trade cooperation agreements on facilitating transit (customs, police, visas, etc.). Governments should also avoid costly transport investments in detours around borders, liberalize air traffic/access for air lines, reduce interference with shuttle trade and pursue “good governance” reforms. Regional organizations should be given a clear mandate for the trade agenda, focus on transit facilitation and create benchmarks/monitoring and enforcement/arbitration mechanisms where appropriate. They could also set up regional forums for business/ NGOs/communities to raise concerns and develop long-term regional transport/transit strategies linked with big neighbors and Afghanistan. The International Community should support the CARs in pursuing WTO membership, should support and finance initiatives of regional organizations, support investment climate, financial sector and “good governance” reforms as well as research, surveys, and documentation of the economic and human impact of reform and cooperation.

36. In the area of *water, energy and environment* national governments can improve the management of natural resources, cooperate with each other on key issues of natural resource use and protection, help border communities to solve cross-border water/energy/environmental problems and support civil society in its work on these issues. At the regional level it would be important to give regional organizations clear mandates, to support the development of Water-Energy Consortium (WEC), reinforce regional academic and CSO networks and focus on cooperative solutions for environmental hot-spots. The international community should intensify its regional perspective in supporting national programs, provide support for regional cooperative programs (incl. WEC) and support research on long-term natural resource issues (including desertification, loss of glaciers, etc.).

37. In light of the great vulnerability of the region to catastrophic *natural disasters* and given the recent experience world-wide with the dramatic human costs of earthquakes, floods, etc., the report recommends much intensified attention to disaster preparedness and response in Central Asia on a region-wide basis. At the national level this means improved legislation and capacity building, the involvement of civil society organizations and communities, and adequate finance. At the regional level it is necessary to assign a clear mandate to a regional entity for disaster preparedness and response, to prepare a regional disaster vulnerability assessment and disaster preparedness plan and to set up a regional early warning center. At the international level, this requires coordinated support from donors not only for relief, but for preparedness.

38. The report also considers *drug trafficking* as another serious region-wide issue in Central Asia. Here the report focuses on the responsibility of the international community to recognize and act on the need to control drug supply and demand in principal hubs outside Central Asia, and to better coordinate and fund donor assistance to the CARs for the difficult task of controlling drug trafficking. Central Asian governments in turn need to look for developmental, not only control-oriented solutions to the trafficking problem, need to link their drug control efforts to governance reform and involve communities and civil society fully in their initiatives. At the regional level there is a chance to expand cooperation based on a strong mutual interest in greater security, to allocate clear responsibility to relevant regional organizations and to ensure that drug interdiction is consistent with the goal of achieving “borders with a human face”.

39. Finally, in the area of *education and health* the report also sets out a regional agenda, including region-wide initiatives to control communicable diseases (esp. HIV/AIDS, TB and now urgently the threat of avian flu), to foster regional diploma recognition, cross-border support for minority education, and maintenance of Russian as lingua franca and to foster cross-border access to health and education services for border communities.

40. The report recognizes that there are political and institutional obstacles to regional cooperation in Central Asia as elsewhere. Not all political and economic interests benefit from cooperation and even where there is interest in cooperation at the top, implementation may be blocked by those who would lose. Corruption, poor administrative capacity and lack of accountability hinder reforms, better administration, and development of borders with a human face. More participation by communities would help by giving voice to those who suffer from poor border management and related restrictions. Region-wide, comprehensive and intensive cooperation may not occur in Central Asia for some time to come, due to political and institutional constraints, but progress on many selected issues is nonetheless possible and desirable. The neighbors and international partners of Central Asia should cooperate also in making this happen, as they have a strong, shared interest in a stable, prosperous Central Asia region. Indeed, in recent years there has been a growing engagement by neighbors in regional issues and bodies and more focus on regional issues and programs by international donors. But some differing interests among partners, potentially confusing messages, and fragmented support have at times interfered with making the international support as effective as it could be. Neighbors and other international partners need to find common ground in their support for political and economic progress and need to coordinate their programs for greatest impact in support of human development and human security in the region.

B. Strengthening Regional Cooperation through Development of a Comprehensive Action Plan

41. So as to accelerate regional cooperation, Ministers agreed during the Third Ministerial Conference that a comprehensive action plan to 2007 should be developed, to be prepared in full consultation with CAREC participating countries and supporting international development partners.

42. Accordingly, intensive attentions were held on the draft Interim Comprehensive Action Plan (ICAP). Pending development by the CAREC participating countries of a vision statement regarding the outputs and outcomes of regional cooperation, the strategic framework for the action plan can only be defined in general terms. Considerable consultation and consensus building is required to formulate the ultimate goals and objectives of regional cooperation, and the priority initiatives that follow from them. The ICAP contributes to the process, for it outlines what is at stake if regional cooperation is not accelerated. Further, it outlines action plans for each of the core sectors (transport, trade and energy) included in the CAREC Program, and

identifies additional or reemphasized measures needed to speed trade openness and other measures essential for rapid economic growth and development in the region.

43. The ICAP builds on the Program strengths and outlines actions to overcome the weaknesses. Most notably, the ICAP adheres to the practical, results-oriented approach that has characterized the Program to date. It seeks to move forward the frontiers of regional cooperation, by overcoming weaknesses related to a limited “pipeline” of initiatives, and the project focus rather than an output and outcome focus. The ICAP has also been tailored to address the special impediments and challenges facing Central Asia. Improved access to markets (internal and external) is essential, yet progress towards this objective has been slow – reflecting the political economy of vested interests and insufficient appreciation of the benefits of regional cooperation and economic integration.

44. The ICAP indicates the structural shifts that can be expected over the next ten years in the economies of the region, and the critical importance – especially for the private sector – of “cooperating to compete”. Success in this endeavor could lead to a doubling of GDP and greatly improved employment and income opportunities. Failure to accelerate regional cooperation could result in continued high levels of poverty, undue reliance on commodity exports, and few options for diversification and modernization. To help ensure success in this endeavor, the ICAP is performance based. Performance indicators are outlined both for the Program as a whole (incremental GDP growth and poverty reduction) and for the core sectors (e.g., the time and cost of transporting consignments to market destinations). Further work on performance indicators is needed, drawing on the expected outputs and outcomes for regional cooperation as stated by the CAREC participating countries.

45. The action plan for the transport sector is based on the comprehensive Regional Transport Sector Roadmap (2005-2010) prepared by the Transport Sector Coordinating Committee in early 2005. The goal is an integrated and efficient multimodal transport system for the region. The Roadmap addresses five priorities: harmonizing and simplifying cross-border transport procedures; harmonizing transport regulations; development of transport corridors; restructuring and modernizing railways; and improvement of sector funding and management. Performance indicators to 2010 set targets for traffic flows and other outputs. For the period 2005 to 2006, the six multilateral institutions partners to the CAREC Program (ADB, EBRD, IsDB, IMF, World Bank, UNDP) plan support of the transport sector totaling \$1.016 billion and grant technical assistance totaling \$6.8 million. Identification of road and rail corridors for the region will be a priority, as will be streamlining the policy and regulatory infrastructure for the sector. Given the vital role the sector plays in improving access to markets, a transport master plan for the region is needed.

46. The action plan for trade policy and trade facilitation builds on the achievements to date. In accordance with Ministerial direction, the focus is on WTO accession and the reduction of tariff and non-tariff barriers to trade. The Trade Policy Committee (TPC) has initiated studies on the importance of more open trade regimes, and of reducing the time delays and financial costs of entrance and transit and the barriers to border trade. Trade policy plans for the next two years include (to be completed following the meeting of the TPC in October). The Trade Facilitation/Customs Coordination Committee (CCC) is giving priority to 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. CAREC and non-CAREC trade facilitation activities are extensive, including bilateral trade agreements. CAREC Trade Facilitation Activities to 2007 include: continued activities of EBRD, IsDB, UNDP and the World Bank; and loan and technical assistance projects by ADB totaling \$10 million and 2.5 million, respectively. While the CAREC Program has contributed

significantly to trade policy and trade facilitation, greater progress is needed in securing trade openness. The ICAP proposes additional or reemphasized measures, including: development of a regional trade plan or strategy; an integrated approach to transport, trade and transit; and well-defined performance indicators (e.g., WTO accession, average time to clear customs)

47. The ICAP proposes an action plan for the energy sector that draws from the support of Ministers for building a regional power market, continued dialogue on water and energy exchange issues, establishment of the forum of electricity regulators, and inclusion of energy efficiency. The CAREC energy program is focused, therefore, 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, and capacity building. CAREC support for energy investment projects over the next two years is planned at more than \$200 million, and will greatly exceed this amount if the Sangtuda 1, Sangtuda 2, Ragun Hydropower Projects go ahead. Other energy investment projects include the North-South Transmission Line Project in Kazakhstan, the South-North Transmission Project in Tajikistan, and the Regional Gas Transmission Improvement Project. Importantly, technical assistance has supported the CAREC Members Electricity Regulators Forum, the Regional Electricity Export Potential Study, and the concept of an International Water and Energy Consortium (CACO). Towards the goal of energy trade and a power market, the ICAP suggests preparation of an overall strategy for the energy sector.

48. The ICAP notes that there is a wide range of other sectors relevant to regional cooperation (e.g., environment, water resource management, financial sector, health, tourism, disaster management, agriculture). The ICAP raises the question as to whether or not some of these sectors should be included in the CAREC Program. While the SOM concluded cautiously in this regard in April 2005, the benefits of regional cooperation are now better understood and the contribution to trust and confidence from progress in other sectors better recognized. Accordingly, the ICAP suggests discussion of expanding the CAREC Program to include new sectors (e.g., tourism) and cross-cutting issues (e.g., financial sector, environment).

49. The ICAP addresses capacity building for regional cooperation, so as to help resolve domestic limitations in mobilizing and coordinating the resources, participation and interest necessary for broad-based support for regional cooperation initiatives. In accordance with the decisions of the April 2005 SOM, the focus is on strengthening the National Focal Points (domestic consultants, roundtable meetings), training of national officials in best practices (workshops, study tours), and information exchange (research networks and equipment). US \$1.2 million is committed to capacity building over the next two years, which is divided approximately equally among these three objectives. The ICAP also notes the need for review of the Overall Institutional Framework for the CAREC Program, especially in light of the assumed participation of Afghanistan and Russian Federation, the desire to increase private sector participation and input by civil society, and to better coordinate with other regional organizations (especially CACO and SCO).

50. Discussion of the ICAP emphasized that it is a work in progress. Next steps in advancing the ICAP include completing the strategic framework/ vision statement for CAREC (reflecting the interests of Afghanistan and Russian Federation), conducting a gap analysis between the desired outputs and outcomes of regional cooperation and what is in the "pipeline", and determination of how to mobilize the necessary technical and financial resources to fill the gaps.

III. Session 3: Other Issues

A. Key Messages

51. Drawing on the presentations and discussions during the SOM, a number of key messages were identified to be conveyed to the ministers. Among those endorsed by the SOM were the following:

(i) Need to better understand the benefits of regional cooperation and the costs of non-cooperation.

52. The Central Asia Human Development Report makes a point that facilitating trade, transport and transit could lead to a doubling of GDP within a decade. Further substantial gains would result from better water resource management and realization of a regional power market. Yet further substantial gains would result from regional cooperation in other areas such as environment, agriculture and food security, tourism and human resource development, disaster management and Avian flu preparedness. There must be greater awareness of what is at stake concerning regional cooperation. Bringing the benefits of regional cooperation to a wider audience should be a priority.

(ii) The need to “reinforce the momentum” of regional economic cooperation.

53. The momentum of regional economic cooperation must be accelerated. Barriers to trade and the costs of shipping goods continue to seriously hamper competitiveness and development in the region. Senior officials need to convey how regional cooperation so importantly serves public interests and growth of the private sector. Regional cooperation needs to be pursued sincerely, effectively, productively and realistically.

(iii) The need to deepen and broaden the CAREC Program.

54. Additional or reemphasized actions can and should push forward the frontiers of regional cooperation. Senior officials emphasized that CAREC should maintain its practical, results- and consensus-based approach to regional economic cooperation. While caution is in order, a more comprehensive approach is desirable. Cooperation in areas such as environment, agriculture and food security, tourism and human resource development, disaster management and Avian flu preparedness will strengthen trust and confidence in regional cooperation, making it easier to address other issues. Any broadening of CAREC’s coverage will require the full support of participating countries and a commitment to ensure that activities are practical, results-oriented, and properly implemented. A vision is needed which in turn will depend on the priorities set by participating countries. National workshops are envisaged and capacity building is a high priority in this regard.

(iv) Need for a strategic framework for the CAREC Comprehensive Action Plan.

55. The Interim Comprehensive Action Plan is a work in progress. Much remains to be done in defining the expected outputs and outcomes from regional cooperation. Kazakhstan has submitted a very useful statement of its priorities for the CAREC Program, and a start on what it expects in terms of outputs and outcomes. It is important that all CAREC participating countries contribute to the process of defining expected outputs and outcomes, enabling thereby formulation of a medium-term strategic framework for the CAREC Program. In turn, this will facilitate prioritization and sequencing of the regional initiatives needed to reach the expected outputs and outcomes. In this way, the CAREC Program will become more performance based.

(v) The need for CAREC to engage the private sector more effectively in the CAREC Program.

56. Ministers and their respective governments need to be more pro-active in engaging the private sector in regional cooperation initiatives. The views of the private sector must be heard, particularly concerning how best to facilitate access to markets (domestic and external). In addition, resources for regional cooperation must be leveraged in partnership with the private sector, and the new trade and other opportunities associated with regional initiatives drawn to the attention of domestic and foreign investors. Senior officials need to determine the steps for Ministers that will make the private sector a real partner in regional cooperation.

(vi) The need for a more comprehensive, holistic approach in addressing transport, trade and transit issues, and for capturing inter-sectoral linkages.

57. While the transport and trade sector coordinating committees have achieved notable progress, there is a need for a more comprehensive, holistic approach in addressing issues in these sectors.

(vii) The need for development partners to be more pro-active in supporting regional cooperation.

58. Country programs of the MIs and other development partners need to be better integrated with regional cooperation programming. In particular, they need to be more focused on strengthening the capacity of a country to fulfill its obligations concerning regional agreements and initiatives.

(viii) Need to rationalize regional cooperation programs.

59. Ministers agreed during the Third Ministerial Conference that duplication and overlap in regional cooperation initiatives should be minimized. Senior officials supported the role of CAREC as a mechanism of support for CACO, SCO and other regional initiatives. Senior officials have noted the recent merger of CACO and the Eurasian Economic Community.