



2008 SPECA Economic Forum

“Investment Partnerships for Stronger Economic Cooperation and Integration in Central Asia”

(Moscow, Russian Federation, 20 October 2008)*

REPORT

Introduction

The third meeting of the SPECA Economic Forum was held in conjunction with the third session of the SPECA Governing Council on 20 October 2008 in Moscow with support of the Ministry of Foreign Affairs of the Russian Federation. The 2008 SPECA Economic Forum brought together high-level government policymakers, executives from the private sector, researchers, representatives of neighbouring States, as well as regional organizations and multilateral financial institutions. The topic “Investment Partnerships for Stronger Economic Cooperation and Integration in Central Asia” is highly relevant for SPECA member countries, and the host of the Forum, the Russian Federation, is one of the most important trading partners of the region as well as a leading investor in Central Asia.

Participants

The SPECA Economic Forum was attended by representatives of Afghanistan, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan and Turkmenistan (as observer) as well as the UNECE, ESCAP, the Russian Federation and key partner organizations, including the Asian Development Bank (ADB) CAREC group, Commonwealth of Independent States (CIS), Eurasian Economic Community (EurAsEC), International Road Federation (IRF), Organization for Economic Co-operation and Development (OECD), Shanghai Cooperation Organization (SCO), United Nations Conference on Trade and Development (UNCTAD), United Nations Development Programme (UNDP), the World Bank and representatives of the private sector, among others the hydropower company “RusHydro” and the Vneshekonombank of the Russian Federation.

Opening session

H.E. Mr. Alexander V. Yakovenko, Deputy Minister for Foreign Affairs of the Russian Federation, delivered an opening statement and chaired the Forum. Mr. Yakovenko congratulated the member countries on the Tenth anniversary of the United Nations Special

Programme for the Economies of Central Asia (SPECA) and noted that it is the first SPECA event taking place in the Russian Federation. The Chair delivered a message of the President of the Russian Federation addressed to the participants of the Forum (Annex I). **President Dmitry Medvedev** pointed out the great importance of the topic of the Forum – investment – for the countries of Central Asia. The region is rich in natural resources; it has a long tradition of entrepreneurship, and an impressive cultural heritage. Intra-regional investment, trade, financial and industrial cooperation can provide a solid basis for the harmonious development of Central Asia. The Russian Federation is ready to broaden its economic cooperation with Central Asia. SPECA is an effective and dynamic framework for the facilitation of multilateral cooperation under the aegis of UNECE and ESCAP.

Deputy Minister for Foreign Affairs emphasized the importance of strengthened regional dialogue and cooperation in the face of the evolving financial crisis. He reiterated the readiness of the Russian Federation to support such dialogue through SPECA as a way of building up political will to jointly address shared challenges and preserve the stability and security in the region. The Russian Federation is also ready to provide resources – including experts – to support activities within the framework of the Programme.

Mr. Marek Belka, Executive Secretary of the UNECE, reminded participants that SPECA Economic Forums deal with such strategic issues as economic links between the region and its most important neighbours. The Moscow meeting was focusing on trade and investment links between the SPECA region and the Russian Federation. Focusing on investment in the transport and water and energy infrastructure as well as on investment facilitating economic diversification, the Forum is expected to highlight the close link between regional cooperation on the one hand and inward FDI and intra-regional investment on the other. When designing strategies for countering the effects of the global financial crisis, SPECA member countries should turn to their greatest un-tapped source of growth - regional economic cooperation.

Ms. Noeleen Heyzer, Executive Secretary of ESCAP, pointed out that SPECA Economic Forums offer a combination of Asian and European experiences. She noted that the economic improvements have made a significant impact on poverty reduction in this region. However, as the world grapples with the triple crises of food, fuel and finance, ESCAP's latest analyses of MDG achievements in the Asia-Pacific region, including Central Asia are showing signs that income poverty is beginning to increase in some countries. Therefore, it is necessary to put social inclusion in the heart of investment decisions, as business can only thrive in a stable and inclusive society. One of ESCAP's current initiatives is to promote a Trans-Asian Energy System based on regional cooperation in achieving energy security for the Asian and Pacific region. Choices made now will have profound implications for many decades.

Mr. Tair Mansurov, Secretary-General of EurAsEC, underlined that the SPECA region is facing complex challenges and the Programme offers constructive solutions to these problems. The General Assembly in 2002 included EurAsEC among the regional organizations, with which the UN works closely. EurAsEC is making steady progress towards a customs union, which is facilitating intra-Community trade and investment, as well as FDI. Investment in EurAsEC economies is expected to increase four folds between 2002 and 2008. The Heads of State of member countries have also decided to address such environmental threats as the uranium tailings in Central Asia. To support large projects within the EurAsEC framework the Eurasian Development Bank was established and by now is fully operational.

EurAsEC also makes efforts to strengthen cooperation with international organizations, first of all the United Nations.

The **Head of Delegation of Afghanistan** highly valued the spirit of unity and cooperation displayed within the SPECA framework. The region has a huge potential for development: it combines the abundance of natural resources with good quality workforce. Afghanistan is a strategic transit route for Central Asian energy resources to South Asia. The Government of Afghanistan strongly supports the TAPI (Turkmenistan-Afghanistan-Pakistan-India) gas pipeline project. He pointed out that SPECA could play a constructive role in its preparation. The development of road and railroad links from Central Asia to seaports in South Asia is not less important. Afghanistan would also be very interested in importing more electricity from Central Asia. The effective and rational use of water resources is of the greatest importance for all Central Asian countries, including Afghanistan. Afghanistan extremely needs technical assistance to strengthen its capacity to deal with this issue. While the global financial crisis was going to affect funding for development assistance, the Government of Afghanistan called for continued full funding of SPECA projects.

The **Head of Delegation of Azerbaijan** characterized the Forum as intra-SPECA dialogue at a new level. The Government of Azerbaijan attaches great importance to the development of economic relations with Central Asia. It pays particular attention to the development of a positive investment climate, especially in competitive sectors. Azerbaijan is in the process of developing a modern financial sector and therefore it is seriously affected by the world financial crisis. SPECA member countries need to coordinate their economic policies in face of the crisis. There is a need for more joint projects in key areas, which facilitate investment.

The **Head of Delegation of Kazakhstan** gave a positive assessment of SPECA. He drew attention to the fact that all directions of work in this framework are of great importance for the member countries. At the subsequent Governing Council session the Kazakhstan Delegation would give a more detailed assessment of SPECA activities. The topic of this year's Economic Forum – investment – was particularly relevant for the region.

The **Head of Delegation of Kyrgyzstan** noted that this year's Economic Forum was of special importance for his country because of its topic. The Russian Federation was a particularly important trade and investment partner of Kyrgyzstan. On 9 October 2008, during the visit of President Medvedev to Bishkek documents were signed on cooperation in the energy sector, including investment in hydropower stations. SPECA is addressing issues of great importance for regional economic cooperation, for example transport. Kyrgyzstan had signed all transport-related conventions of the UNECE. It hopes to reduce the high-costs of export and import through improved transit to world markets. Investment in energy production is another priority for the Government. While the meeting of Central Asian Presidents in early October of this year in Bishkek had led to agreements concerning the immediate future, there is a need to work on long-term solutions. The UNECE could help, so water is transformed from a conflict-generating issue into an element of integration.

The **Head of Delegation of Tajikistan** stated that since his Government strongly supports regional cooperation in Central Asia, it actively supports SPECA. The Programme has chosen the right priorities. The international financial crisis was to hit the economies of SPECA member countries and in this regard an effective strategy to counter this challenge must include strengthened regional cooperation and integration. Regional cooperation is

hindered by a gap between high-level decisions and subsequent implementation. SPECA had an important role to address this deficiency by facilitating the implementation of decisions in the water-energy, transport and trade sectors through technical assistance and institution building. For example, simplification of procedures through the activities of the SPECA PWG on Trade would greatly facilitate intra- and extra-regional trade. The PWG could even consider the establishment of free economic zones in the border regions of member countries.

Executive Secretary **Marek Belka** responding to statements by member countries emphasized that SPECA due to the nature of its project activities, focusing on “software”, that is capacity-building – required relatively modest funding (“millions, rather than billions”). The composition of sources of funding of SPECA is changing. In addition to projects funded by the Development Account more resources are offered by member States, including a generous grant by the Russian Federation directed mostly to the needs of the SPECA region. The recent meeting on water and energy issues of the Presidents of Central Asian countries made an important step from confrontation towards integration. The Almaty Conference “Water Unites – Strengthening Cooperation on Regional Water Management”, organized by the UNECE, the Government of Germany and other partners is expected to offer substantial assistance to the implementation of decisions by the Presidents.

Executive Secretary **Noeleen Heyzer** emphasized the importance of strengthened regional cooperation, promoted by SPECA in difficult times. ESCAP member States, including China, Japan and India, expressed their interest in supporting SPECA. United Nations Secretary-General Ban Ki-moon gives a high priority to SPECA and considers it as the main tool in promoting regional integration in Central Asia. Through SPECA, supported by ESCAP, the energy security needs of Asian countries, like India, can be linked with efforts to facilitate energy exports by SPECA member countries through strengthened regional cooperation. ESCAP, as all other Regional Commissions, is making intensive efforts to support its member States in facing the global financial crisis. The social costs of the crisis are already being felt in many countries.

Session one: Investing in economic diversification and innovative development

Mr. Sergey N. Lebedev, Chairman of the Executive Committee of the CIS, gave an overview of a new strategy for competitiveness developed by the CIS with active support by the UNECE. The CIS, which produces 4, 5% of global GDP, has become one of the most dynamic economic areas of the world. It is expected that the effect of the global financial crisis will be rather limited on the CIS area due to strong economic fundamentals. Key areas of the Strategy include transport, food security and energy, support to small enterprises, increasing the ratio of competitive products in the overall production from 6-7% to 11-12 %, acceleration of the modernization/replacement of obsolete equipment, increased investment in joint projects, strengthening of agricultural markets and the development of unified currency and IT markets.

Representatives of the private sector – IT and electronics companies – spoke about their strategies to increase their competitiveness.

Session two: Investing in transport infrastructure

The **representative of UNECE** – speaking also **on behalf of ESCAP** - briefed participants on the substantial work carried out by the SPECA PWG on Transport and Border

Crossing, with a particular focus on the development of Euro-Asian transport corridors. The identification of key routes and establishing investment priorities with a total value of Euro 102 billion is greatly contributing to efforts by SPECA member countries to make Central Asia a key transport hub between Europe and Central Asia. New projects include a study on the operationalization of corridors in Central Asia along 6 potential routes. Transport Ministers and high-level officials from countries across the Euro-Asian region met in Geneva on 19 February 2008 where they confirmed their support to the UNECE-ESCAP EATL project and its continuation. In addition, the Ministers endorsed the identified Euro-Asian routes and their priority development as well as the creation of a mechanism ensuring efficient coordination and monitoring of project activities.

The **representative of the International Road Federation** described the areas where the IRF could contribute to the development of a modern road network in Central Asia. Public-Private Partnerships offer considerable economic advantages over traditional forms of contracting and IRF can offer advice and assistance to SPECA member countries in this area. It can also help channeling state of the art technologies in the management of surface transportation systems in order to increase efficiency and safety. Road safety is high on the agenda of SPECA member countries and they could make significant improvements in this area with technical advice provided by the IRF. SPECA member countries need to pay greater attention to the environmental effects of road transportation through the adoption of relevant norms and regulations and adoption of best practices in this important field.

Session three: Investing in sustainable development in the water and energy sectors

Ms. Kori Udovicki, Director of the Regional Bureau for Europe and Commonwealth of Independent States (CIS) of UNDP, made a preliminary report on the joint UN agency assessment of development challenges for Central Asia, focusing on water-energy nexus. Representatives of the international community met on 21-22 July 2008 in Almaty, where on the basis of a preliminary risk assessment by the World Bank it was agreed to assess the risks of a regional “compound crisis”. As a result of an extended dry period and extremely harsh winter in 2007-2008, the region experienced energy, food and water insecurity. Tajikistan and Kyrgyzstan were hit the hardest and required humanitarian assistance. The crisis exacerbated Central Asia’s perennial water governance problems, especially in the Syr Darya basin. The UNDP would organize another inter-agency coordination meeting on the margins of the International Conference “Water Unites – Strengthening Cooperation on Regional Water Management in Central Asia” to take place on 17 and 18 November 2008 in Almaty, to agree on the coordinated implementation of the recommendations of the study, which would be introduced during the Conference.

The **representative of ESCAP** – speaking on behalf of the two **Regional Commissions** - within the context of sustainable energy security, highlighted the significant energy savings potential that exists for Central Asia. In overcoming some of the major challenges, the following investment partnership opportunities for enhanced energy security in Central Asia were identified: (a) Diversify the industry base from solely relying on fossil fuel production and export; (b) Transformation of the existing industry to become more energy efficient; (c) Development of an energy efficiency market, including the promotion of public-private partnership for investment and Energy Services Companies (ESCOs). UNECE and ESCAP have been collaborating and will continue promoting energy efficiency in Central Asia in partnership with other international agencies and the donor community.

The **representative of the Russian hydropower company “RusHydro”** outlined a viable strategy for the more extensive use of the hydropower potential of the region, which could include the modernization and development of small power stations and the use of non-controversial of-river-flow technologies. To facilitate this, the countries of the region need to introduce legislation favouring the development of renewable energy resources. “RusHydro” is ready to provide assistance to the region within the framework of CIS energy cooperation.

The **representative of the World Bank** reviewed recent developments in the water and energy sectors of Central Asia. He signaled renewed interest by the international financial institutions in the building of new large hydropower stations. At the same time, to achieve a viable regional energy trade model, other sources of renewable energy resources, like geothermal energy, must be developed.

The **representative of the OECD** introduced the newly developed Guidelines for investment in infrastructure. The guidelines also cover the participation of the private sector in infrastructure development and specially deal with PSP in the water sector. She spoke about the OECD water programme, which is an input into the work of the World Water Forum.

Presentation by UNCTAD of its World Investment Report

The **representative of UNCTAD** gave an overview of the 2008 World Investment Report with particular focus on Central Asia. The presentation highlighted trends in foreign direct investment in the region, pointing out differences in inward FDI at the country level. He analyzed FDI trends in Central Asia in the previous years, with special emphasis on the development implications. He selected a few key areas to demonstrate how FDI flows and stocks have influenced economic growth in individual countries and in the region as a whole. He offered further advice and assistance by UNCTAD to SPECA member countries in the development of policies conducive to a positive regional investment climate.

Summary by the Chair

The Chair briefly summarized the work of the Economic Forum. He congratulated participants for a substantial and open discussion on fundamental areas of work of the Programme. SPECA has again confirmed its uniqueness, viability and its demand-driven character in finding solutions to social-economic issues of the Central Asian region. The importance of this UN platform, supported by the two Regional Commissions, in the strengthening of economic cooperation in the whole Eurasian region, has been repeatedly underlined. The support by subregional organizations, like the CIS and EurAsEC, to the development of Central Asia has been deemed particularly important.

The statements by the Executive Secretaries of UNECE and ESCAP have pointed to the close link between regional economic cooperation and flows of foreign direct investment. Discussions heavily focused on the global financial crisis and its effects on Central Asia. SPECA member countries should make joint efforts to reduce the risks brought about by the crisis and ensure a steady flow of investment in all key areas of their economies. SPECA offered an ideal framework for formulating such joint responses. In face of the global financial crisis it was important to preserve the present level of funding for technical cooperation projects within the SPECA framework. Participants expressed their appreciation for the resources offered by the Russian Federation to the UNECE, the major part of which is to be used for activities in Central Asia.

Representatives of SPECA member countries showed great interest in attracting investment in such sectors as transport, water and energy, communications and environmental security. Attention was paid to the need to simplify trade and customs procedures and reduce transport costs. Representatives of SPECA member countries welcomed the willingness of the Russian Federation to work for increased mutual investments, which can contribute to the diversification of the economies of the region. Participants agreed that the realization of infrastructural projects required close public-private partnership. The Forum explored opportunities for closer cooperation between SPECA and such regional organizations as the CIS, EurAsEC and SCO. Partner organizations, including the UNDP, the World Bank, OECD and UNCTAD made an important contribution to the work of the Forum. (The full text of the Summary of the Chairman is contained in Annex II).

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ANNEX I

**MESSAGE OF THE PRESIDENT OF THE RUSSIAN FEDERATION
to participants of the 2008 SPECA Economic Forum
“Investment Partnerships for Stronger Economic Cooperation
and Integration in Central Asia”**

I welcome the participants of the Economic Forum of the United Nations Special Programme for the Economies of Central Asia (SPECA) “Investment Partnerships for Stronger Economic Cooperation and Integration in Central Asia”.

The theme of the Forum is key for Central Asia. It is on the scope, the areas of application and the effectiveness of investments that the prospects for the sustainable development of this region and its active involvement in world economic processes depend.

Central Asia has unparalleled natural resources, centuries-old trade and entrepreneurial experience, and a rich cultural heritage. The activation of mutual investments, trade, financial collaboration and industrial cooperation is an important foundation for harmonious development in the region.

Russia is ready to broaden economic cooperation with the Central Asian States. Representatives of Russian business are also inclined to continue working with their partners in the region and to seek new forms and models of interaction.

We see the United Nations Special Programme as an effective and dynamic format that stimulates multilateral cooperation under the aegis of two authoritative regional United Nations structures—the United Nations Economic Commission for Europe (UNECE) and the Economic and Social Commission for Asia and the Pacific (ESCAP).

I wish your Forum success in its work for the welfare of all the peoples of Central Asia.

Dmitry MEDVEDEV
President of the Russian Federation

Moscow, 20 October 2008

ANNEX II

SUMMARY OF THE CHAIRMAN

First of all, I would like to congratulate everyone on the really informative and informal discussions of the key issues of the SPECA activities that have been held in this conference room. I am grateful to all participants for their excellent presentations.

Let me summarize the main outcomes of our meeting.

1. The SPECA Forum has reaffirmed the uniqueness, vitality and the high demand for the Programme in the context of the solution of socio-economic problems of the Central Asian region. The Forum noted the importance of the United Nations as a platform - under the coordination of the two United Nations Regional Economic Commissions - for implementation of the SPECA activities and strengthening economic cooperation in the Eurasian region as a whole. At the same time, the support provided by other subregional organizations, including the CIS and EurAsEC, for the development of the Central Asian countries is of particular importance.

2. The UNECE Executive Secretary and the ESCAP Executive Secretary in their statements underlined the relationship between regional economic cooperation and foreign investments, and identified regional cooperation as a key factor for sustainable development of the States of Central Asia and the prosperity of peoples.

3. The global financial crisis was also in the focus of the meeting. There should be no illusions that the region of Central Asia would not be affected by the global financial problems. Joint efforts are needed to reduce risks and to ensure stable investments in all vital sectors of the economy. SPECA is the best platform to discuss a strategy to undertake such efforts and a chance to develop the unified approaches, which should not be lost. In the face of global turmoil, it is important to maintain the current level of implementation of the technical assistance projects, taking into account the availability of funding sources, both bilateral and multilateral. In this context, the financial contribution from the Russian Federation to UNECE, a significant part of which is used for projects in Central Asia, is positively noted.

4. National delegations of the SPECA member countries expressed their interest in large-scale capital flows in transport and infrastructure development, water and energy sectors, communications, and environmental security. Much attention was given to trade and customs facilitation, reduction of transport costs. National delegations welcomed the positive role of the Russian Federation as a country supporting SPECA in promoting investment cooperation and diversification of investments in Central Asia. It was also noted that the region is open to partnership with all interested countries.

5. Forum participants unanimously agreed that the implementation of practical projects and programmes is impossible without public-private partnerships. In this context, the role of the Vnesheconombank of the Russian Federation, which promotes investments in the economies of the Central Asian region, was positively appraised.

6. The necessity of closer cooperation between SPECA and the leading integration organizations in the region - the CIS, EurAsEC and SCO – was recognized. Presentations by the EurAsEC Secretary-General and the CIS Executive Secretary, which were focused, among others, on achievements of the practical activities of these organizations as well as on close cooperation with the UN, were of considerable interest to participants.

The authoritative international organizations - UNDP, the World Bank, UNCTAD and OECD - also made an important contribution to the discussions.

The main conclusions. Broadening of economic cooperation and increasing of investments in the economies of Central Asia require balanced constructive solutions and, above all, the clear realization of objectives set by the countries themselves. State structures, international organizations and the private sector are interested in this. That means that there is a lot of practical work ahead of us which we can manage to successfully fulfill only together.

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