

**Opening Remarks by Vice President Wencai Zhang  
Asian Development Bank**

**Seminar 8: Central Asia, Southern Caucasus and  
the Future of Regional Cooperation and Integration**

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Thank you David.

Distinguished panelists and speakers, colleagues, ladies and gentlemen,

Regional cooperation and integration, or RCI, holds great promise for the future of Asia and the Pacific. And this is especially true for economic development in Central Asia and the Southern Caucasus. Whether driven by private sector business opportunities—or the need for governments to work together to manage cross-border economic activities—it brings people together across borders, geographical barriers and the cultural divide to drive growth, reduce poverty, and increase prosperity. As you know, ADB itself is the result of regional, and global, cooperation. So it is appropriate we discuss RCI here today.

Regional integration is one of three strategic agendas in ADB's *Strategy 2020*. Our mid-term review continues to underscore its importance. Support for RCI accounted for 22% of overall ADB operations during 2012–2014. And we are vigorously working to meet the target of at least 30% by 2020.

Traditionally, most ADB support comes through road and rail connectivity, with regional energy and power trade next. But there is a lot more to RCI than hard infrastructure. The so-called “soft” side is also critical for RCI to work. Thus, ADB is increasingly focused on trade

facilitation, trade finance, improving the investment climate, and harmonizing regulations, procedures, and standards. We also use our resources to help build knowledge economies—to assist developing member countries move into and beyond middle income status. Part of this means incorporating new technology and efficiency into regional and global value chains.

That brings me to what most of our clients expect of future regional cooperation and integration. And this is what this seminar is about. While regional transport connectivity and regional energy transmission remain essential, we must extend and deepen RCI to make full use of its potential for promoting economic development.

Let me turn to Central Asia and the Southern Caucasus—as the region is a good example of what this future agenda portends. We all know the issues this largely landlocked region must overcome—the vast distances, difficult terrain, and sparse, scattered populations that drive high transaction costs. During post-Soviet liberalization, productivity-driven economic growth surged well above the global average—in part due to broad-based economic reforms. The shift from agriculture to manufacturing and services further added to labor productivity, helping fuel growth.

Then the Central Asia Regional Economic Cooperation program—or CAREC—came together. This added regional cooperation to national economic liberalization. CAREC has done well over a relatively short time in building transport corridors and opening trade by simplifying trade regimes. From 2008 to 2013, nearly 5,000 km of roads were improved. Some 3,200 km of railways were built. And costs at border-crossings have been reduced.

Nonetheless, across most of Central Asia and the Southern Caucasus, productivity growth has now stalled or declined. The reasons are varied. But bottlenecks in human resources, private sector development, and economic diversification all contributed. And of course, the recent drop in oil and commodity prices—and market volatility—made the challenges more acute. Deeper RCI can help resolve these issues, as it promotes economic diversification and institutional development.

While CAREC's transport corridors led to a substantial 49% increase in *intraregional* trade since 2005, they still need to evolve into transit and logistics corridors—between Europe and East Asia—to further increase the benefits of RCI connectivity. This can help lead countries into global value chains—an important way of fostering diversification and structural change. To date, global value chain (GVC) participation is rare in the region—despite several notable light manufacturing and agricultural GVCs in the Kyrgyz Republic, for example. One of the things I hope we discuss today is how best Central Asia and the Southern Caucasus can join the value chains that serve its major trading partners—whether traditional Russian markets, or those in East Asia and Europe. And we should explore ways to promote development of deeper *regional* value chains within Central Asia and the Southern Caucasus.

Developing economic corridors is one good approach to the region's common challenges. It is part of a process. A progression from transport through transit and logistics corridors to trade corridors and full-fledged economic corridors can expand regional markets and stimulate private, value-added investments. The private sector must seek its competitive

edge—particularly by galvanizing small and medium enterprises—in pursuing robust, yet balanced growth.

Let me give you an example. The economic corridor linking the cities of Almaty and Bishkek has the potential to promote trade and generate economic growth in Kazakhstan and the Kyrgyz Republic, to the benefit of all Central Asia. Kazakhstan’s ambitious regional development agenda focuses on increasing the size and economic density of urban clusters, linking them with smaller cities and rural areas. Bishkek’s development plans show a strategic thrust toward enhancing the business climate, providing greater transparency and improved governance to attract more private investment. As the links between the two cities deepen, the economic distance between the two hubs is reduced, allowing for expanded economic growth. In fact, a recent ADB report concludes that the Almaty–Bishkek Corridor is a good option to pilot economic corridor development under CAREC.<sup>1</sup> And we will support its development.

From an institutional standpoint, Central Asia and the Southern Caucasus can continue to build on its ties with existing institutions like the World Trade Organization, and participate in new initiatives like the new Silk Road as well as other initiatives.

To conclude, integration is dynamic and outward looking. Governments and private investors are moving the frontiers of RCI beyond specific subregions to regions farther afield—whether other Asian subregions, emerging markets, or traditional trading partners. That is the hope. While Central Asia and the Southern Caucasus take advantage of

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<sup>1</sup> ADB. 2014. Operationalizing Economic Corridors in Central Asia: A Case Study of the Almaty-Bishkek Corridor. Manila: Asian Development Bank.

these expanding opportunities, the particular challenges of being landlocked and resource reliant must be overcome. There are acute institutional capacity issues as well—and the new ADB-supported CAREC Institute at Urumqi can help. These are some of the topics on the table today.

I look forward to the presentations and discussions during the next one and half hours. It is not solely to learn of cutting edge initiatives from both the public and private sectors; and not just on trade, logistics, and RCI development. But I am most eager to hear your views and suggestions on how ADB can bolster its support, as we continue to upgrade our own operational plans on RCI to better integrate our region and its subregions for economic growth and prosperity.

Thank you.