

Almaty-Bishkek Economic Corridor (ABEC)

Investment Framework Summary

6 June

Kristian Rosbach, Economist (Regional Cooperation)

Structure

1. What happened so far?
2. In theory: What is the best way?
 - Why sequenced development?
 - Positive Externalities and Economies of Scale
 - Alignment with national priorities
3. In practice: Where do we start?
 - Cross-border agriculture value chains
 - Tourism
 - ABEC's urban approach
 - Health and Education
 - Connecting Markets
4. Next Steps for ABEC

Almaty-Bishkek Economic Corridor

- ABEC transforms the area into a single economic space, where exchange of ideas, movement of goods and people is fast, easy, and free of barriers.
- ABEC will allow businesses to specialize more, operate at a larger scale and achieve greater diversification and competitiveness with the purpose of exporting goods and services to the world.
- ABEC gives both countries the chance to design cooperation and integration.



What has happened so far?

- Under Almaty Bishkek Corridor Initiative (ABCI):
 - November 2014: MOU signing between majors of Bishkek and Almaty
 - December 2014-September 2016: Four Joint-Working Group Meetings
 - 2016: Intergovernmental Council agreed to set up subcommittee on ABEC

What has been achieved so far?

Four joint working group meetings accomplished:

- Finalization of Investment Framework
- Identified infrastructure gaps and regulatory reform requirements for the implementation of ABEC:
 - Analysis on cross-border value chains for fruits and vegetables, as well as dairy products
 - Report on tourism potential, for example coordinated destination management, tourism facilities, marketing
 - Urban study completed
 - Explored options on ICT applications and study on Disaster Risk Management
 - Health, education, trade and logistics studies finalized

A bold vision

- Imagine the potential of Almaty and Bishkek if they would be one connected without barriers and commuting possible below two hours.
- The concept is straightforward. The two city regions can achieve far more together than what can be achieved by either alone.

Small countries far from world markets

Central Africa, East Africa, West Africa, Central Asia and Caucasus, small Pacific Islands

International division, economic distance, low density (3-D)

Regional integration
Regional and global connectivity
Regional compensation mechanisms

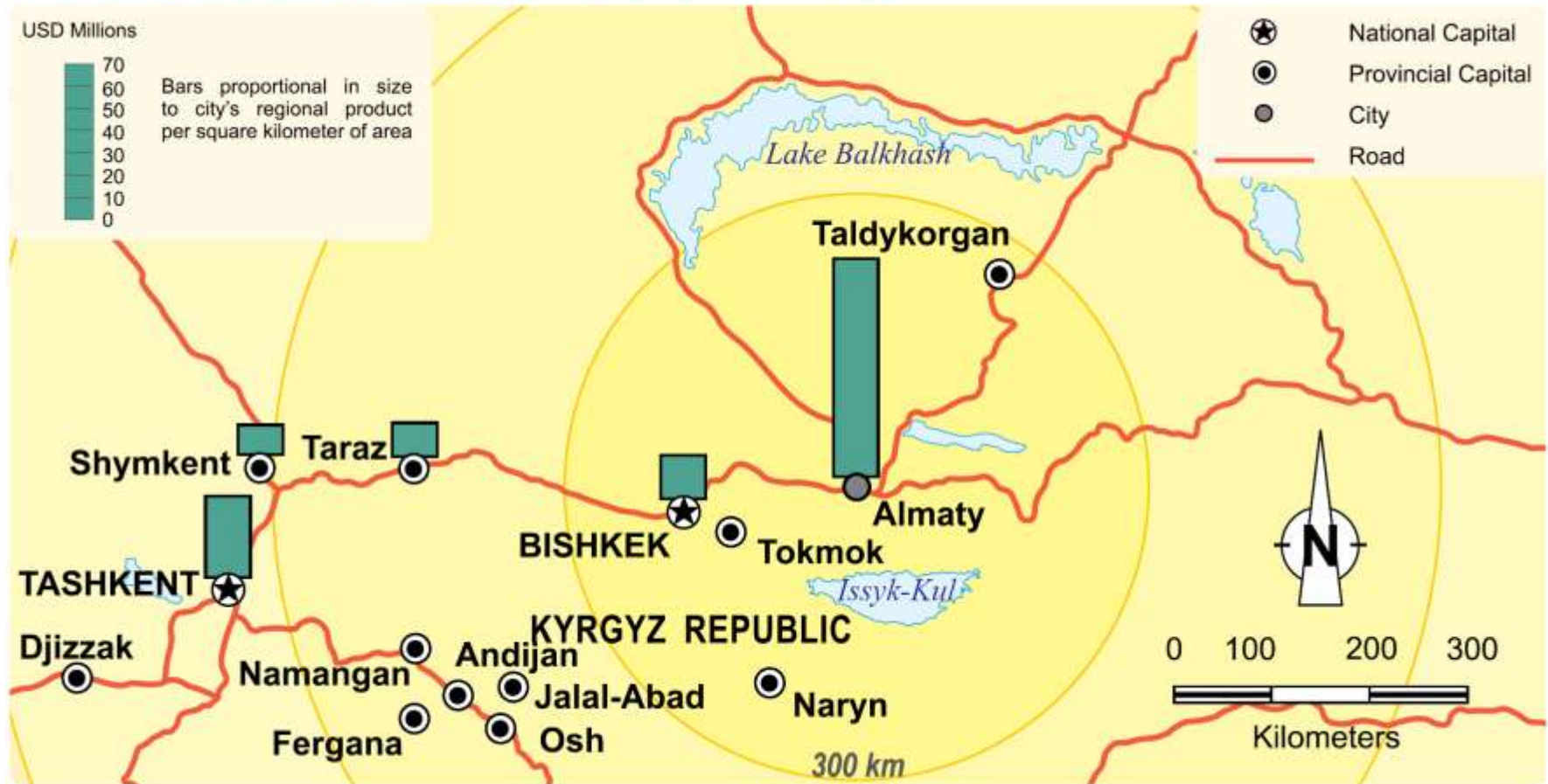
Agreements on trade and factor mobility within region
Shared facilities (research, central banks, regulatory bodies)

Hub-and-spoke infrastructure
Regional power grids, telecoms, water management

Subsidized human development investments in lagging countries and areas
Productive investments in leading countries and areas
Preferential market access

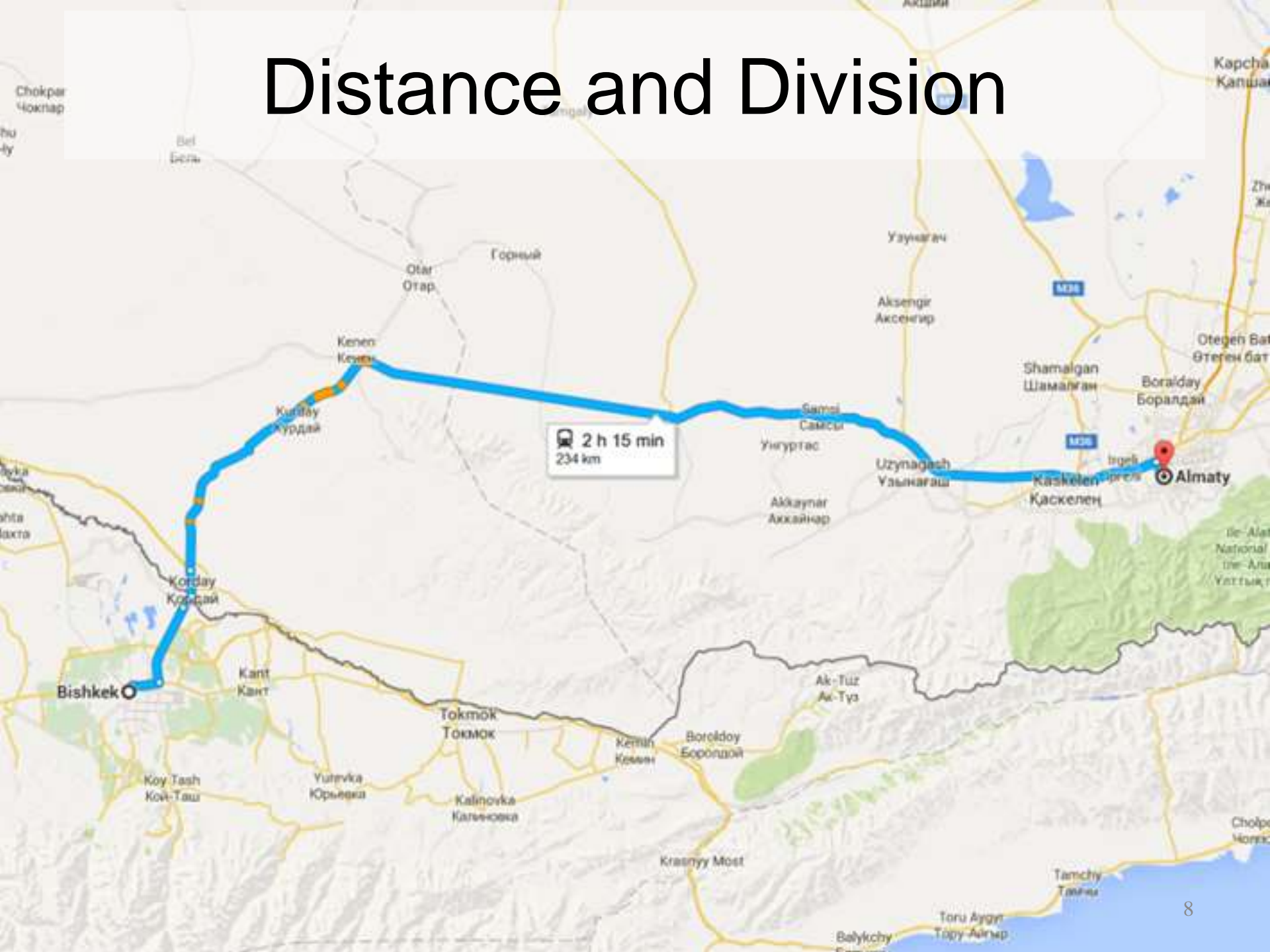
Density

Economic Densities in Almaty, Bishkek, and Nearby Cities



*Economic density is the ratio of city gross regional product over area.

Distance and Division



In Theory: Big Bang for ABEC?

- Big Bang approach: Investments and regulatory reforms as much as needed to achieve the desired outcome.
- Investments considered individually may not be viable (Airport, Financial Center, Formula One Course)
- But in combination they are feasible, ex-post
- Big Bang is risky and requires unlimited willingness to invest

Dubai in 1990



Dubai in 2016



Big Bang for ABEC?

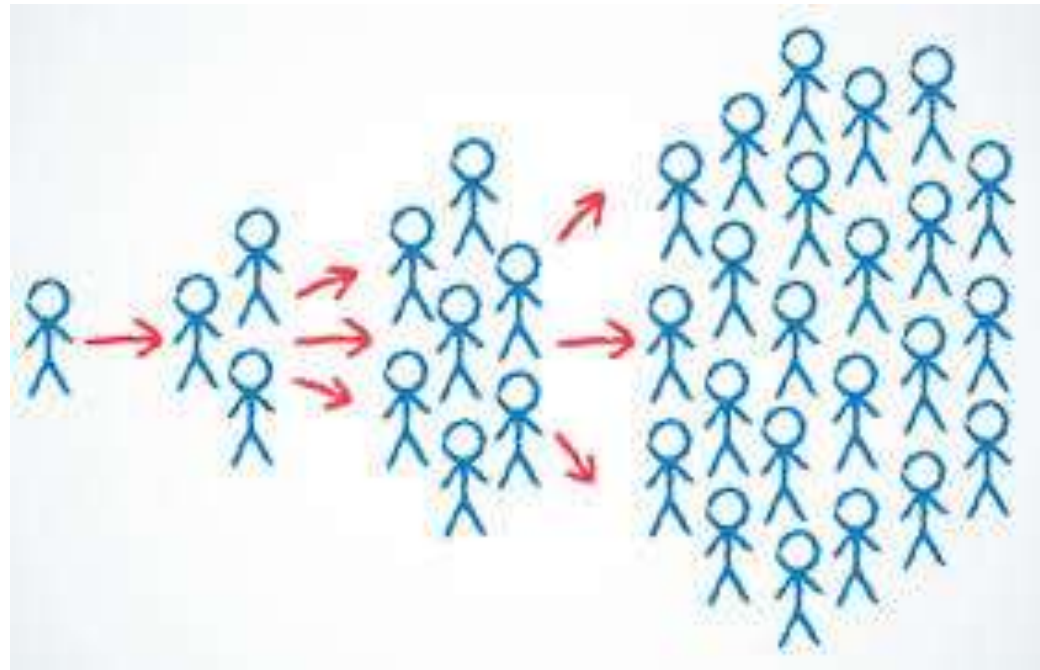
- ABEC situation is different
 - Less financial resources, less risk appetite
 - ABEC is linking cities in two countries
- Thus, ABEC has to justify the rationale of the combination and sequence of projects

Big Bang for ABEC?

- Solution: Choice of investments and policy reforms that:
 - I. Have positive externalities within and across sectors through agglomeration
 - II. Increase scale and specialization to reach a critical mass and sophistication to export outside the region
 - III. Are agreeable to both countries, oblasts and municipalities
 - IV. Crowd-in private investments

Positive externalities

- Choosing investments and reforms that are transformative and trigger other projects to be feasible.
- Overcome
 - Density
 - Distance
 - Division



Positive externalities

- For example in manufacturing, industrial parks cluster similar companies
 - better access to services, common facilities, benefit from the concentration of knowledge, and outsourcing options
- In services, being close to the client reduces transaction costs and increases relevance

Increased Scale

- Joining and coordinating markets—with winners and losers on both sides—is not a zero sum game
 - The larger the market, the higher the profit;
 - the more attractive the location to firms, the more jobs there are;
 - the more labor pools there, the larger the market
- Reinforcing loop

Aligning Priorities

- ABEC builds on existing infrastructure and planned projects by the national, oblast and municipal governments
- ABEC will analyze planned projects for regional benefits and costs
- ABEC will help prioritize and design projects that have a high transformative impact and are agreeable between all stakeholders
- ABEC will attract private investments

Agriculture: Cross-Border Value Chains

- Agriculture: High potential to increase exports outside ABEC
- EAEU harmonization of standards
- Comparative advantages in different crops, fruits, vegetables, dairy, and meat
- Comparative advantages of processing, logistics, marketing

Agriculture: Cross-Border Value Chains

- Specialization on products and services with comparative advantage yields significant productivity gains
- Increases scale of production
- Justifies logistics investments (wholesale market, cold chains, storage, packaging)
- Attracts processing companies
- Eases certification and market access (PRC, EU)

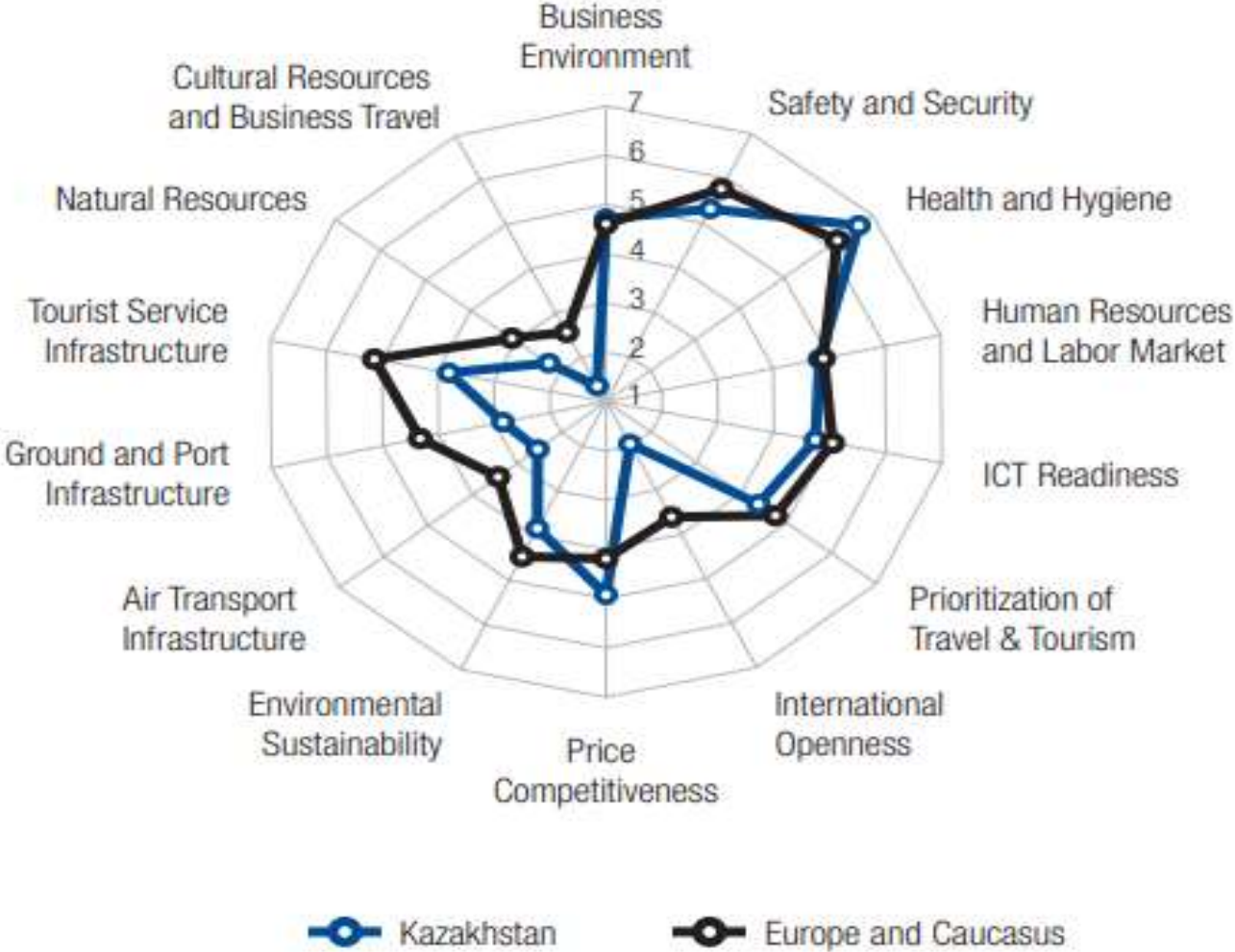
Agriculture: Cross-Border Value Chains

- ADB investment project proposed to pilot cross border value chains in fruit/vegetables and dairy.
- Proposed branding with standardization:
 - Building on well-known informal brands
 - Enforce common phytosanitary standards
 - Labeling for easy trade (like EU 'CE')
 - Certification of origin and organic production
 - Ensuring consistent quality
 - Access of markets in PRC and EU

Tourism: Silk Road

- International tourist arrivals to Kazakhstan and Kyrgyz Republic, 84% and 93%, respectively, were from CIS nations.
- 2014 International Visitor Arrivals (including same day visitors)
 - Kazakhstan - 6.3 million
 - VFR (56%); Business (29%); Transit (14%)
 - Kyrgyz Republic reached 2.8 million
 - Breakdown not available


Kazakhstan Tourism Competitiveness



Kyrgyz Republic Tourism Competitiveness



 Kyrgyz Republic

 Europe and Caucasus

Proposed Tourism Solutions

1. Common Branding along Silk Road through portal (ADB can support initial investment)
2. Attraction of niche/mountain tourism through global events
3. Upgrade tourism infrastructure
4. Improvement for Safety & Security
5. Border Control Process Improvement
6. Development of Tourist Information Centre
7. Collect Tourism Statistics
8. Training & Skill Development

What is ABEC's urban approach?

- **Objective:** Increase the quality of life in ABEC cities and attract high-skilled workers to the region.
- **Good urban services**
- **Urban mobility**
- **Green and smart city development**
- **Mutual branding for tourism**
- **Pooling disaster and climate change related risks**

What is ABEC's urban approach?

- Coordinate land-zoning and transport planning.
- Harmonize building codes
- Work together on green and smart city approaches
- Harmonized business licensing and inspection
- Business information, consultation and participation
- Working together on disaster preparedness

Education and Health

- Focus on advanced services
- Health:
 - Coordination to increase scale and specialization (Heart Center, Cancer Center)
 - Attract health tourism rather than importing services from abroad (competing with Russia, EU, India)
 - Ease cross border services (Insurance)
 - Serve rural/low density areas through innovative solutions (tele ICU, mobile dialysis)
 - Attract private sector through PPPs

Education and Health

- Focus on advanced services
- Education:
 - Identify skill gaps for transformative sectors (horizontal and vertical analysis)
 - Create platform to systematically incorporate needs from private players into quality education
 - Coordinate high specialization/ high cost tertiary education
 - Use ABEC to estimate future growth areas and related skill demand

Education and Health

Possible Next steps:

- Education: Skill gap analysis with private sector involvement, supply side survey, identifying regulatory hurdles, developing pilot projects of vocational trainings, university cooperation
- Health Sector: Mapping available services, mapping current import and export of services, identifying potential for scale and specialization, pilot innovative projects

Connecting Markets

- Joint investments in logistics and trading centers (i.e. wholesale markets, storage facilities, processing facilities)
- Mutual learning on PPPs
- Common branding for city tourism (for winter/summer sport and cultural tourism)
- Road connection between Almaty and Issyk-Kul

Connecting Markets

- Holding international events together in the two countries
- Direct bus connection between Bishkek and Almaty and their airports without stop at the border
- Coordination of flights between Almaty and Bishkek airport

What are the next steps for ABEC?

- Exploration of potential viable projects in the context of ABEC
- Bringing ongoing and planned projects into the ABEC framework and sequence them in Implementation Plan
- Forming sectoral working groups to implement pilot projects in agriculture and tourism sectors

What are the next steps for ABEC?

- Implementing the institutional setup in KYR and KAZ while ADB is setting up support in form of technical assistance.
- Stronger involvement of other development partners under CAREC framework
- Formulating the Implementation Plan

Thank you for your attention.