

CENTRAL ASIA REGIONAL ECONOMIC COOPERATION BUSINESS DEVELOPMENT FORUM

SUMMARY REPORT, Urumqi, Xinjiang, UAR, People's Republic of China, July 29-30 2010

“Business Opportunities and Public-Private Partnership in Regional Development”

The second CAREC Business Development Forum gathered the interests of the Central Asia business community to articulate and showcase numerous business opportunities for investments across transport, trade, energy, mining, agriculture, processing and the service sectors by the 10 countries individually, through their country presentations, and as regional partners for sustainable growth. The few hundred people attending this BDF showed that there is no doubt that the value of trade will continue to grow as seen from US\$ 1 billion ten years ago to US\$ 25.9 billion at the end of 2009 between China and its Central Asia partners. However, there is much need to continue technical assistance in institutional reforms and training and for infrastructure improvement projects under the CAREC Program. As a result of development assistance, more private sector investments will be attracted for more widespread benefits of development across the region and with more public-private partnerships to enhance the regional cooperation.

The Bishtek Action Plan endorsed by the CAREC Ministerial Conference in November, 2005 established the foundation to build stronger ties among the private and public sectors with the multilateral financial institutions for regional cooperation and economic integration in Central Asia. Since 2005, many CAREC Program events occurred to improve the dialogue between the public and private sectors and to raise the awareness of the changes needed by policy reforms with harmonization, public project financial management training, and for smoother flows of information about investment opportunities. These events included the first BDF in October, 2006; the “Private Sector Participation and Investment in Physical Infrastructure for CAREC” seminar in Tokyo, March, 2008; and the 2009 CAREC PPP Awareness Workshops in Central Asia.

This BDF proved that there is much progress but, much more is needed to involve the private sector in regional economic development projects. Moreover, the intrinsic challenges to regional cooperation of harmonization and economic integration will face greater scrutiny since the financial crisis. The presentations from the 10 country participants and from the keynote speakers as well as from the panel sessions revealed the opportunities for investments and the need for further dialogue among public, private and multilateral institutions as partners.

The CAREC Transport and Trade Facilitation Strategy with Action Plan focused on improving the infrastructure, management and technology along 6 corridors throughout Central Asia. In particular, there are 24,000 kilometers (km) of roads, 20,000 km. of railways, 29 Border Crossing Points (BCP), 42 airports and 2 ports divided into Action Plans for 2008-2017 and a rolling plan for 2010-2012. By 2010, improvement projects were for 1,700 km of roads, 1,120 km of railways, 2 airports and 2 logistics centers, 9 BCPs and 9 more BCPs in the works as well as a cross-border transport agreement between Kazakhstan and Tajikistan. Furthermore, the CAREC Program is targeting 11 infrastructure projects for PPPs for road and rail in Kazakhstan; a sea trade port construction for Baku, Azerbaijan and port logistics facilities at the borders and airport for Erenhot, Inner Mongolia Autonomous Region (IMAR) bordering

Mongolia; Khorgos, Xinjiang Uygur Autonomous Region bordering Kazakhstan and in Hohhot, IMAR, respectively.

These six corridors under the CAREC Program are essential to “finding new sources of growth away from natural resources that are susceptible to economic shocks and to boosting trade for regional integration to increase growth.” The six competitive transport corridors require investments of over US \$24 billion from 2008-2017 under the CAREC Program and will need further assistance from public and private sources to fully integrate regionally, to be operational. The BDF presentations of several countries showed signs of cross-border integration as follows:

- Small scale integration of the Free Economic Zone “Panji Poen” by Tajikistan with Afghanistan
- Deepening of collaboration between China and Kazakhstan through cross-border cooperation as in a Public Private Partnership (PPP) project of Almaty-Khorgos
- Kazakhstan developing six strategic Special Economic Zones (SEZ) near the borders
- Uzbekistan FIEZ “Navoi” (US \$5 billion investment) in a phased construction of facilities and infrastructure for regional trade and investment (19 projects over US \$200 million)
- “Iron Silk Road” from Baku, Azerbaijan-Tbilisi-Kars railroad
- Armenia Free Economic Zone (FEZ) and Agriculture Logistics Center near Zvartnots Airport
- Pakistan interest to cooperate with landlocked CAREC countries and join (corridor 6c) for access to their seaports to markets beyond the region and by six Asia Highway routes

At present, these corridors have constraints to the flow of freight traffic and passengers across the borders. “Speed along corridor 2 is 20 km per hour and the IRU found that 40 percent of the transport time is at the borders and amounts to 40 percent of the transport costs.” The approach to resolve is by hardware and software. ADB invested US \$3.6 billion from 2000-2010 in transport, trade facilitation and energy projects and recently approved US \$200 million for Single Window (SW) joint development at border crossing points.

On July 28th, prior to the BDF main event, there was the Annual Meeting of the CAREC Federation of Carrier and Forwarder Associations (CFCFA) with important corridor performance issues on the agenda. Recently, ADB instituted the Corridor Performance Measurement and Monitoring (CPMM) technical assistance (TA 6437 REG) to collect and analyze time and cost data along the corridors and at the border crossings for rail and road transport. The data is important in decision making to regionally coordinate BCP improvements and for the development of regional platforms linking national Single Windows. National and regional joint committees (NJC/RJC) along with the newly formed CAREC Federation of Carrier and Forwarder Associations (CFCFA) will seek private sector participation on both BCP improvements and Single Window project implementations.

During the BDF sessions, keynote speakers and country presenters called for further trade and cooperation since the CAREC-plus countries benefited from the process of cooperation during the past decade. Political and social stability with marked reduction in the paperwork requirements for businesses among the CAREC countries spurred inflows of foreign direct investment (FDI). Nearly, all CAREC-plus countries experienced high single and double digit gross domestic product (GDP) growth

over the recent years with similar positive GDP forecasts. A leading CAREC member, Kazakhstan had total trade turnover with the PRC of US \$3.6 billion from January-April, 2010 (exports, US \$2.8 billion and imports, US \$814 million). Pakistan trade with CAREC countries amounted to over US \$6 billion of which US \$4.4 billion was with the PRC and US \$1.2 billion with Afghanistan in 2009.

CAREC-plus countries stressed that they have common comparative advantages and even a common market based on:

- Location-as the axis among Europe, Middle East, South Asia and East Asia
- Resources-minerals (Afghanistan Hajigak iron ore), agriculture, energy exports, tourism
- Policies- favorable and tax regime advantages for investors
- Labor force-abundant, low cost, well educated with Armenia promoting a strategy based on a knowledge driven economy and “complex engineering services.”

CAREC-plus countries desire more investment and trade in: infrastructure development, energy and new energy (Kazakhstan energy efficiency technologies and energy saving projects), agriculture, information and communication technologies (ICT), and value added processing and manufacturing. There is a collective objective to capitalize on the market of over 300 million people with a combined GDP of US \$ 600 billion.

Tajikistan and Kyrgyz Republic noted the untapped potential of their hydroelectric power for export in the region and Uzbekistan is energy self-sufficient. A central trading partner for the CAREC region is the PRC. The PRC Western Development Strategy is important to industrial transfer from the east of China to the west of China and for spreading to Central Asia. Finally, all country presentations described a specific office dedicated to promoting and supporting investments in their countries. For example, there is the newly established Afghanistan Investment Support Agency (AISA) for domestic and foreign investors in industry and agriculture businesses. These investment promotion agencies are important for the private sector to link with the public sector and in forming public private partnerships (PPP).

Successful PPPs are difficult to achieve and require methodical due diligence. Typically, PPP projects are financed by 80%-90% by banks and 20%-10% by private sector equity. The European Bank for Reconstruction and Development (EBRD) presented the requirements for PPPs:

- Clear objectives and planning with a feasibility study and cost-benefit analysis
- Risk assessments and roles and responsibilities between the concessionaire-public sector
- International expertise for financial, legal and technical terms

PPP's are more complex than traditional construction projects with problems common to design, tendering, bias to optimism, institutional capacity and project bureaucratic delays. However, the small percentage of PPPs does have notable success stories in airport construction projects in Armenia and Georgia, for examples. Indeed, Central Asia companies are small, so the risk is lower to private equity, but there is a need for professional management before investing.

There were suggestions on improving the policies for more capital flows, and thereby increasing prospects for economic growth. Some of these were:

- Harmonization and uniformity of technical standards and contracts; and for explicit explanations on policies, rules and regulations for cooperation and trade by way of a “trade liberalization facility”
- Reform labor import requirements, especially for electric power infrastructure projects since there is high technical labor for system integration (i.e. green pass channels for work permits and visas)
- Build a China-Central Asia Free Trade Zone to promote future cooperation and trade or a mechanism for information exchange within CAREC
- More efficient public services in trade ports and customs administration
- Transfer and training in technology, trade finance and management for industrial competitiveness

Energy is another component of the CAREC Program and discussed during the BDF country presentations and panel sessions. Regional projects are under the Energy Action Plan Framework to bring security, efficiency and trade in generation, transmission and export opportunities along with projects for clean energy. Currently, there is a transformation in the energy sector by Central Asia governments with CAREC project and technical assistance to attract private sector financing for electricity and other utility services to be commercial by fee collection and not by tax receipts.

Mongolia and Kazakhstan explained their plans for reforming their energy sectors to become more attractive for profitability by the private sector investors in the context of regional cooperation. In Mongolia, the rising demand for energy from the mining industry resulted in policies to privatize the state property for electricity distribution; a national energy program (100,000 solar panels) for herders of the grasslands; and the Intergovernmental Collaborative Mechanism on Energy for North East Asia in cross-border energy development. Investment opportunities abound in oil exploration and production with China and for the construction of thermal coal and nuclear power plants and for power lines in the capital city of Ulaanbaatar and for the mining sites and at the borders for domestic and export trade.

In Kazakhstan, reforms are to attract investors by changing tariff policies so that cost efficiencies are in each project. Kazakhstan’s institutional and regulatory frameworks are advanced for Central Asia and include one state agency to regulate prices and tariffs. Power generation is regulated by “tariff in exchange of investments” to increase investment prospects. Investments in 2009 were US \$440 million and in 2010 will be US \$576 million. Energy efficiencies and modernization are planned to reduce losses and save energy in power transmission and distribution. In addition, 5 key projects are in the country so that by 2014 Kazakhstan produces more power than in consumes in kilowatt hours for a total of 97.1 billion KWh over 96.8 billion KWh consumed.

Agriculture is an essential part of economic growth, employment, and to raising incomes to each of the CAREC-plus countries. Investments are critical to bringing modern equipment and technologies so that more value can be added through processing, packaging, storage and trade opportunities. Kyrgyz

Republic produces more agriculture products than it can consume; Afghanistan produces 33 percent of total economic output from agriculture; and Pakistan 21 percent of GDP is from agriculture while Azerbaijan showed the importance of the sector in their new US \$29 million greenhouse project for seedlings, tomatoes and peppers.

Uzbekistan explained in the agriculture panel session their success in the agro-products trade. They export one-half of their agriculture products which amounted to US \$ 1.6 billion in 2009 of which 78.6 percent are to Russia. They attribute their success in exporting to quality, packaging, infrastructure by the six corridors of CAREC and by credit and tax benefits to farmers as well as established trading companies. Finally, they expect their new warehouse in FIEZ “Navoi” to be specialized to handle 3,000 tons of fruit and vegetables.

As a region, the CAREC Program recognizes the need for cooperation and improvements. The sanitary and phytosanitary agencies need to be harmonized in regulations and with improved laboratories at the borders. Moreover, these food safety agencies need better coordination with Customs which are resulting in spoilage of food for lack of smooth border procedures. Hence, the need is for investors in cold storage facilities and equipment as well as training at the borders and along the trade corridors. ADB approved an operational plan with US \$2 billion per year funding for food security in the Asia region for better connectivity and productivity in agriculture and above all to eliminate poverty.

Conclusion

The second Business Development Forum provided a platform for the CAREC-plus countries to voice their business opportunities in need of private sector investments. Most of the countries made great progress in improving procedures for investors, yet there is a need for more harmonization of policies, standards and cross border procedures. The CAREC Program provides an integral service to the business community of Central Asia by building the 6 transport corridors and in energy projects and by adding technical assistance projects so that the transport corridors transform into income generating trade and economic corridors.

Private sector participation in CAREC will grow as institutional barriers are lowered and physical infrastructure projects are completed. There was evidence of private sector investments in all the country presentations wherein many well-known multinational corporations already established a presence and are operating. Also, there are important transport, trade and energy initiatives involving the borders for investors such as the Free Economic Zone “Panji Poen” between Afghanistan and Tajikistan and the Intergovernmental Collaboration Mechanism on Energy for North East Asia with Mongolia.

The business opportunities presented at the BDF by the 10 country presentations and through the panel sessions and from the country desks proved that the Bishtek Action Plan of the CAREC Ministerial Conference is working. The public, private and donor institutions are gathering and communicating for regional economic cooperation and integration. Indeed, more events and projects by the CAREC Program will bring more attention and investments from the private sector and for public-private partnerships.