How to Propel Inclusive and Sustainable Growth in the SPECA Subregion?

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European Alliance for Innovation

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Structure of the presentation

- Inclusive and Sustainable Growth: Conceptual Issues
- Was Growth in the SPECA Countries Inclusive and Sustainable?
- What Can Instigate Inclusive and Sustainable Growth in the SPECA Countries?
- Some Policy Conclusions
- How Can SPECA Contribute to Inclusive and Sustainable Growth in the Subregion?
Inclusive and Sustainable Growth: Conceptual Issues
Key features of inclusive growth

- Concise definition: empowering people through high levels of employment and fighting poverty
- In the context of the 2030 Agenda: decent work for all
- High and sustained growth is a key contributing factor but not a sufficient condition for inclusiveness; it is the pattern of growth that can and should support inclusiveness
- Inclusiveness stands for both shared prosperity and offering of opportunities to everybody
- Inclusive opportunities also refer to the access of would-be entrepreneurs to the business market
- Opportunities to acquire and improve skills have increasing importance in building cohesive societies
- Ensuring gender equality is a necessary condition for inclusiveness
- These opportunities should be available throughout the lifecycle
Key features of sustainable growth

- For growth to be sustained in the longer run, it should be broad-based, diversified and balanced.
- Sustained growth calls an efficient and competitive economy.
- It also requires making the economy resilient to external shocks.
- Growth is environmentally sustainable when it preserves nature and conserves natural resources for the future generations.
- Sustainable growth requires a transition to a low-carbon and resource-efficient economy which prevents environmental degradation, biodiversity loss and unsustainable use of resources.
- It also implies the development and introduction of new technologies, including green technologies.
Was Growth in the SPECA Countries Inclusive and Sustainable?
Agenda for Sustainable Development 2030

1. No Poverty
2. Zero Hunger
3. Good Health and Well-being
4. Quality Education
5. Gender Equality
6. Clean Water and Sanitation
7. Affordable and Clean Energy
8. Decent Work and Economic Growth
9. Industry, Innovation and Infrastructure
10. Reduced Inequalities
11. Sustainable Cities and Communities
12. Responsible Consumption and Production
13. Climate Action
14. Life Below Water
15. Life on Land
16. Peace, Justice and Strong Institutions
17. Partnerships for the Goals
SDGs which are most pertinent the notion inclusive and sustainable growth

- Goal 1. End poverty in all its forms everywhere
- Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
- Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
- Goal 10. Reduce inequality within and among countries
- Goal 12. Ensure sustainable consumption and production patterns
## SPECA countries performance by selected sustainable development indicators, 2018

<table>
<thead>
<tr>
<th>Sustainable Development Indicators</th>
<th>Afghani-stan</th>
<th>Azerbai-jan</th>
<th>Kazakh-stan</th>
<th>Kyrgyz-stan</th>
<th>Tajiki-stan</th>
<th>Turkme-nistan</th>
<th>Uzbeki-stan</th>
<th>China</th>
<th>Republic of Korea</th>
<th>Russian Federation</th>
<th>World</th>
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</thead>
<tbody>
<tr>
<td>1.1.1 Proportion of population below international poverty line (%)</td>
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<td>0</td>
<td>0</td>
<td>1.4</td>
<td>4.8</td>
<td>(0.2)</td>
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<td>0</td>
<td>0</td>
<td>9.0</td>
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<tr>
<td>1.2.1 Proportion of population living below the national poverty line (%)</td>
<td>30.0</td>
<td>5</td>
<td>2.7</td>
<td>25.4</td>
<td>(31.5)</td>
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<td>(14)</td>
<td>3.1</td>
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<tr>
<td>8.1.1 Average annual growth rate of real GDP per capita, 2008-2017 (%)</td>
<td>2.8</td>
<td>2.2</td>
<td>2.7</td>
<td>2.7</td>
<td>3.8</td>
<td>8.0</td>
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<td>7.9</td>
<td>2.7</td>
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<tr>
<td>8.2.1 Average annual growth rate of real GDP per employed person, 2008-2017 (%)</td>
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<td>1.2</td>
<td>2.6</td>
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<td>8.5.2a LFS unemployment rate, 15+ years, 2008-2017 average (%)</td>
<td>(23.9)</td>
<td>5.3</td>
<td>5.5</td>
<td>8.0</td>
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<tr>
<td>8.5.2b LFS youth unemployment rate, 15-24 years, 2008-2017 average (%)</td>
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<td>14.2</td>
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<td>15.3</td>
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<td>9.8</td>
<td>15.5</td>
<td>12.5</td>
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<tr>
<td>8.10.1a Number of automated teller machines (ATMs) per 100,000 adults, 2017 or latest available year</td>
<td>1</td>
<td>33</td>
<td>74</td>
<td>31</td>
<td>12</td>
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<td>22</td>
<td>81</td>
<td>276</td>
<td>169</td>
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<tr>
<td>8.10.1b Number of commercial bank branches per 100,000 adults, 2017 or latest available year</td>
<td>2</td>
<td>11</td>
<td>3</td>
<td>8</td>
<td>7</td>
<td>..</td>
<td>36</td>
<td>9</td>
<td>16</td>
<td>30</td>
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<td>9.2.1a Manufacturing value added as a proportion of GDP, 2017 (%)</td>
<td>11.6</td>
<td>5.5</td>
<td>10.1</td>
<td>12.8</td>
<td>8.4</td>
<td>38.0</td>
<td>16.5</td>
<td>31.6</td>
<td>28.8</td>
<td>13.3</td>
<td>16.3</td>
</tr>
<tr>
<td>9.2.1b Manufacturing value added per capita, 2017 (constant 2010 US dollars)</td>
<td>70</td>
<td>310</td>
<td>1079</td>
<td>138</td>
<td>78</td>
<td>2781</td>
<td>342</td>
<td>2266</td>
<td>7573</td>
<td>1511</td>
<td>1708</td>
</tr>
<tr>
<td>9.2.2 Manufacturing employment as % of total employment, 2017 or latest available year (%)</td>
<td>6.0</td>
<td>5.1</td>
<td>6.4</td>
<td>7.6</td>
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<td>16.8</td>
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<td>9.5.1 Research and development expenditure as % of GDP, 2016 or latest available year (%)</td>
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<td>0.21</td>
<td>0.14</td>
<td>0.12</td>
<td>0.11</td>
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<td>2.06</td>
<td>4.22</td>
<td>1.10</td>
<td>1.70</td>
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<td>9.c.1 Proportion of population covered by a mobile network, by technology (%)</td>
<td>90</td>
<td>100</td>
<td>97</td>
<td>98</td>
<td>90</td>
<td>76</td>
<td>98</td>
<td>100</td>
<td>100</td>
<td>90</td>
<td>96</td>
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Main features of the macroeconomic performance of the SPECA countries

• GDP in the SPECA countries grew on average considerably faster than that for the world as a whole
• In most SPECA countries economic growth was backed by significant productivity growth
• But the picture differs across the region: not all countries managed to sustain solid growth in recent years
• In most SPECA countries growth was accompanied by adequate social policies which helped reduce poverty in the region
• However high unemployment is still a problem in some countries; the problem is especially acute as regards youth unemployment.
• The financial sector in the SPECA countries is still underdeveloped and its outreach to the population is still inadequate
## SDG Dashboard, SPECA countries, 2018

<table>
<thead>
<tr>
<th>Sustainable development goals</th>
<th>Afghanistan</th>
<th>Azerbaijan</th>
<th>Kazakhstan</th>
<th>Kyrgyzstan</th>
<th>Tajikistan</th>
<th>Turkmenistan</th>
<th>Uzbekistan</th>
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<td>1. End poverty</td>
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<td>2. Food security, sustainable agriculture</td>
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<td>3. Healthy lives and wellbeing</td>
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<td>4. Inclusive education, lifelong learning</td>
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<td>5. Gender equality, women empowerment</td>
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<td>6. Sustainable water and sanitation</td>
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<td>7. Sustainable and modern energy</td>
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<td>8. Inclusive and sustainable growth, full employment</td>
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<td>9. Sustainable infrastructure and industrialisation, innovation</td>
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<td>10. Reduce inequality within and among countries</td>
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<td>n.a.</td>
<td>n.a.</td>
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<td>11. Smart and sustainable cities</td>
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<td>12. Sustainable consumption and production</td>
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<td>13. Combat climate change and its impacts</td>
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<td>14. Sustainable use of oceans, seas and marine resources</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
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<td>15. Sustainable use of ecosystems and forests</td>
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<td>16. Peaceful, inclusive societies for sustainable development</td>
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<td>17. Global partnership for sustainable development</td>
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<td>n.a.</td>
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</tbody>
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### Legend
- **sufficient**
- **compatible**
- **insufficient**
- **highly insufficient**
- **n.a.** not applicable or data not available
Selected SDG scores for the SPECA countries, 2018 (100=optimum)

Overall SDG rank

- Afghanistan: Overall rank 151
- Azerbaijan: Overall rank 45
- Kazakhstan: Overall rank 65
- Kyrgyzstan: Overall rank 51
- Tajikistan: Overall rank 73
- Turkmenistan: Overall rank 110
- Uzbekistan: Overall rank 52
- China: Overall rank 54
- Korea, Rep.: Overall rank 19
- Russian Federation: Overall rank 63
The SPECA countries still face significant challenges in achieving the SDGs.

They have achieved sufficient progress with respect to Goal 1 ‘End poverty in all its forms’.

At the same time, their overall SDG rank is quite high relative to the level of GDP per capita in these countries.

As regards the inclusiveness and sustainability of growth, the situation is the worst vis-à-vis Goal 9 where the performance of all SPECA countries is rated as “highly insufficient”.

The situation is unsatisfactory also as regards Goal 8.

In contrast to the overall progress to the SDGs, the SPECA countries lag considerably behind the comparator countries as regards the DGSs relevant to inclusive and sustainable growth.
Composition of the WEF Inclusive Development Index

National Key Performance Indicators

Growth and Development
- GDP (per capita)
- Employment
- Labor Productivity
- Healthy Life Expectancy

Inclusion
- Median Household Income
- Poverty Rate
- Income Gini
- Wealth Gini

Intergenerational Equity and Sustainability
- Adjusted Net Savings
- Public Debt (as a share of GDP)
- Dependency Ratio
- Carbon Intensity of GDP
Policy-oriented framework fostering inclusive and sustainable economic growth

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<tbody>
<tr>
<td>Quality</td>
<td>Health-Related Services and Infrastructure</td>
<td>Concentration of Rents</td>
<td>Intermediation of Business Investment</td>
<td>Home and Financial Asset Ownership</td>
<td>Wage and Non-Wage Compensation</td>
<td>Social Protection</td>
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<tr>
<td>Equity</td>
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</tbody>
</table>
WEF inclusive development dashboard for selected SPECA countries, 2018

<table>
<thead>
<tr>
<th>Country</th>
<th>Growth and development</th>
<th>Inclusion</th>
<th>Intergenerational equity and sustainability</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GDP PER CAPITA, $</td>
<td>LABOR PRODUCTIVITY $</td>
<td>HEALTHY LIFE EXPECTANCY, YRS</td>
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<tr>
<td>Azerbaijan</td>
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<td>Kazakhstan</td>
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<td>Tajikistan</td>
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<td>China</td>
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<tr>
<td>Rus. Federation</td>
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</tbody>
</table>

Ranks: Bottom 20%  Top 20%
WEF policy-oriented framework: scores and dashboard for selected SPECA countries, 2018

<table>
<thead>
<tr>
<th>Pillars and subpillars</th>
<th>Education and skills</th>
<th>Basic Services</th>
<th>Corruption / Rents</th>
<th>Fin. intermediation, real investment</th>
<th>Asset building, entrepreneurship</th>
<th>Employment</th>
<th>Fiscal Transfers</th>
</tr>
</thead>
<tbody>
<tr>
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<td>Subpillars</td>
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<td>Equity</td>
<td>Access</td>
<td>Quality</td>
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<td></td>
<td>Infrastructure</td>
<td>Health</td>
<td>Ethics</td>
<td>Finance inclusion</td>
<td>Intermediation</td>
<td>SMEs</td>
<td>Employment</td>
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<td>Health</td>
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<td>Rents</td>
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<td>Home ownership</td>
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<td>Social protection</td>
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- **Pillars and subpillars**:
  - Azerbaijan
  - Kyrgyzstan
  - Kazakhstan
  - Tajikistan
  - China
  - Korea, Rep.
  - Russian Federation

- **Ranks**: Bottom 20% to Top 20%

- **Color Key**:
  - Red: Bottom 20%
  - Yellow: Middle
  - Green: Top 20%

- **Dashboard**:
  - Scores for each country for different subpillars across various policy areas.
What Can Instigate Inclusive and Sustainable Growth in the SPECA Countries?
Common policy challenges that the SPECA countries are facing

- They are all **land-locked** economies with similar climatic conditions.
- They having territories affected by **desertification**.
- **Limited size** of their domestic markets.
- **Agriculture** is very important for all SPECA economies.
- Despite the divergence in per capita incomes, all SPECA countries are still **on the road to mature** developed economies.
- Dependence on mining and exports of primary resources implies a higher propensity to **boom-and-bust** economic cycles.
- All SPECA countries need to **diversify** their economies and establish multiple engines of growth.
- Difficult **access to finance** is a major deterrent to the development of the SME sector and economic growth in general.
Common opportunities for the SPECA countries

- Most SPECA countries enjoy high shares of youth population: a potential source of future growth
- They can exploit the ‘advantage of backwardness’ by facilitating technology transfer and the adaptation of imported technology as engines of catching up
- There is a potential to increase labour force participation
- Raising female labour force participation will be a win-win approach for increasing both total employment and inclusiveness of growth
- Targeted support to the small business sector can help it become a vibrant source of economic growth
- There is an untapped potential in promoting and developing grassroots business initiatives
### Foreign trade of the SPECA countries by some key trading partners, 2017, % of total

<table>
<thead>
<tr>
<th>Main trading partners</th>
<th>China</th>
<th>Germany</th>
<th>India</th>
<th>Iran</th>
<th>Israel</th>
<th>Italy</th>
<th>Kazakhstan</th>
<th>Netherlands</th>
<th>Russia</th>
<th>Turkey</th>
<th>Switzerland</th>
<th>Uzbekistan</th>
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<tr>
<td><strong>Exports</strong></td>
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<td>Afghanistan</td>
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<td>Kazakhstan</td>
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<td>Turkmenistan</td>
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Common patterns of trade of SPECA countries

- The main trading partners of all SPECA countries include the Russian Federation and China.
- Bilateral trade links are weak: only Kazakhstan is among the main trading partners of other SPECA countries.
- SPECA economies are specialized in a similar manner: there are very few complementarities in the composition of their exports; they are in many aspects competitors in international markets.
- All SPECA countries seek to import new technologies needed for economic modernisation; however, none of them is a source of such high technology products.
- Boosting bilateral trade necessitates further development efforts and economic diversification.
Poor connectivity and cross-border impediments to trade in the SPECA region

- Missing road and railway and inter-modal/transshipment infrastructure links on some Euro-Asian transport links (EATL) segments, outdated border crossing infrastructure and equipment
- Cumbersome border crossing, customs and transit procedures, lack of access to and implementation of UN legal instruments
- Missing unified railway regimes along EATL railway routes
- Lack of harmonized operating and technical inter-operability standards for railway infrastructure and rolling stock
- Poor ICT connectivity and ICT interoperability on EATL corridors

Source: UNECE, *Euro-Asian Transport Links Project – Phase III*
Some Policy Conclusions
Achieving inclusive and sustainable growth is a long-term objective: necessity to define a vision for the future and build political consensus for continued support for the pursuit of such objectives.

The approach in pursuing the long-term goals should combine a lasting policy commitment with relatively low direct intervention by the government in the economic processes.

“New industrial policy”: relies on horizontal instruments that direct the behaviour of economic agents in the desired direction through appropriate incentives -> propelled by market-driven sources.

Another avenue is related to the set of policies that aim at broadening the access to entrepreneurial opportunities.

At the same time, the policies targeting inclusive and sustainable growth should boost both economic efficiency and social inclusion.
Another building block is related to education policies which should aim at ensuring equal access to high-quality education for all.

Skill-building opportunities should cover the whole life cycle.

Innovation policies can also play a crucial role in fostering inclusive and sustainable growth.

“Inclusive innovation policies” aim to ensure that the whole population can participate in and benefit from innovation.

Policies aimed at enabling “bottom-up” initiatives can also create synergies that support inclusive and sustainable growth.

Within the broader set of trade policies, trade facilitation measures aimed at reducing trade costs can play a special role for achieving inclusive and sustainable growth.
SPECA-specific policy implications

- Strengthening of the development orientation of the policy agenda
  - Investing in human capital and physical infrastructure
  - Establishing a conducive business environment
  - Developing support institutions and intermediaries that could facilitate the market uptake of entrepreneurial ideas and projects
- Improving the access to finance, especially for SMEs and small entrepreneurs
- Promoting innovation-for-development
  - SPECA Innovation Strategy for Sustainable Development
- Policy reforms aimed at the invigoration of trade and transport flows
OECD trade facilitation indicators for selected SPECA countries (2=international best practice)
SPECA-specific policy implications: Enhancing connectivity through trade and transport facilitation

- OECD appraisal of the current state of trade facilitation in CA
  - Trade facilitation is rather uneven both across countries and as regards the implementation of different trade facilitation measures
  - But: All SPECA countries perform poorly vis-à-vis indicators “External border agency coordination” and “Internal border agency coordination”
  - Some countries perform poorly vis-à-vis the indicators “Formalities – documents” and “Governance and impartiality”
- Such an assessment reveals key existing bottlenecks which should be in the focus of future policy reforms
- UNECE and ESCAP and their intergovernmental structures have been instrumental in supporting SPECA countries in these policy reforms and will continue to do so in the future
How Can SPECA Contribute to Inclusive and Sustainable Growth in the Subregion?

Recommendations and policy options
Recommendations and policy options targeting inclusive and sustainable growth

1. Consider a common SPECA policy approach for pursuing inclusive and sustainable growth in the SPECA region

2. Encourage the SPECA countries to join the initiative for conducting voluntary national reviews on progress in achieving the SDGs as recommended by the 2030 Agenda; organise SPECA review meetings with a focus on inclusive and sustainable growth

3. Develop and upgrade the national capacity and capability to promote inclusive and sustainable growth in the SPECA countries
4. Agree on further measures to address critical bottlenecks in the trade and transport in the SPECA countries (“External border agency coordination” and “Internal border agency coordination”)

5. Adopt measures to remove other existing problems in trade facilitation and transport connectivity in the SPECA region aligned with the draft SPECA Trade Facilitation Strategy

6. Initiate a programme for harmonizing the procedures for border crossing and customs clearance among SPECA countries in line with the draft SPECA Trade Facilitation Strategy

7. Broaden the scope of application of trade and transport facilitation instruments developed by international organizations

8. Consider steps for the harmonization of freight-related technical standards in line with UN transport agreements

9. Discuss policy measures to improve the quality of transport infrastructure and the flow of international freight in the region
10. Provide support and coordinate the efforts for implementing the SPECA Innovation Strategy for Sustainable Development

11. Consider joint activities aimed at upgrading the knowledge base and practical skills of innovation stakeholders in the SPECA countries

12. Discuss measures to facilitate the diffusion of innovations and the transfer of technologies addressing sustainable development challenges in the SPECA subregion
13. Establish a SPECA Task Force on Inclusive and Sustainable Growth to facilitate cross-sectoral regional cooperation on this issue.

14. Develop supplementary institutional mechanisms for implementing collaborative subregional efforts in promoting inclusive and sustainable growth.

15. Consider measures to improve the information exchange on trade and transport facilitation challenges of common interest.
Thank you!

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