

A Strategic Framework for the Central Asia Regional  
Economic Cooperation Program 2011–2020

# CAREC 2020



CENTRAL ASIA REGIONAL ECONOMIC COOPERATION PROGRAM



**A Strategic Framework for the Central Asia Regional  
Economic Cooperation Program 2011–2020**

**CAREC  
2020**



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# Abbreviations

BCP	–	border-crossing point
CAP	–	Comprehensive Action Plan
CAREC	–	Central Asia Regional Economic Cooperation
CBTA	–	cross-border transport agreement
CFCFA	–	CAREC Federation of Carrier and Forwarder Associations
DPF	–	Development Partners' Forum
MTPP	–	medium-term priority projects
NFP	–	national focal point
OIF	–	overall institutional framework
PRC	–	People's Republic of China
PPP	–	public–private partnership
SOM	–	Senior Officials' Meeting
TPSAP	–	Trade Policy Strategy and Action Plan
TTFS	–	Transport and Trade Facilitation Strategy
WTO	–	World Trade Organization

## NOTE

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# Executive Summary

The Central Asia Regional Economic Cooperation (CAREC) Program has made great progress in moving toward its goal of development through cooperation during 2001–2010. Despite the many challenges, CAREC was able to establish itself as a premier regional cooperation program with a clear vision anchored on partnership, and a Comprehensive Action Plan (CAP), which defined priorities for cooperation. Over 100 CAREC-related projects worth over \$15 billion have been formulated in the four core areas of cooperation—transport, trade facilitation, trade policy, and energy cooperation. Yet, CAREC could have achieved more. In the course of CAREC’s evolution, many important lessons have been learned, and new challenges in the regional and global environment have emerged. These factors compel strategic adjustments and operational refinements as CAREC moves into its second decade of cooperation.

CAREC 2020 provides the strategic framework for the Program’s next 10 years. It reflects the required enhancements in the CAP to move the Program toward its vision of *Good Neighbors, Good Partners, and Good Prospects*. As a sequel to the stock-taking exercise commissioned in 2010,

CAREC 2020 recaps the essential process of building confidence and credibility in the early years of the Program, as well as how a flexible and pragmatic institutional framework allowed the countries to proceed in a multitrack and multispeed manner. But it also recognizes the weaknesses that still remain and must be overcome—the lack of country ownership, the tenuous link between CAREC initiatives and national development plans, the need for a balanced and properly sequenced list of medium-term priority projects, and the need for stronger engagement of the private sector as part of resource mobilization efforts.

Regional and global developments are also compelling the adjustments in the CAP. As a landbridge strategically located between major regions of the world, CAREC has tremendous potential to provide transport and trade linkages with the burgeoning economies of Europe and the Caucasus, the Russian Federation, East Asia, and South Asia. Connectivity among the CAREC economies will be a necessary condition for market expansion and linkages with other regions. Strategic infrastructure investment is expected to drive foreign direct investment and joint cross-border ventures

that will help transform *landlocked* CAREC countries to *land-linked* countries. This would open new opportunities for greater specialization of production between and among neighboring CAREC countries, and through vertical and horizontal product differentiation in markets inside and outside the CAREC region.

CAREC 2020 will

- be anchored on a more focused set of objectives, with clearly defined operational priorities embodied in the four sectors of cooperation and the CAREC Institute;
- cover a region that has expanded its membership, thus broadening its geographic and strategic interests;
- establish the sequencing of actions for greater efficiency and effectiveness through a medium-term (5-year) priority regional projects list and initiatives to be updated every year;
- indicate specific responsibilities for implementation at the regional and country levels;
- be measured through a results monitoring framework; and
- be a mechanism for reviewing second-tier areas in light of emerging regional and global developments.

CAREC 2020 will contribute to the Program's vision and goal by focusing on two distinct but complementary strategic objectives: (i) expanding trade and (ii) improving competitiveness. **Trade expansion** seeks to increase trade through transport connectivity, facilitation of cross-border movement of goods and people, trade openness, and energy trade. **Improving competitiveness** seeks to improve

industrial competitiveness through transport connectivity, logistics and economic corridor development, the development of related business services, and energy sector cooperation.

A more focused, country-driven approach for CAREC 2020, anchored on the sector strategies and action plans, will help mainstream CAREC initiatives into the member countries' national development plans. This is an essential step in accelerating implementation of and closing funding gaps for CAREC projects. This mainstreaming process will also assist CAREC partners to direct more attention to the soft side of regional infrastructure development and cooperation. CAREC 2020 will also help promote regional public goods, such as communicable disease control, disaster risk management, and climate-change proofing, among others. Finally, with greater clarity of what CAREC partners seek in terms of sector-driven capacity-building and research products, CAREC 2020 will better define the knowledge pillar of the original CAP.

CAREC 2020 essentially hones the Program's objectives and imperatives to sharpen the agenda for regional cooperation. It also recognizes achievements of the past decade, which demonstrate the rationale for putting transport, trade facilitation, trade policy, and energy at the core of regional cooperation. Guiding principles for the design and implementation of projects that accelerate growth and reduce poverty are unchanged as the foundation for a stronger country-owned and results-oriented plan, backed by a collaborative approach on development goals shared with regional partners. The underpinning vision for a region of "Good Neighbors, Good Partners, Good Prospects" remains firmly in place.



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# I. Introduction

The 10th anniversary of the Central Asia Regional Economic Cooperation (CAREC) Program marks a significant turning point—a time to take stock, celebrate the progress that has been achieved, and reflect on where the Program could have done better. Thus, in April 2010, the Senior Officials’ Meeting held in Manila endorsed a proposed study to commemorate the 10th anniversary of CAREC’s institutional arrangements. The commemorative study consisted of two parts: (i) Part 1—a stock-take of achievements made under the CAREC Program during 2001–2010;<sup>1</sup> and (ii) Part 2—the strategic framework from 2011–2020 (CAREC 2020), building from enhancements to the CAREC Comprehensive Action Plan (CAP).<sup>2</sup> It was decided to use Part 1 as a basis for preparing Part 2 of the study.

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1 Part 1, the stock-take of the CAREC Program ([www.carecprogram.org/uploads/events/2010/9th-MC/Draft-10Year-Commemorative-Study-Main-Text.pdf](http://www.carecprogram.org/uploads/events/2010/9th-MC/Draft-10Year-Commemorative-Study-Main-Text.pdf)) was endorsed at the 9th Ministerial Meeting in Cebu, Philippines; the same meeting endorsed the preparation of Part 2.

2 Since 2006, the CAREC Program has been guided by the CAP, which was endorsed at the 5th CAREC Ministerial Conference in Urumqi, People’s Republic of China in October 2006. It is the first strategic framework and action plan for CAREC as a whole.

During 2010–2011, the CAREC partners consulted and deliberated on CAREC 2020 through a series of inclusive subregional forums, in addition to the annual meetings of CAREC senior officials and sector experts. Agreement was reached on the primary areas of the CAP that require adjustment or strengthening, and these are laid out in CAREC 2020. Likewise, the first-ever CAREC ministerial retreat held in Cebu, Philippines, on 2 November 2010 discussed challenges facing the CAREC Program and strategic directions for the future.

CAREC 2020 recalls the essential process of building confidence and credibility in the early years of the CAREC Program and how mutual trust gradually generated CAREC-related initiatives worth over \$15 billion during the first decade.<sup>3</sup> But there were also setbacks, described in Section 2 (Stock-Take of CAREC Achievements 2001–2010), where CAREC could have performed better during 2001–2010. The valuable lessons learned by CAREC now serve as the linchpin of its future strategy.

CAREC’s strategic advantages and the implications of key global and regional developments

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3 Source: CAREC project portfolio.

on the CAREC Program are examined in Section 3 (Global and Regional Context of CAREC 2020). Developments in the Eurasian region surrounding CAREC have reinforced the importance of its strategic position. As global trade and investment flows recover and rebalance in the aftermath of the 2008 financial crisis, great potential opportunities are emerging for the CAREC region to prosper through an increased focus on trade. This section also details some of the main external and internal challenges that CAREC must overcome to fulfill this potential.

Section 4 (Crafting Strategy 2020: Focus, Action, Results) argues the rationale for enhancing the CAP and tightening CAREC's strategic focus to allow CAREC to harness a wealth of opportunity. Two strategic objectives—expanding trade and

improving competitiveness—for 2011–2020 have been crafted to strengthen and accelerate Program implementation through a better defined set of operational and time-bound priorities. Section 5 (Implementing CAREC 2020) lays down the institutional arrangements essential for achieving CAREC's realigned strategic objectives. It is envisaged that the next decade will witness more efficient business processes in the system of national and sector focal points, as well as in the regional mechanisms; a more dynamic partnership between the public and the private sectors; and better coordination and synergy among the multilateral institutions involved in CAREC and the engagement of a wider group of stakeholders across the Eurasian region.

## II. Stock-Take of CAREC Achievements in 2001–2010

### A. Summary of the 10-year Stock-take

From tentative and cautious beginnings in 1996, the CAREC Program has evolved into a successful program of regional cooperation. CAREC's regional cooperation progressed from initial consultations and a project-oriented institutional framework (1996–2001) to a more sector strategy-driven and results-oriented approach under the Comprehensive Action Plan (CAP) (2006). As mutual trust among the countries developed, CAREC was able to establish informal yet effective institutional arrangements; the principles of flexibility and pragmatism responded to the countries' unique needs and circumstances and allowed the Program to build confidence and credibility. Moreover, CAREC has forged its overall vision, goals, and strategy for regional cooperation and translated them into operational sector strategies and action plans. This attracted several multilateral institutions to support the Program through financial and technical assistance.<sup>4</sup> By 2010, CAREC can take pride in having established itself as a premier regional cooperation program.

<sup>4</sup> CAREC multilateral institution partners include the Asian Development Bank (ADB), European Bank for Reconstruction and Development, International Monetary Fund, Islamic Development Bank, United Nations Development Programme, and the World Bank.

The substantive gains of the past decade are equally noteworthy. Despite the many challenges, over 100 CAREC-related projects worth over \$15 billion have been formulated during 2001–2010, and are in varying stages of implementation. These initiatives include:<sup>5</sup>

- In the **transport sector**, improving physical connectivity through regional infrastructure investments across CAREC road and rail networks and at border-crossing points;
- In **transport and trade facilitation**, forging and implementing agreements to facilitate cross-border and transit transport, and measures for customs reform and modernization;
- In **trade policy**, undertaking studies and knowledge sharing on trade policy reform, and capacity-building initiatives to support CAREC members' accession to the World Trade Organization (WTO);
- In **energy**, implementing regional projects and initiatives to develop reliable, secure, and

<sup>5</sup> For project details, see [www.carecprogram.org/index.php?page=carec-projects-list](http://www.carecprogram.org/index.php?page=carec-projects-list)

stable energy supplies, taking into account the abundance of energy resources and the potential for trade to help overcome the uneven distribution of resources and their seasonal variations;

- In **knowledge sharing, capacity building, and outreach**, the CAREC Institute is playing a key role in addressing the specific needs of the priority sectors through training of senior officials, conducting foundation studies and issue-oriented research, and the development of knowledge products; and
- In terms of **partnerships**, CAREC succeeded in bringing together six multilateral institutions to work under a common framework, effectively providing a platform for dialogue and coordination in the planning and implementation of priority regional projects.

## B. Lessons Learned and Operational Imperatives

CAREC has made significant progress during 2001–2011—yet could have achieved more. In the course of CAREC’s evolution, many important lessons have been learned. A fundamental insight is that the primacy of pursuing economic goals need not be derailed by political differences, but can in fact be effectively pursued through regional cooperation. The flexibility and pragmatism that guide CAREC operations have worked well in allowing countries to proceed multitrack and multispeed, based on the inclusion rule of two countries (or the 2+*x* principle).<sup>6</sup> But there is also a growing realization that flexibility has caused countries to be less forthcoming in manifesting their commitment to the Program. Implementation accountability has lagged behind joint declarations—a significant drawback in the present context of intensifying cooperation in the CAREC region. CAREC countries need to internalize the awareness that acting in concert will create synergies far greater than each individual country acting at its own pace. The very essence of regional cooperation is to drive this collective process

<sup>6</sup> The “2+X” principle allows a subset of CAREC countries to implement regional projects or initiatives agreed by all members.

with due regard to the unique circumstances of individual countries.

Lessons learned from the past now compel strategic adjustment as CAREC moves into its second decade of cooperation. Stronger institutional mechanisms and more effective business processes are needed at both national and regional levels. More specifically, these operational imperatives include:

- **Developing stronger country ownership and mainstreaming CAREC into the national development agenda.** The CAREC platform has generated greater awareness and momentum in promoting the importance of regional cooperation in achieving national development goals. The multilateral institutions have played a prominent role in this process. However, as CAREC countries continue to develop greater awareness of these benefits and move toward more effective implementation of the CAP, their respective national development plans should begin to more explicitly reflect the complementary role of regional initiatives in attaining development goals. This will promote stronger country ownership of the CAREC Program and lead the countries to play a greater role in CAREC’s institutional framework. This enhanced level of ownership and commitment should be manifested in a consistently high-level and active participation of government officials within the sector committees in particular, and across all CAREC activities in general. Responsibility and accountability for project implementation must be clearly defined, as well as for monitoring the outcomes and impact of projects.
- **Establishing a list of CAREC priority projects.** The CAP and the sector strategies and action plans have provided CAREC with greater clarity for channeling investments. Projects listed in the strategies and action plans, as well as those to be identified under ongoing diagnostic studies in the energy sector,<sup>7</sup> need to be compiled, prioritized, and

<sup>7</sup> Summaries of the energy diagnostic studies are available at [www.carecprogram.org/uploads/events/2010/SOM-Oct/Executive-Summary-Energy-Strategy-Pillar1.pdf](http://www.carecprogram.org/uploads/events/2010/SOM-Oct/Executive-Summary-Energy-Strategy-Pillar1.pdf); [www.carecprogram.org/uploads/events/2010/SOM-Oct/Executive-Summary-Energy-Strategy-Pillar2.pdf](http://www.carecprogram.org/uploads/events/2010/SOM-Oct/Executive-Summary-Energy-Strategy-Pillar2.pdf); and [www.carecprogram.org/uploads/events/2010/SOM-Oct/Executive-Summary-Energy-Strategy-Pillar3.pdf](http://www.carecprogram.org/uploads/events/2010/SOM-Oct/Executive-Summary-Energy-Strategy-Pillar3.pdf)

sequenced to form a list of medium-term priority projects (MTPP). These priority projects represent the demand for mobilizing resources for the Program. However, CAREC's projects list must be carefully crafted to reflect a better balance between hard infrastructure and soft infrastructure.

- **Mobilizing more resources for CAREC.**

As sector action plans move through the implementation stage, funding requirements for the CAREC Program will remain significant and are expected to exceed what the CAREC governments and multilateral institutions are able to provide. Resource mobilization efforts from other development partners, including bilateral aid agencies, will have to be stepped up to ensure timely implementation of projects in the MTPP. Moreover public–private partnerships (PPPs) should be promoted to harness private capital into critical investment projects. For this to happen, CAREC countries must overcome national policy and institutional constraints to enable the private sector to make investment decisions based on clear perception of benefit and risk. The CAREC framework, through a subregional project development facility, can help mitigate some of the institutional impediments to PPP.

- **Giving more attention and resources to sector capacity building.** Project-related capacity of CAREC countries in the sectors of cooperation should be strengthened. This should cover, among others, (i) program and project development and analysis from a regional perspective, (ii) project management and implementation, and (iii) results monitoring. The CAREC Institute is mandated to help address these needs.<sup>8</sup> The *2010 CAREC Institute Performance Assessment Review* highlighted the importance of refocusing the CAREC Institute's original mandate to address capacity building and applied research initiatives that are more directly relevant to priority sector requirements under the CAP.<sup>9</sup>

- **Encouraging greater private sector involvement in CAREC initiatives.** Private sector involvement in the CAREC framework will depend in large part on the extent to which the private sector is actively engaged in development processes at the national level. The CAREC framework can serve to enhance this process by (i) promoting awareness of business opportunities arising from expanded markets and greater connectivity in the subregion, including the production of studies on supply chain potential; and (ii) engaging the private sector, as a key stakeholder, more actively in the CAREC process. The CAREC Federation of Carrier and Forwarder Associations (CFCFA) is a good example of involving private sector national associations in solving topical issues, providing feedback to the government, and assessing real market situations that could be useful in policy formulation.
- **Coordinating with other regional groupings.** The CAREC countries participate in numerous regional cooperation arrangements and institutions—including the Economic Cooperation Organization, Eurasian Economic Community, the Shanghai Cooperation Organisation, and the United Nations' Special Programme for the Economies of Central Asia. CAREC faces the challenge of identifying complementarities and synergies that could be derived from its participation in these regional groupings, taking into account the comparative advantage offered by each grouping. Constructive coordination, implementation complementarities, and sharing of experience should guide CAREC's relationship with other regional groupings.

8 [www.carecprogram.org/index.php?page=carec-institute](http://www.carecprogram.org/index.php?page=carec-institute)

9 CAREC Secretariat. 2010. *CAREC Institute Performance Assessment Review: Interim Recommendations for Next Phase of Development*. Manila. [www.carecprogram.org/uploads/events/2010/SOM-Oct/CAREC-Institute-Performance-Assessment-Review.pdf](http://www.carecprogram.org/uploads/events/2010/SOM-Oct/CAREC-Institute-Performance-Assessment-Review.pdf)

# III. Global and Regional Context of CAREC 2020

## A. Key Global and Regional Developments

### Opportunities for and Strengths of the CAREC Region

The CAREC region's strategic location as a landbridge that connects the Caucasus, Europe, the Russian Federation, the Middle East, East Asia, and South Asia offers tremendous opportunities for transport and trade linkages with the burgeoning economies in these regions. The collapse of the former Soviet Union, and the opening of western borders of the People's Republic of China (PRC) have brought about the reemergence of the Eurasian region as a contiguous land mass, with Central Asia at the crossroads.<sup>10</sup> Traditional corridors of transport and trade are being redefined and fundamental changes in the region's economies are unfolding. Changes in trade and investment patterns in the aftermath of the global financial crisis of 2008, are

giving even greater credence to the critical role of CAREC. Europe's market retrenchment, arising from financial crises, has restrained strong growth in demand for goods and services in these countries. Meanwhile, domestic demand has fueled strong economic performance in the PRC, India, and the Russian Federation.

Recent research indicates that developing country trade tends to expand faster among countries in the same region than with other countries,<sup>11</sup> and that the share of manufactured goods is higher in intraregional trade than in trade with the rest of the world. This implies that regional integration can be beneficial for long-term development, helping countries compete better on the global stage.

With a combined population of more than 320 million,<sup>12</sup> the CAREC region's internal market is sizeable. The Customs Union among Belarus, Kazakhstan, and the Russian Federation provides an opportunity to further expand this market

<sup>10</sup> Starr, S.F., ed. 2007. *The New Silk Roads: Transport and Trade in Greater Central Asia*. Washington, DC: The Central Asia-Caucasus Institute.

<sup>11</sup> United Nations Conference on Trade and Development (UNCTAD). 2007. *Trade and Development Report, 2007*. New York and Geneva: UN.

<sup>12</sup> Calculations by CAREC Secretariat, based on the World Bank's World Development Indicators online database, 2011.

by 168 million people, with Kazakhstan serving as a gateway to the markets of Belarus and the Russian Federation. At the same time, however, the Customs Union may be a challenge to CAREC given adjustments made by Kazakhstan in terms of customs procedures, tariffs and other related measures, which may pose difficulties to non-Customs Union countries. Meanwhile, the entry of Pakistan and Turkmenistan into CAREC in 2010 expanded the Program's geographic and strategic interests by providing vital links with South Asia and the Middle East. Opportunities to expand investments in transport connectivity also abound, although the CAREC region faces stiff competition in road and rail transport networks from the all-sea routes around Africa or through the Suez Canal.

### External and Internal Challenges Facing the CAREC Region

Global and other developments pose challenges to the region. The increase in world food prices, for example, will impact on the net food-importing CAREC countries and could affect state reallocation of resources that would, potentially, reduce the share of infrastructure investments. Further, environmental issues and climate change are also likely to pose additional socioeconomic threats to CAREC countries. Such issues are well-known in Central Asia, and past regional responses, such as to the desiccation of the Aral Sea, have been wholly inadequate. Climate change could also have significant implications in the energy and transport sectors. Predicted warmer temperatures, accelerated glacial melt, changes in river flows, and more extreme events present significant challenges to people, natural resources, and infrastructure. For example, climate proofing of CAREC's transport corridors and other infrastructure may become increasingly necessary as floods and drought become more intense and the transnational movement of goods, vehicles, and people expands across the region.<sup>13</sup> Moreover, with increased economic

mobility, new diseases affecting humans and animals will spread easily across borders unless mitigation measures are in place.

The CAREC region generally suffers from overdependence on exports of natural resources.<sup>14</sup> Specialization in natural resources can harm a country's growth prospects as it may cause the country's currency to appreciate, thus making manufacturing activities uncompetitive.<sup>15</sup> Moreover, countries that are largely dependent on natural resource exports are vulnerable to the vagaries of the international market, as well as being prone to internal problems of rent seeking and the difficulties of inappropriate resource management.<sup>16</sup> For these reasons, resource-rich countries will need to diversify their production and export structure if they are to pursue the path of long-term sustainable growth.

Most CAREC countries are landlocked, and their infrastructure is in need of investment and regular maintenance. They generally incur high transport costs and underperform in trade facilitation areas. As of March 2011, only 45% of the road sections, and 38% of railway sections of the six CAREC transport corridors have been upgraded.<sup>17</sup> CAREC countries rank among the lowest in trade facilitation as measured by World Bank Logistics Performance Index. Research indicates that improvements in trade facilitation in the region, especially in infrastructure, logistics, and the efficiency of customs, can lead to substantial increases in trade, both intraregional and with the rest of the world.<sup>18</sup>

13 CAREC transport corridors are defined in ADB. 2008. *Transport and Trade Facilitation Strategy: Partnership for Prosperity*. Manila. [www.carecprogram.org/uploads/docs/CAREC-Publications/2009/CAREC-Transport-Trade-Facilitation.pdf](http://www.carecprogram.org/uploads/docs/CAREC-Publications/2009/CAREC-Transport-Trade-Facilitation.pdf)

14 Dowling, M., and G. Wignaraja. 2006. *Central Asia: Mapping Future Prospects to 2015*. *ERD Working Paper Series* No. 80. Manila: ADB.

15 Felipe, J., and U. Kumar. 2010. *The Role of Trade Facilitation in Central Asia: A Gravity Model*. *Levy Economics Institute Working Paper* 628. New York; and Havrylyshyn, O. 2010. *Trade and Institutional Environment: The International Experience and a Proposed Agenda of Measures for CAREC Countries*. Paper presented at the 13th CAREC Trade Policy Coordinating Committee Meeting, Cebu, Philippines. 30 October 2010.

16 Felipe and Kumar, 2010.

17 ADB. 2011. *Transport and Trade Facilitation Progress Report and Work Plan (November 2010–June 2011)*. Unpublished report.

18 Felipe and Kumar, 2010.

## B. Implications for the CAREC Program

The overwhelming opportunities and challenges unfolding for CAREC are beyond individual countries' capacity to address with any momentous impact. Collective effort through regional cooperation has become an imperative. Connectivity, as a strategic priority among the CAREC economies, will remain a necessary condition for market expansion if the region is to respond to (i) its expanded membership, (ii) linkages to the rapidly growing economies of its neighbors—India and the former Soviet Union; and (iii) a broader orientation to intercontinental trade. The prospective benefits could be highly significant. Recent estimates suggest that if Central Asia were to carry out basic improvements in transport systems heading south to Afghanistan, overall trade would increase by up to \$12 billion, reflecting growth of 80%.<sup>19</sup> The volume of inland transported cargo replacing sea transported cargo via the Suez Canal is expected to double between 2002 and 2015.<sup>20</sup> Joint and synchronous planning of infrastructure investments can help mobilize resources more efficiently, considering the huge capital requirements of improved connectivity.

Infrastructure improvements must be supported by trade facilitation measures to directly impact intraregional and interregional trade. Under the CAREC Program, these facilitation measures will focus initially on the border areas, especially those traversed by priority economic corridors. This focus will extend to the equally important behind-the-borders measures needed to ease trade. Increasing

trade within the same geographic region can be more conducive to export diversification, structural change, and industrial upgrading than trade with countries outside the region.<sup>21</sup> CAREC's strategy of developing economic corridors can support this process by opening opportunities for business to participate in regional supply chains and by generating economies of scale arising from expanded markets.

Moreover, strategic infrastructure investment is expected to drive foreign direct investment and joint cross-border ventures that will help transform *landlocked* CAREC countries to *land-linked* countries. The resulting growth engendered by increased trade, investments, and tourism offers enormous opportunities for close collaboration among neighboring countries to take advantage of their complementarities. Such collaboration provides new opportunities for greater specialization of production through increased access to low-cost factors of production between and among neighboring CAREC countries. Trade and investment will then follow, as countries take advantage of vertical and horizontal product differentiation in markets inside and outside the region.

The social and environmental impacts of CAREC's expansion will increasingly require attention. Addressing the risks of communicable disease, the hazards of greater population mobility, and the threats of climate change will need to draw on the reservoir of goodwill, and financial and technical support that has been generated among the CAREC partners over the past 10 years. The CAREC Program will continue to provide a platform for dialogue on these issues.

<sup>19</sup> Starr, 2007.

<sup>20</sup> Starr, 2007.

<sup>21</sup> Felipe and Kumar, 2010.

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## IV. Crafting Strategy 2020: Focus, Action, Results

### A. Transforming the Comprehensive Action Plan

The CAREC partners share the view that the visions, goals, and strategies of the 2006 Comprehensive Action Plan (CAP) remain valid. This also applies to the five existing strategic themes laid out in the CAP:

- mainstreaming regional cooperation,
- strengthening ownership by CAREC countries,
- promoting connectivity to enable business enterprises to access regional and global markets,
- encouraging knowledge sharing and capacity building to facilitate consensus on the broad principles of cooperation and decision making, and
- developing innovative approaches to cooperative arrangements.

But if there was one important lesson learned from the past decade, it is the need for CAREC to craft a strategy with a refined focus that could generate greater synergies and impact from

synchronous actions and targeted results. Efforts were taken to enhance the CAP to make it more **focused, action-oriented, and results-driven**, effectively raising the bar for CAREC as it enters a higher plane of cooperation in the next decade.

The endorsement of the CAP in 2006 marked a significant milestone in the evolution of the CAREC Program as it signified a readiness on the part of the CAREC countries to pursue concrete and tangible initiatives within a regional cooperation framework. Yet in the initial process of translating goodwill into action, many projects in the CAP were conceived without the benefit of the larger picture in which CAREC must find its role. Although sector strategies and action plans were developed after the CAP was endorsed, these still lacked clarity in terms of linkages and a unified direction based on the emerging realities of the wider intercontinental geography where CAREC plays a strategic and crucial part.

CAREC 2020, as the successor of the CAP, puts into perspective CAREC's geographic centrality in the wider Eurasian region. As such, it compels focus, action, and results—motivated both by the significant benefits to be gained, and by the

need to avoid the opportunity costs of inaction. CAREC 2020 recognizes that for action to happen, regional initiatives must be clearly anchored on, and supportive of, national development priorities. This national anchor is an important prerequisite to accelerating the implementation of regional projects, and in closing funding gaps for CAREC and CAREC-related projects.

Under CAREC 2020, second-tier areas will be revisited in light of emerging issues that impact core area activities and that are best addressed through regional collaboration.<sup>22</sup> This includes CAREC's regional public goods, such as communicable disease control, disaster risk management, and climate-change proofing, among others. Finally, with greater clarity of what CAREC partners seek in terms of sector-driven capacity-building and research products, CAREC 2020 will redefine the knowledge pillar of the original CAP.

CAREC 2020 thus lays out

- a more strategic set of objectives within a wider intercontinental orientation;
- clearly defined operational priorities across the CAREC sectors of cooperation;
- a well-ordered sequence of actions for greater efficiency and effectiveness, embodied in a list of medium-term priority projects;
- specific implementation responsibilities at the regional and national levels;
- a results monitoring framework to gauge outputs, outcomes, and impact; and
- a mechanism to review second-tier areas in light of emerging regional and global developments.

## B. Strategic Objectives

CAREC's first decade saw an initial focus on transport routes that took advantage of PRC's western borders opening, following the collapse of the former Soviet Union. Gradually, the CAREC

Program has begun to recognize the need to expand its geographic reach to Europe, the Caucasus, the Russian Federation, the Middle East, East Asia, and South Asia to harness the full range of economic possibilities that these regions offer. This geographic shift will continue throughout CAREC's second decade.

The expansion in CAREC's geographic trajectory fully reinforces its vision. The countries have reaffirmed that "Good Neighbors, Good Partners, Good Prospects" will continue to guide its overarching goal of development through cooperation, leading to accelerated economic growth and shared prosperity. CAREC 2020 will make substantive contributions to that vision and goal by focusing on two distinct but complementary strategic objectives: (i) expanding trade and (ii) improving competitiveness.

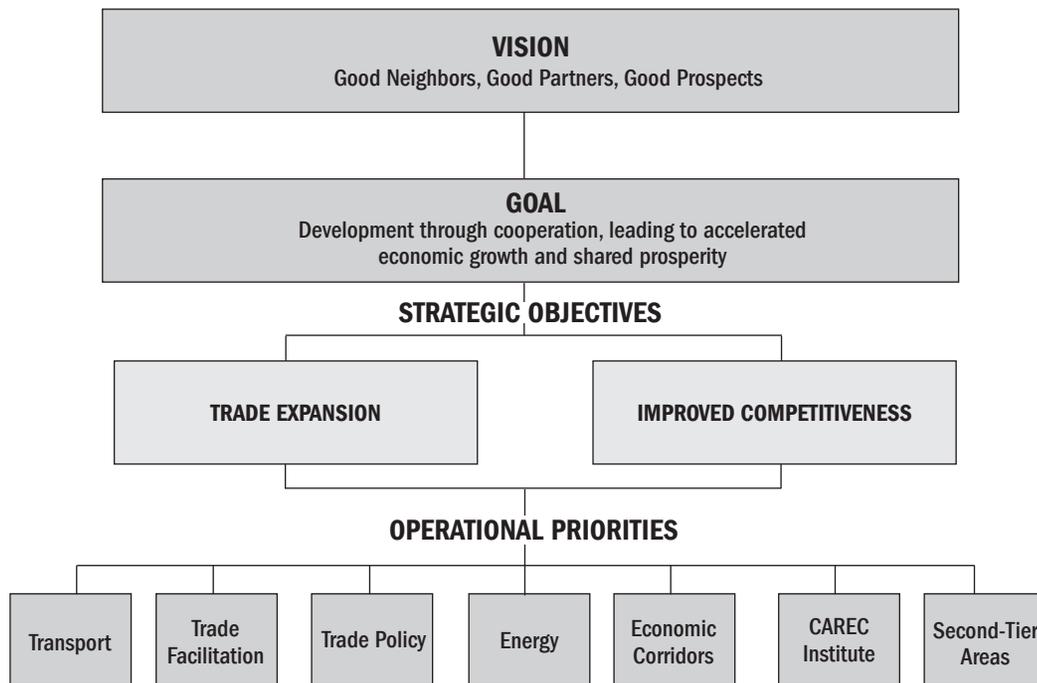
- **Trade expansion.** CAREC 2020 will seek to increase trade through transport connectivity, facilitation of cross-border movement of goods and people, trade openness, and energy trade. Improvements in these core areas will accelerate market-driven economic cooperation. Energy cooperation will harness the region's comparative advantage; ensure reliable, secure, and stable energy supplies; and promote energy trade.
- **Improving competitiveness.** CAREC 2020 will seek to improve industrial competitiveness through transport connectivity, development of economic corridors, and energy sector cooperation. Developing economic corridors can help diversify the region's industries and make them competitive through technology, logistics, and other business support services.

These two strategic objectives are designed to reinforce each other and help attain CAREC's goal of development through economic cooperation. Investments in physical infrastructure will enlarge markets and contribute to increased trade. Investments in "soft" infrastructure—such as facilitating the movement of goods and people, and conducive business conditions—will increase the returns to infrastructure investments and contribute to industrial diversification, expansion, and competitiveness.

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<sup>22</sup> Information on CAREC's second-tier activities is available at [www.carecprogram.org/index.php?page=carec-institute](http://www.carecprogram.org/index.php?page=carec-institute)

**Figure 1: CAREC Strategic Agenda**



CAREC 2020’s strategic objectives are based in large part on empirical findings that show infrastructure improvements spur the largest gains in trade, followed by logistics and trade facilitation measures.<sup>23</sup> The gains in implementing these components, however, should be weighed against the cost and ease of implementation. Trade facilitation, such as improvements in customs procedures are less costly to implement compared to infrastructure. This, however, does not diminish the importance of regional infrastructure, as transport corridors can help reduce trading time and cost, and integrate CAREC with the rest of the Eurasian region and the world beyond. Conversely, failure to realize these strategic objectives could entail significant opportunity costs in terms of foregone revenues from trade and incremental impact on gross domestic product (GDP). Recent estimations suggest that basic improvements in transport systems in the CAREC region could increase overall trade by up to \$12 billion, and the United Nations estimates that GDP will be 50% higher across all Central Asia

23 Felipe and Kumar, 2010.

within a decade of continued cooperation.<sup>24</sup> These prospective benefits are far too significant to ignore.

### C. Operational Priorities

To achieve the two strategic objectives of CAREC 2020, operational priorities will comprise (i) the four core sectors of cooperation—transport, trade facilitation, trade policy, and energy; (ii) economic corridor development; and (iii) the CAREC Institute (Figure 1). Existing strategies and action plans in the four core sectors of CAREC will continue to serve as a basis for planning, preparing, and implementing priority projects and initiatives (Annex A).

#### Trade Expansion

The strategic objective of trade expansion will help realize the vast potential for continental trade spanning the entire Eurasian region, which will

24 Starr, 2007.

inevitably traverse Central Asia. The strategy will address impediments to achieving this enormous potential and will be anchored on the four core sectors of cooperation. In **transport**, improvements in road transport corridor infrastructure, and restructuring and modernization of railways will continue. The use of technology to promote higher intermodal traffic and optimize modal choice for freight traffic will also be explored. Transport connectivity will play an important role, not only in enlarging markets, but also in determining product choices and their potential to link with regional production networks. Products where CAREC countries enjoy a comparative advantage should also be an important consideration in determining the development of priority transport routes and modes to promote and facilitate trade in these products, and to enhance these products' competitiveness.

For landlocked countries, cross-border facilitation issues are as important as physical connectivity issues, since the cost and time to move goods and people across borders will always be a significant factor in accessing markets outside the region. For instance, CAREC's Corridor Performance Measurement and Monitoring (CPMM) Program indicated that for a typical 500-kilometer journey by a 20-ton truck, more than  $\frac{3}{4}$  of the total stopping time, or 25 hours, occurred at border-crossing points.<sup>25</sup> Thus, while cross-border trade in CAREC countries comprises a relatively small portion of total trade, **transport facilitation and trade facilitation measures**—such as the exchange of traffic rights, simplification of cross-border procedures and documentation, visa requirements, and adequate and efficient border facilities—will be an important factor in promoting trade expansion with regional partners and beyond.

In **trade policy**, measures to promote trade openness—already a priority in CAREC countries—will be stepped up, in particular for those countries that have not yet acceded to the World Trade Organization. Trade openness should encompass both trade in goods as well as trade in services. Early assessments of the individual CAREC

countries' trade regimes have identified critical issues that require policy action at the national level, including trade barriers, comparative advantage in international trade, barriers to transit trade, trade taxes, border trade, and regional trade integration. While some progress has been achieved in reducing traditional tariff and non-tariff barriers to trade, progress in removing the institutional impediments to trade has been substantially slower. Reducing institutional impediments to trade has now become an emerging area of trade policy work under CAREC. Further progress in reducing traditional (tariff and non-tariff) barriers to trade would be desirable as well.

**Energy** cooperation is in line with CAREC's regional power master plan and other similar energy cooperation schemes, which seek to ensure reliable, secure, and stable energy supplies. The CAREC Energy Action Plan Framework focuses on three pillars: (i) energy demand–supply balance and infrastructure constraints (which include the efficient use of energy resources such as renewable energy, demand-side management, and power trade opportunities); (ii) regional dispatch and regulatory development; and (iii) analysis of energy–water linkages. Activities in the coming years will exploit the large potential for intraregional trade arising from different sources of power generation. This will involve the integrated planning of a regional transmission system, establishing the foundations for energy security through regional cooperation in resource development, including renewable energy, and the management of energy and water.

In line with the recommendation of the *2010 CAREC Institute Performance Assessment Review*, the CAREC Institute will conduct capacity building and analytical work that are more directly relevant to priority sector requirements. The sector coordinating committees will identify priority requirements for capacity building and analytical work that will help achieve the objective of trade expansion. In trade policy, for example, while the promotion of trade openness will be driven principally by national policies, the CAREC framework could help accelerate the process by providing analytical and advisory inputs—through partnerships with the multilateral institutions—and through knowledge sharing and capacity building through the CAREC Institute.

<sup>25</sup> See [www.carecprogram.org/index.php?page=carec-senior-officials-meeting-october-2010](http://www.carecprogram.org/index.php?page=carec-senior-officials-meeting-october-2010)

## Improving Competitiveness

Greater trade openness and transport connectivity aim to expand trade opportunities and linkages among regional production networks. This, in turn, is expected to stimulate investments in production capacity. For the CAREC region, which has been largely dependent on natural resource exports, this will open up opportunities for industrial expansion and diversification. As investments accumulate, and enterprises link with regional production networks, doing business in a regional setting becomes even more attractive. In support of this, transport corridors should be transformed into logistics corridors, and further into **economic corridors** (Annex B). The development of logistics and economic corridors will provide the backbone for developing physical and non-physical networks that will lower barriers and reduce the cost of doing business in the region.

Integrated spatial planning that goes beyond national planning will need to connect cross-border physical and non-physical networks, including logistics, financial services, telecommunications, and technology and knowledge organizations. Combined with domestic policies that promote an enabling environment for private investments, including the development of small and medium-sized enterprises that would most benefit from a free regional market, economic corridors can serve as the connective infrastructure for the globalization of CAREC industries.

## D. Tentative Timeline and Milestones

CAREC 2020 reflects a targeted set of initiatives that support the achievement of the strategic objectives through a sequenced and programmed approach. Figure 2 shows the timeline of activities to support the strategic objective of trade expansion.

### Trade Expansion

Important priorities under **transport** will be the completion of ongoing physical infrastructure projects by 2015, and the implementation of

planned connectivity projects for the second half of the decade in line with the Transport and Trade Facilitation Strategy (TTFS) and its Action Plan (Annex A). In 2013, a midterm review of the TTFS will be conducted and the identified priority projects will then be implemented during 2016–2020. The planned review will cover

- multimodal and intermodal transport dynamics and logistics development;
- the increasing importance of the software aspects of the transport sector;
- revisiting the CAREC corridor alignments in light of projected intra-CAREC and transit trade flows;
- the importance of facilitating intra- and interregional trade, which will require an in-depth study on the potential for trade with Europe, the Caucasus, the Russian Federation, the Middle East, East Asia, and South Asia through the CAREC region; and
- measures to facilitate energy trade through improvements in energy transport facilities.

In **transport facilitation**, cross-border and transit transport will be expedited in 2011–2015 under the TTFS by (i) implementing the Kyrgyz Republic–Tajikistan Cross-Border Transport Agreement (CBTA) along CAREC Corridor 5, and promoting the accession of other CAREC countries to the CBTA; and (ii) formulating and implementing other relevant transport facilitation agreements along other CAREC corridors. The CBTA and other transport and trade facilitation measures will be undertaken on a pilot basis along selected corridors and associated border-crossing points (BCPs). The selection of pilots will be based on the interest and willingness of countries to participate, the volume of international trade passing through the corridor, and the readiness of transport and border infrastructure to handle increased cross-border traffic. During 2016–2020, the viability of streamlining transport facilitation documentation in line with existing international transport conventions will be explored to allow seamless travel along all CAREC corridors.

In **trade facilitation**, an important ongoing area under the TTFS is the easing of BCP formalities at CAREC corridor BCPs. Activities to be implemented during 2011–2015 to address bottlenecks at BCPs

**Figure 2: Indicative Timeline and Action Plan for Trade Expansion**

Operational Priority		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
Transport	Complete the transport corridors	Ensure that ongoing physical infrastructure projects are completed in a timely manner (2011–2015)										
		Implement planned priority infrastructure projects in the Transport and Trade Facilitation Strategy and Action Plan (TTF SAP) medium-term rolling pipeline (2011–2015)										
	Identify next generation of TTF SAP issues and associated projects		Conduct midterm review of TTF SAP (2013)				Implement planned priority infrastructure projects identified in the TTF SAP midterm review (2016–2020)					
Transport Facilitation and Trade Facilitation	Identify next generation of TTF SAP issues and associated projects		Conduct midterm review of TTF SAP (2013)				Implement planned priority transport facilitation and trade facilitation projects identified in the TTF SAP midterm review (2016–2020)					
	Enable/make easy cross-border and transit transport	Implement Kyrgyz Republic–Tajikistan cross-border transport agreement (CBTA) along CAREC Corridor 5 (2011–2015)						Streamline transport facilitation documentation in line with existing international transport conventions				
		Promote accession to and eventual implementation of CBTA along the other CAREC corridors and/or encourage the implementation of other transport facilitation arrangements along the CAREC corridors (2011–2015)										
	Ease border crossing formalities at CAREC corridor border-crossing points	Improve border infrastructure under the proposed ADB-assisted regional border-crossing points and single-window project (2011–2015)						Develop regional interoperability of national single windows, and promote other behind-the-border facilitation measures (2016–2020)				
Continue implementing ongoing and planned customs modernization projects, including enhancements of information technology systems (2011–2015)												
Implement joint customs control (2011–2015)												
	Promote national single windows and build the foundations for a regional single-window platform for CAREC (2011–2015)											
Trade Policy	Achieving more trade openness prior to World Trade Organization (WTO) accession	Implement the CAREC Trade Policy Strategic Action Plan										
	Achieving WTO accession											
	Capacity building on trade issues											
Energy	Ensure reliable, secure, and stable energy supply	Complete the Central Asia Regional Power Master Plan (CARPMP) (2011)										
		Develop action plans for other CAREC energy corridors (2011–2015)										
		Formulate and implement a model and analytical base for regionally integrated water–energy resource management under Pillar 3 of the CAREC energy strategy (2011–2013)										
		Implement recommendations of the CARPMP (2012–2020)										
		Implement action plans for other energy corridors (2013–2020)										
					Implement regional power dispatch systems in line with diagnostics study for pillar 2 of the CAREC energy strategy (2013–2020)							

will include (i) improvement of border infrastructure; (ii) continued implementation of ongoing and planned customs modernization projects, including information technology system enhancements; (iii) implementation of joint customs controls; and (iv) promotion of national single windows and establishment of the foundations for a regional single window platform for CAREC. During 2016–2020, regional interoperability of national single windows will be developed, and work on other behind-the-border facilitation measures, including sanitary and phytosanitary areas, will be pursued.

Knowledge sharing and capacity building related to the World Trade Organization (WTO) will remain a key priority for CAREC **trade policy** work, led by the Trade Policy Coordinating Committee. In addition, since the WTO accession process will continue to be determined by national policies, CAREC will serve as a forum for member countries for knowledge sharing and capacity building on trade policy in general, through presentations of research by member countries and multilateral institution partners, and through constant monitoring of progress achieved by CAREC countries in opening their trade.

In promoting **energy** trade, ongoing and planned priority power generation and transmission projects supported by CAREC multilateral institution partners will be carried out during 2011–2015. Other priority regional energy projects will also be implemented during the next decade. At the same time, ways will be explored to implement regional power dispatch systems in line with the Strategy for Regional Cooperation in the Energy Sector of CAREC Countries and Action Plan (Annex A). Likewise, a model and analytical base for regionally integrated energy–water resource management will be formulated and implemented during 2011–2013. The regional power trade master plan involving Central Asian countries and Afghanistan, expected to be finalized in 2012, will identify priority projects and initiatives, for possible implementation during the next decade of CAREC. Likewise, a model and analytical base for regionally integrated energy–water resource management will be formulated and implemented during 2011–2013 to enhance regional energy–water security.

A comprehensive work plan for the **CAREC Institute** for the next decade of cooperation will be

formulated during 2011–2012. In the meantime, CAREC outreach activities under the auspices of the CAREC Institute will be intensified in each member country as a means of generating greater recognition of CAREC as a mutually beneficial regional cooperation program. A second set of immediate actions will take place primarily in the form of (i) capacity building and knowledge-sharing activities in priority CAREC sector concerns; (ii) analytical work on key economic and thematic issues common to the CAREC countries, including support for WTO accession; and (iii) impact analysis of emerging issues, such as the Russian Federation–Belarus–Kazakhstan Customs Union on the CAREC Program.

### Improving Competitiveness

In addition to actions in the four core sectors of cooperation highlighted above, the strategic objective of improving competitiveness will be achieved through the **development of economic corridors**. Initially, the CAREC Institute will conduct a series of analytical studies during 2011–2013 on the phased transformation of transport corridors into logistic corridors and further into economic corridors. The transformation process is likely to vary across the CAREC corridors, given the stage of development of each corridor's components and the intensity of goods trade that will, in turn, drive the development of the logistics sector. The initial studies should therefore be able to identify pilot transport corridors that could be transformed to economic corridors in a phased manner and with early beneficial results. This transformation process may consist of, among other things:

- facilitating cross-border movement of goods and people along the corridors, which is currently being addressed by the TTFS;
- implementing behind-the-border measures including policies to improve the business environment and investment climate;
- investing in border towns and key nodal towns and cities along the corridors in the form of urban infrastructure, water supply and sanitation facilities, feeder roads linking towns to the corridors, and other support structures; and

- establishing trade and industrial logistics centers with information exchange systems.

A master plan for each corridor would need to be developed, starting with the pilot corridors. This will ensure synchronous action at both the national and regional levels, recognizing that behind-the-border measures, both in the hardware and software areas, are critical in the transformation process. The corridor master plans should be able to inform the formulation of national and local development plans and measures that impact corridor development, and more importantly, the mobilization of resources, including from national budgets, necessary to finance public investments in the corridor.

The second phase will feature the transformation of logistics corridors into economic corridors. Given the enabling conditions that have been created in the first phase, primarily through public investments, the second phase envisages market-driven initiatives to gradually emerge. From the policies and investments initiated in the first stage, private investment in productive activities is expected to increase, and regional value chains are envisaged to develop primarily resulting from facilitation measures to ease the conduct of business along the corridors. At this stage, the CAREC Program will concentrate on identifying and promoting areas where private investment interests will create production linkages at local, regional, and global levels. This may also involve determining the needs and potential for developing business services along the corridors, such as secure means of money transfers at BCPs, and promoting trade finance. The institutional and policy impediments for developing these services may also be identified, so that industries establishing themselves along the corridor can be made more competitive.

## E. Second-Tier Areas

In the next decade of CAREC, work on **second-tier areas**—such as communicable disease control, agriculture, disaster risk management, and climate-change adaptation and mitigation—will be pursued, subject to availability of resources, in the context of addressing the social impacts of trade expansion and improved competitiveness, thus generating greater focus and synergy with the core areas of cooperation. Building on the knowledge and information exchange that have been the dominant mode of cooperation in the second-tier areas so far, the CAREC Program may strengthen cooperation in second-tier areas in the next decade. Resources permitting, and as an initial first step, the CAREC Institute could conduct analytical work to determine the key areas where initiatives in the core areas could be enhanced by special initiatives in the second-tier areas. On this basis, CAREC members may initiate cooperative activities (special projects) in a second-tier area based on a set of mutually agreed principles and criteria. In terms of institutional implications, this would require the senior officials/national focal points to perform a more active role in promoting cross-sector linkages between the core and second-tier areas. Analytical and knowledge work through the CAREC Institute may also be carried out for other potential areas of cooperation identified by member countries, such as the facilitation of business travel and tourism.

# V. Implementing CAREC 2020

## A. Guiding Principles

In putting CAREC 2020 into action, four principles will continue to guide the design and implementation of CAREC projects and initiatives: (i) country ownership to bring about the Program's alignment with national development agendas; (ii) flexibility in adapting projects to the needs of its member states, and in applying a results-oriented approach to those projects; (iii) the 2+X principle whereby a subset of CAREC countries can implement, on a pilot basis, regional projects or initiatives agreed by all members; and (iv) the alliance of multilateral institutions and other development partners in working toward common goals that concentrate activities in the priority areas.

- **Country ownership.** A commitment to country ownership and country-driven approaches anchored on the regional strategies and action plans will ensure the effectiveness of the CAREC Program. Building strong commitment will require all stakeholders to fully appreciate the benefits of CAREC initiatives, share similar mindsets, and identify with shared goals and directions. Similarly, commitment by member governments to fully mainstream regional cooperation into their development strategies will be an essential part of CAREC 2020. This will also facilitate the formulation of a list of medium-term priority projects (MTPP) and initiatives for CAREC.
- **Pragmatism and results orientation.** CAREC 2020 will continue to focus on practical and implementable initiatives that address the most pressing constraints and are achievable within a realistic timeframe. This approach will serve as a platform from which to initiate specific, measurable, attainable, relevant, and time-bound structures from which a results orientation will be taken.
- **2+X principle.** Regional projects and initiatives proposed under CAREC 2020 may initially involve a subset of countries, which could result in work undertaken on a subregional or corridor-specific basis to provide a demonstration effect for the other CAREC members.
- **Development partners' strengthened partnership.** CAREC will continue to be a

powerful platform from which to marshal financial resources through the collaborative efforts of CAREC governments, multilateral institutions, and the private sector.

Recognizing several areas where programs and activities of multilateral institutions and other international organizations can overlap, the multilateral institutions will seek to develop synergies, especially for transport and trade, while avoiding duplications. In addition, as a 10-year commemorative activity in 2011, CAREC convened a CAREC Development Partners' Forum (DPF) as a key step for increased engagement between CAREC countries and other development partner organizations. CAREC and ADB will also initiate other forums as a means to broaden the dialogue with other stakeholders from all parts of the emerging continental transport and trade network.

## B. CAREC Overall Institutional Framework

The overall institutional framework (OIF) will continue to provide the mechanism for guiding, coordinating, and overseeing the CAREC Program (Figure 3).<sup>26</sup> It will remain flexible and informal, in line with CAREC's action-oriented nature. At the same time, it will actively manage the more focused agenda of CAREC 2020, supported by the coordination function of the CAREC Secretariat and the technical and financial support from the multilateral institutions.

In light of lessons learned from the past 10 years, and in particular the need for stronger country ownership of CAREC, the OIF will undergo gradual refinements during the coming decade. These refinements will reflect the 2011 enhancements to the Comprehensive Action Plan (CAP) and the need for focused and intensified implementation to achieve the two strategic objectives of CAREC 2020. In particular, the adjustments will include

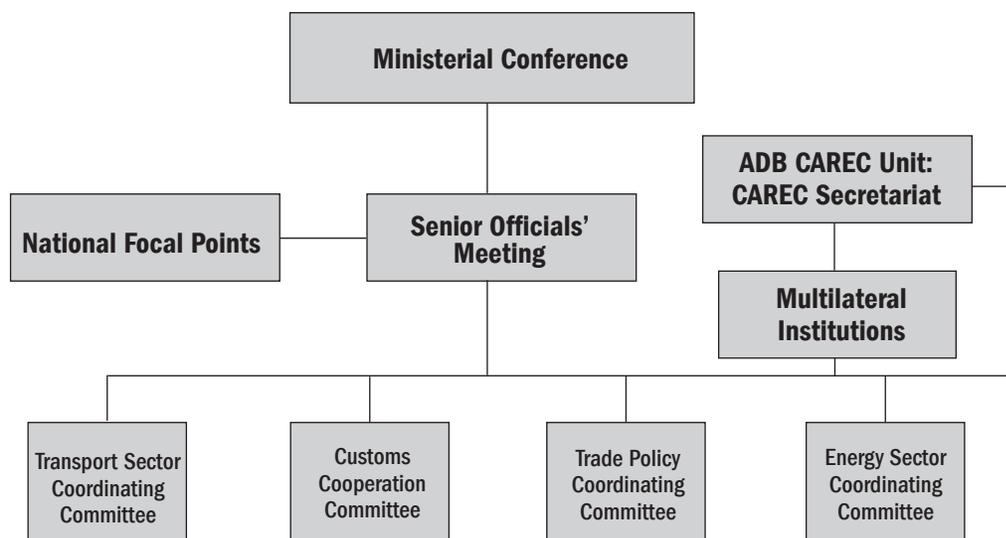
- a more prominent role for the countries in the execution of the OIF;
- the need to strengthen the coordinating mandates of the national focal points (NFPs) and to ensure they have the institutional capacities to bring about focused and accelerated implementation of CAREC 2020;
- a stronger role for the Senior Officials' Meetings (SOMs) in resolving issues associated with the implementation of CAREC 2020;
- the need for consistent involvement of sector focal points in the work of sector coordinating committees; and
- the need for a stronger interface with private sector mechanisms.

The offices of the NFPs in CAREC countries will work to ensure effective coordination among government agencies and other parties in carrying out their respective responsibilities under CAREC 2020. This will include helping the line agencies in formulating and prioritizing projects and initiatives, mainstreaming regional initiatives with national development plans, and securing resources from the national budget to help carry out regional project activities. The offices of the NFPs will take a proactive role in identifying opportunities to increase engagement with other regional cooperation groupings.

Capacities of the offices of the NFPs and sector focal points will be strengthened to allow them to better coordinate the CAREC Program and oversee implementation of priority projects and initiatives. A stronger coordinating role for the NFPs will include the capacity to both analyze the regional implications of national initiatives, and to manage regional externalities to help reduce functional overlaps between CAREC and other regional organizations in which the country participates.

To ensure that CAREC's regional OIF mechanisms are able to effectively carry out their roles, required enhancements will be put in place. This applies, in particular, to the Ministerial Conference, SOMs, sector coordinating committees, and other allied bodies, such as the CAREC Federation of Carrier and Forwarder Associations (CFCFA), in order to ensure they effectively carry out their roles.

<sup>26</sup> CAREC's OIF is defined at [www.carecprogram.org/index.php?page=governing-structure](http://www.carecprogram.org/index.php?page=governing-structure)

**Figure 3: Overall Institutional Framework**

The Ministerial Conference will continue to set the strategy and guide the CAREC Program. It will include both formal and informal meetings—such as the first-ever ministerial retreat in November 2010 as part of the 9th Ministerial Conference—to provide a venue for discussing difficult issues in a more candid manner. Ministerial retreats can be held from time to time, in addition to the formal ministerial meetings. The CAREC ministers will regularly convene CAREC national coordinating meetings to monitor progress and identify issues that should be raised at the Ministerial Conferences.

The SOM mechanism will continue to carry out its primary role as a recommendatory body to the Ministerial Conferences. However, it should also exercise a more proactive role not only in taking stock of progress being made under CAREC 2020, but also, and more importantly, in addressing policy and project-related issues, especially those that are strategic, inter-country, or multisector in nature, such as those associated with economic corridor development. This will require the support of a capable NFP office. The SOM will also undertake an annual review of the development effectiveness of CAREC using the CAREC results framework. It is possible that special meetings of the NFPs will be held in addition to the SOMs to undertake more specific agendas, rather than cover all sectors.

The sector coordinating committees will ensure effective and timely implementation of the MTPP. They will be tasked with formulating their respective action plans based on the MTPP and sector strategies. The MTPP will be subject to an annual review. There will be continuity of discussions between meetings and appropriate follow up of decisions. To achieve this, active participation of sector focal points at an appropriately high level will be important. The chairmanship of the sector coordinating committees should be rotated among the CAREC countries, consistent with the objective of providing a more prominent role for the countries in executing the OIF, and promoting greater ownership.

In technical areas, the sector coordinating committees will adopt a highly practical approach. The Energy Sector Coordinating Committee, for example, has established subcommittees for each of the three pillars of the current action plan framework to enable more technical and substantial discussion on the key issues among experts.

CAREC 2020 should serve to catalyze investments from the private sector and through innovative public–private partnership (PPP) modalities. The CFCFA will be strengthened to enable it to play a key advocacy role for the cross-border transport agreement and other transport

and trade facilitation measures, and logistics and corridor development. Other mechanisms may be explored to promote private sector participation in economic corridor development, including private sector entities of Europe, the Caucasus, the Russian Federation, the Middle East, East Asia, and South Asia as important stakeholders in the development of intercontinental trade.

As the CAREC Program matures and takes on initiatives requiring stronger political commitment, such as in trade facilitation and cross-border transport agreements, member countries may consider convening a summit of heads of states and/or governments. This could be a one-off gathering, or institutionalized as part of the OIF. Strong political support manifested at the highest levels will help accelerate implementation of regional projects and initiatives, strengthen ownership by member countries, and boost promotional efforts necessary to develop a broader and stronger constituency for the Program. Above all, it will give credence to CAREC's vision and goal.

### **C. Medium-term Priority Projects List**

To sustain a more focused approach to project planning and implementation, the MTPP will accompany CAREC 2020 and will be updated every year. The MTPP will put into action the operational priorities needed to achieve the two strategic objectives of CAREC 2020, by focusing on preparation of priority projects for implementation within the first 5 years of CAREC 2020. This means that the projects in the MTPP must have a well-developed concept, and be supported by a concrete financing and implementation plan. Projects included in the MTPP must be reflected in the respective member country's national development plan.

The initial MTPP, which will be formulated by the sector coordinating committees, is expected to reflect the criteria included in the sector strategies and action plans and their priorities to date. Future projects to be included will be based on updated sector strategies and action plans, and agreements

reached by the sector coordinating committees and guided by the multilateral institutions. The CAREC Secretariat will maintain the database for the MTPP.

The sector committees will monitor and evaluate ongoing projects. Based on their reviews, updates of the MTPP will be formulated and recommendations submitted to the SOM. The SOM in turn, will regularly review MTPP updates and ensure coherence across the sectors, as well as consistency with CAREC 2020's strategic objectives. The SOM will make appropriate recommendations to the Ministerial Conference. The NFPs will help ensure that regional investment projects in the first 2–3 years of the MTPP are consistent with respective national development plans.

### **D. Monitoring Progress and Results**

To date, the SOMs and sector coordinating committee meetings have regularly taken stock of progress in implementing the CAP and the sector strategies and action plans. Sector progress reports have been presented to the SOMs and Ministerial Conferences. Development effectiveness reviews, based on the existing results framework, will continue to be prepared to monitor progress against the intended objectives of the CAREC Program.

The existing overall CAREC results framework—endorsed at the 8th CAREC Ministerial Conference in 2009—remains valid.<sup>27</sup> In light of the introduction of the two strategic objectives in CAREC 2020, the introduction of intermediate outcome indicators between the current Level 1 and Level 2 of the results framework will be explored once the MTPP becomes operational. Baseline studies on these outcome indicators will be conducted and appropriate targets determined for future development effectiveness reviews.

<sup>27</sup> The overall CAREC results framework is available at [www.carecprogram.org/index.php?page=carec-results-framework](http://www.carecprogram.org/index.php?page=carec-results-framework)

## E. Resource Mobilization and Coordination Arrangements

The CAREC countries will include MTPP in their respective national development plans. These projects will be funded either from internal resources or from the mobilization of external financing. For their part, multilateral institutions will commit to continue providing financial and technical support for CAREC projects, including exploring other resources earmarked for regional projects, and closely coordinate with each other. In addition to the normal performance-based allocations for eligible CAREC members, ADB and the World Bank have concessional facilities designed to support regional projects. Multilateral institutions will also help countries generate private sector interest through various instruments, and encourage their participation in CAREC projects. The involvement of other development partners, within the parameters of CAREC's strategic goals, will be welcomed.

A Development Partners' Forum (DPF) convened in 2011, served as a platform for focused and results-oriented consultation between the CAREC countries and development partners on key issues and priorities under the CAREC Program. Through enhanced engagement between the CAREC countries and development partners, the DPF aims to facilitate resource mobilization for the CAREC Program in a more coordinated and effective manner.

Financing regional projects is a challenging process.<sup>28</sup> Apart from the usual challenges associated with financing large infrastructure projects (such as long implementation period, sovereign risks), the development of regional investments also requires

the support of, and coordination between, two or more countries, which makes the process more complicated. In addition, most governments tend to prioritize national investments over regional projects. Private sector financing of regional infrastructure projects, therefore, becomes all the more important. In this regard, PPPs for financing priority projects in the MTPP will be pursued. As an initial step, the establishment of a CAREC regional project development facility to help prepare potential PPP projects and mobilize private sector interest will be explored. Budget permitting, the technical assistance to be provided in setting up this facility will need to address the institutional structure, operational mechanism, and funding requirements of the facility, while at the same time provide financial support to conduct pre-feasibility studies that generate an initial set of bankable regional infrastructure projects for financing under the PPP mode.

The CAREC Program will continue to coordinate with other regional cooperation organizations. The CAREC Secretariat will encourage proactive information sharing with other regional groupings through, among others, consultations and the CAREC Program website. The offices of the CAREC NFPs will also coordinate closely with counterparts from other regional cooperation organizations within their respective countries. The results of such activities will be reported to the SOM. The CAREC Secretariat will invite representatives of other secretariats to the annual Ministerial Conference, and will seek to be invited to open meetings of other regional cooperation groupings.

<sup>28</sup> ADB. 2009. *Infrastructure for a Seamless Asia*. Manila.

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## VI. Conclusion

The 10th anniversary of the CAREC Program presents a natural opportunity to confirm its effectiveness as a framework for regional cooperation. But more importantly, it also allows CAREC to reflect on how the region and its intercontinental environs are unfolding with such dramatic change that a redefinition and a refocusing of CAREC's strategic role has now become more compelling. CAREC 2020 articulates the opportunities and challenges that now confront the region, and the required changes that these will entail for the CAREC Program in the next decade. The rigorous review and intensive consultations between partners in the course of formulating CAREC 2020 has given the assurance that CAREC countries remain committed to continue working as good neighbors and good partners to realize the very good prospects for the region.

CAREC 2020 hones the Program's objectives and imperatives and sharpens its agenda. It builds on the achievements of the past decade, intensifying infrastructure connectivity, transport and trade facilitation, trade policy, and energy as the core of regional cooperation. Guiding principles for the design and implementation of projects that accelerate growth

and reduce poverty is unchanged as the foundation for a stronger country-owned and results-oriented plan, backed by a deepening collaborative approach on development goals shared with regional partners.

However, building on the lessons learned from the first decade of CAREC implementation, there is now scope for greater impetus to accelerate progress across the core areas. Significant strategic refinements that support a more focused agenda include:

- **Enhancements to the Comprehensive Action Plan** through a firm commitment to two economic growth-producing strategic objectives: expanding trade and improving competitiveness. The CAREC 2020 action plan and its medium-term priority projects (MTPP) list focus a sequenced and programmed approach to initiatives that support the achievement of each objective.
- **A new concentration on institutional imperatives** that drive the effectiveness of CAREC investments. Mobilizing more resources, including those of the private sector, to support a balanced MTPP, and efforts to

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build capacity across the priority sectors and cooperate with other regional groupings are of vital importance. Stronger ownership by CAREC countries to mainstream the Program in national development plans is paramount. This needs to be complemented by continued technical and financial assistance from, and constructive collaboration among, the CAREC multilateral institutions, and overall coordination by the CAREC Secretariat.

- **Gradual adjustments in the overall institutional framework** to reflect the greater need for increased country ownership and better coordination of action across priority sectors. In order to implement action plans, it is envisaged that Senior Officials' Meetings

will have to take on special agendas to resolve issues, and there will be a need for consistent inputs from national and sector focal points.

As the strategic framework of a partnership that is growing both in size and scope of activities, CAREC 2020 will continue to drive on-the-ground results such as the development of transport corridors into networks of economic development, and logistical support for seamless connectivity across borders. The groundswell of goodwill this has produced over the first 10 years of implementation will help secure the future of the CAREC region in a world where the rebalancing of trade and investment flows over the coming decade will transform how countries interact with each other.

# Annex A: Sector Strategies

## A. Transport and Trade Facilitation Strategy

The CAREC countries recognize the importance of adopting a common approach to efficient and predictable policies and processes that reduce the cost, time, and uncertainty associated with international trade. This conviction led to the endorsement in November 2007 of the Transport and Trade Facilitation Strategy (TTFS) by the 6th CAREC Ministerial Conference.<sup>1</sup> A year later and following extensive consultation with CAREC countries, the 7th CAREC Ministerial Conference approved the Action Plan for 2008–2017.<sup>2</sup>

The TTFS has three overarching goals supported by six strategic priorities (Box A1). Two implementing components have been identified to achieve the main goals. The first is through a transport component whose actions aim to create a well-managed,

technologically advanced transport infrastructure; the second is through a trade facilitation component aimed at reducing trade costs through three types of actions: (i) concerted reform and modernization of customs, (ii) an integrated trade facilitation approach, and (iii) an efficient regional logistics system.

One of the strengths of the TTFS and Action Plan is the close integration of hard and soft infrastructure initiatives.<sup>3</sup> The consolidated strategic approach, for example, matches the hard infrastructure goal of creating a competitive transport corridor with the soft infrastructure goal of improving administrative efficiency and harmonizing trade procedures. The effectiveness of the TTFS in facilitating trade largely depends on its flexible and pragmatic approach to tackling evolving impediments to CAREC trade, and establishing appropriate mechanisms to (i) increase transparency and predictability of trade rules, (ii) reduce risk and uncertainty in trade, (iii) effectively implement trade-related laws and regulations, and (iv) efficiently move goods and associated services and information across borders.

1 ADB. 2007. *CAREC Transport and Trade Facilitation Strategy*. Manila. [www.carecprogram.org/uploads/docs/CAREC-Transport-TradeFacilitation-Strategy.pdf](http://www.carecprogram.org/uploads/docs/CAREC-Transport-TradeFacilitation-Strategy.pdf)

2 ADB. 2007. *Implementation Action Plan for the Transport and Trade Facilitation Strategy*. Manila. [www.carecprogram.org/uploads/docs/CAREC-TTF-Strategy-Implementation-Action-Plan.pdf](http://www.carecprogram.org/uploads/docs/CAREC-TTF-Strategy-Implementation-Action-Plan.pdf)

3 This reflects the joint development of the TTFS by the Transport Sector Coordinating Committee and the Customs Cooperation Committee.

**Box A1: Transport and Trade Facilitation Strategy and Action Plan****Overarching Goal**

- Establish competitive transport corridors across CAREC
- Facilitate efficient movement through corridors and across borders
- Develop sustainable, safe, and user-friendly transport and trade networks

**Strategic Priorities**

- Simplify cross-border transport procedures
- Harmonize transport regulations
- Improve infrastructure of transport corridors
- Restructure and modernize railways
- Improve sector funding and management
- Incrementally liberalize civil aviation subsector

**Transport Component Goals**

- Establish competitive transport corridors across the CAREC region
- Facilitate efficient movement of people and goods across borders
- Develop safe, people-friendly transport systems

**Trade Facilitation Component Goals**

- Reduce transaction costs and time significantly by improving administrative efficiency and simplifying, standardizing, and harmonizing trade procedures
- Encourage the free movement of people and goods
- Enhance the transparency of laws, regulations, procedures, and forms, and share information on these and other trade issues

**10-Year Action Plan**

- Total of 81 investment projects valued at \$32 billion
- Total of 55 technical assistance projects valued at \$67 million

Sources: ADB. 2007. *CAREC Transport and Trade Facilitation Strategy*. Manila; and ADB. 2007. *Implementation Action Plan for the Transport and Trade Facilitation Strategy*. Manila.

Another strength of the TTFS is the adoption of a corridor-based regional approach to infrastructure development. By focusing on six priority corridors, the strategy seeks to optimize the region's transport network and economic development potential by bolstering CAREC members' competitiveness within the region and international markets. This framework has served to prioritize transport and trade facilitation initiatives based on their impact on economic growth and contribution to poverty reduction in the region.

The TTFS focuses on the development of six corridors:<sup>4</sup>

CAREC 1: Europe–East Asia (KAZ, KGZ, and XUAR)

CAREC 2: Mediterranean–East Asia (AZE, KAZ, KGZ, TAJ, UZB, and XUAR)

CAREC 3: Russian Federation–Middle East and South Asia (AFG, KAZ, KGZ, TAJ, and UZB)

CAREC 4: Russian Federation–East Asia (MON, IMAR, and XUAR)

CAREC 5: East Asia–Middle East and South Asia (AFG, KGZ, TAJ, and XUAR)

CAREC 6: Europe–Middle East and South Asia (AFG, KAZ, TAJ, and UZB)

## B. Trade Policy Strategic Action Plan

The Trade Policy Strategic Action Plan (TPSAP), endorsed at the 7th CAREC Ministerial Conference in November 2008 in Baku, Azerbaijan, establishes a program for expanding trade through regional cooperation.<sup>5</sup>

The TPSAP consists of three strategic goals and three operational mechanisms through which the Action Plan has been formulated. The strategic goals are, first, more open CAREC economies; second, World Trade Organization (WTO) membership for all CAREC countries; and, third, capacity development and knowledge transfer of trade and trade policy issues (Box A2). Achievement of these goals is to occur through (i) trade liberalization which includes the reduction and simplification of tariffs, elimination of quantitative restrictions, rationalization of taxes on imports and domestic goods, among others;

4 AFG = Afghanistan, AZE = Azerbaijan, IMAR = Inner Mongolia Autonomous Region of the People's Republic of China (PRC), KAZ = Kazakhstan, KGZ = Kyrgyz Republic, MON = Mongolia, TAJ = Tajikistan, UZB = Uzbekistan, XUAR = Xinjiang Uygur Autonomous Region of the PRC.

5 ADB. 2007. *Trade Policy Strategic Action Plan: Trade Expansion through Regional Cooperation*. Manila. [www.carecprogram.org/uploads/docs/CAREC-Trade-Policy-Strategic-Action-Plan.pdf](http://www.carecprogram.org/uploads/docs/CAREC-Trade-Policy-Strategic-Action-Plan.pdf)

**Box A2: Current Trade Policy Strategic Action Plan**

**Strategic Goals**

- More open CAREC economies
- World Trade Organization (WTO) membership for all CAREC countries
- Capacity development and knowledge transfer of trade and trade policy issues

**Operational Strategy**

- Broad-based reduction of trade barriers, increased transparency, and simplification of trade regulations
- Provide practical assistance to non-WTO member countries to build capacity and transfer knowledge
- Capacity-building and knowledge-transfer activities

**Action Plan**

- Twenty (20) policy actions
- Six (6) areas of capacity building

Source: ADB. 2007. *Trade Policy Strategic Action Plan: Trade Expansion through Regional Cooperation*. Manila.

(ii) assistance to non-WTO members in crafting the needed policies for accession; and (iii) capacity building and knowledge transfer (a priority of the CAREC Institute), to enable the countries to address policy and institutional impediments to trade openness. The TPSAP contains 20 policy actions and 6 types of capacity-building activities.

The strategic goals and operational mechanism of TPSAP derive from recommendations made by an earlier ADB study of five CAREC member countries.<sup>6</sup> The ADB study examined the potential expansion of trade in the context of the multilateral trading system, using computable general equilibrium models of Kazakhstan and the Kyrgyz Republic. Regional cooperation was viewed as a stepping stone toward the process of globalization in the multilateral trading system, and the recommendations were therefore largely associated with accession to the WTO and trade liberalization, as well as transport and trade facilitation measures that are already covered under the TTFS.

<sup>6</sup> ADB. 2006. *Central Asia: Increasing Gains from Trade Through Regional Cooperation in Trade Policy, Transport and Customs Transit*. Manila.

## C. Energy Strategy and Action Plan

The CAREC Ministers endorsed the Strategy for Regional Cooperation in the Energy Sector of CAREC Countries (Energy Strategy) in 2008.<sup>7</sup> It provides a framework for energy cooperation in areas where there is mutually beneficial gain to be had among participating countries, while at the same time considering the security interests of all states. The major areas through which regional energy cooperation is to be advanced include developing market relations, transit arrangements, investments, agreements to jointly utilize infrastructure, knowledge sharing, and joint use and protection of transborder rivers and sea-bed resources.

The Energy Strategy's vision is to ensure (i) energy security through balanced development of the region's energy infrastructure and institutions; (ii) stronger integration of the region's energy markets to make available adequate volumes of commercial energy to all physical and juridical persons in a reliable, affordable, financially sustainable, and environmentally sound manner; and (iii) economic growth through energy trade (Box A3).

The strategy has three main elements. The first consists of economically and financially sound domestic and cross-border investment measures that take into account the interests of all member countries. Domestic investments will focus on energy efficiency and clean energy, while cross-border investments are to address production of ecologically clean energy and energy trade and will be pursued with mutual agreement among all relevant parties in the following key areas:

- cross-border energy transmission,
- facilitation of access/transit to third-country energy markets,
- production for export,
- development of energy resources on a joint or cooperative basis respecting the laws of relevant states for protecting nature,
- integration of energy markets,
- capacity building for energy trade,

<sup>7</sup> ADB. 2008. *Strategy for Regional Cooperation in the Energy Sector of CAREC Countries*. Manila. [www.carecprogram.org/uploads/docs/CAREC-Regional-Cooperation-Strategy-in-Energy.pdf](http://www.carecprogram.org/uploads/docs/CAREC-Regional-Cooperation-Strategy-in-Energy.pdf)

- projects under Clean Development Mechanism and carbon finance, and
- investments abroad to access external energy resources.

The second element consists of capacity-building and knowledge-sharing measures that will enable the aforementioned investment measures to be identified and implemented. The enhancement of institutional capacity will be based on international best practices in the following areas:

- **Commercial operation related to energy.** Focus on negotiations, contracting, regional dispatch and system control, metering, billing and collections, and utility accounting and audit, modern corporate governance techniques, tariff adjustments, operational efficiency, and consumer relations.
- **Sector regulation.** Focus on ensuring transparency, stability, predictability, and consistent fairness.
- **Public–private partnership arrangements.** Focus on forms and regulation.
- **Demand-side management, energy efficiency, and energy conservation.** Focus on integrated resource planning, energy service companies, and financing mechanisms.
- **Alternative and renewable energy.** Focus on resource surveys, devising promotional and incentive arrangements.
- **Riparian issues.** Focus on international experience in trans-boundary river management and protection.

The third element involves measures that lead to a sound and appropriate policy environment to ensure the sustainability of the investments. The policy measures will focus on the following areas:

- energy trade and security,
- financial viability of energy supply entities and

- the sustainability of energy services,
- social protection in the energy sector,
- sector restructuring and commercialization,
- sector regulation,
- promotion of private sector participation,
- cooperation in international river basins,
- littoral agreements,
- alternative and renewable energy options, and
- energy efficiency and initiatives under Clean Development Mechanism and other carbon-financing mechanisms.

### Box A3: Strategy for Regional Cooperation in the Energy Sector of CAREC Countries

#### Vision

- Energy security
- Energy market integration
- Energy trade-driven growth

#### Elements

- Establish economically and financially sound investment measures for regional cooperation
- Create a sound and appropriate policy environment to ensure sustainability of investments
- Develop capacity and knowledge sharing for identification and implementation of regional project

#### Strategy Implementation

Enable regional cooperation through five priority energy corridors:

- Central Asia–East Asia
- Central Asia–South Asia
- Intra-Central Asia Cooperation
- Central Asia–Russian Federation
- Central Asia–European Union

#### Action Plan Centered around Three Pillars

- Energy demand/supply balance and infrastructure constraints
- Regional dispatch and regulatory development
- Energy–water linkages

Sources: ADB. 2008. *Strategy for Regional Cooperation in the Energy Sector of CAREC Countries*. Manila; and ADB. 2009. *Energy Action Plan Framework*. Manila.

# Annex B: Economic Corridor Development

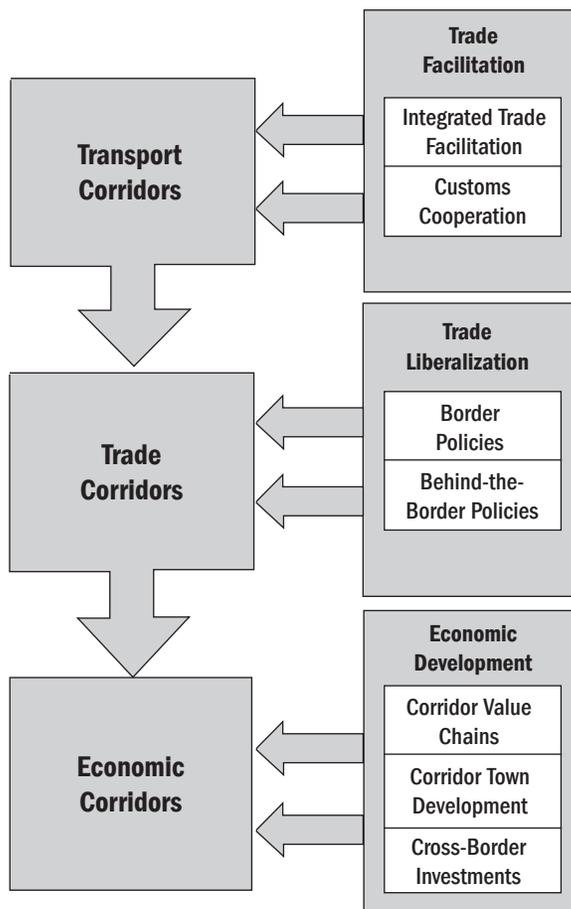
The transformation of the CAREC transport corridors into economic corridors will largely depend on how corridor trade is elevated to a certain level of development in the areas surrounding the corridors. Since the movement of goods and people along those corridors involves transnational cross-borders, development of economic corridors will require an integrated spatial planning approach that goes beyond purely national policies. Moreover, development of one area of the corridor is likely to be conditional on the trading conditions along the entire area of the corridor. Figure B1 shows the sequencing of the transformation of transport corridors to economic corridors, along with existing and possibly additional performance indicators.

**Stage 1: Transport corridors.** At present, soft and hard infrastructure measures along the six CAREC priority corridors aim to accommodate transport activities. As such, the corridors are viewed as transport axes in which infrastructural measures are intended to reduce transport costs and travel time. Reduced costs and time traveled, in turn, increase the competitiveness of companies using the corridors in delivering their products to intermediaries or end-users.

**Stage 2: Building corridor nodes.** The next level of corridor development will involve improvements in spatial interaction among places located along the corridor. These so-called nodes can be classified into four categories: (i) commercial nodes, where major business activity is carried out; (ii) border nodes, where cross-border movements of goods and services occur; (iii) gateway nodes, where a corridor ends, and the entry and exit points to the corridor are located; and (iv) interchange nodes, where two or more corridors intersect. At this stage, the focus of soft and hard infrastructure support is the development of corridor towns.

**Stage 3: Linking corridor nodes.** Interaction between nodes along the corridors creates new opportunities for trade and investment. The result is an enlargement of markets and the creation of circumstances where value can be added through spatial interactions along the corridor. For the private sector, these activities center on the participation in value chains, while for governments, business associations and multilateral institutions, support takes the form of improvements in the production or export quality infrastructure to ensure that the

**Figure B1: Moving from CAREC Transport Corridors to Economic Corridors**



products originating from different areas along the corridor meet the standards required of domestic or foreign markets.<sup>1</sup> In this context, it is useful to view trade facilitation as involving actions needed to get products to intermediaries, and production or export

quality infrastructure as the standards required by the intermediary or end-user, or established by domestic or foreign governments.<sup>2</sup> Support for improvements in quality infrastructure is needed at all stages along the value chain, and it often needs to extend beyond national boundaries in the case of subregional corridors. At this stage, there is also the need to support the development of corridor networks or clusters among interconnected companies in related industries within a geographic location.

The role of the private sector in the development of subregions will progress rapidly if economic corridor development reaches the stage where there is increased spatial interaction among enterprises. Trade in goods and mobility of people along the corridors could therefore become a major driver for promoting cross-border investment in activities that add value to the production of goods. Support in the form of (i) trade-related technical assistance for trade development activities supporting trade finance, business support services, e-commerce, and public-private sector networking; and (ii) trade-related capacity-building activities to increase productive capacity through business development, and activities aimed at improving the business climate, privatization, and assistance to key sectors and subsectors. Finally, the participation of micro and small-sized enterprises are an essential part of the process of converting transport corridors into economic corridors. One proven mechanism is through the integration of micro and small-sized enterprises into subregional value-chain activities; another is the promotion of subregional business development services along the corridors, supported by a cost-sharing facility with credit guarantee facility.<sup>3</sup>

1 Examples of production and export quality infrastructure include certification of products and management systems, competence of laboratories related to export, accreditation of laboratories, proficiency testing, metrology and inspection and, in the case of foods, inspection systems.

2 Quality standards and requirements on specific product imports are often applied by governments.

3 Recommendations made at CAREC Ministerial Retreat in Cebu, Philippines, November 2010.

## **CAREC 2020: A Strategic Framework for the Central Asia Regional Economic Cooperation Program 2011–2020**

The Central Asia Regional Economic Cooperation (CAREC) Program made significant progress in creating a committed and effective partnership during 2001–2010—establishing a clear, shared vision, a Comprehensive Action Plan; and formulating and implementing more than 100 CAREC-related projects worth over \$15 billion. Building on the lessons of its first 10 years, CAREC 2020 articulates the emerging opportunities and challenges that now confront the region, and the required changes that these entail for the CAREC Program in the next decade. It details the strategic and operational priorities of CAREC as it moves toward its vision of Good Neighbors, Good Partners, and Good Prospects in the next decade.

### **About the Central Asia Regional Economic Cooperation Program**

The Central Asia Regional Economic Cooperation (CAREC) Program is a practical, projects-based, and results-oriented partnership that promotes and facilitates regional cooperation in transport, trade, and energy. CAREC comprises 10 countries: Afghanistan, Azerbaijan, the People's Republic of China, Kazakhstan, the Kyrgyz Republic, Mongolia, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan. Six multilateral institutions support the work of the CAREC member countries: the Asian Development Bank (ADB), European Bank for Reconstruction and Development, International Monetary Fund, Islamic Development Bank, United Nations Development Programme, and World Bank. ADB serves as the CAREC Secretariat.

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