

# **Almaty-Bishkek Economic Corridor (ABEC)**

## **Investment Framework Summary**

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# 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

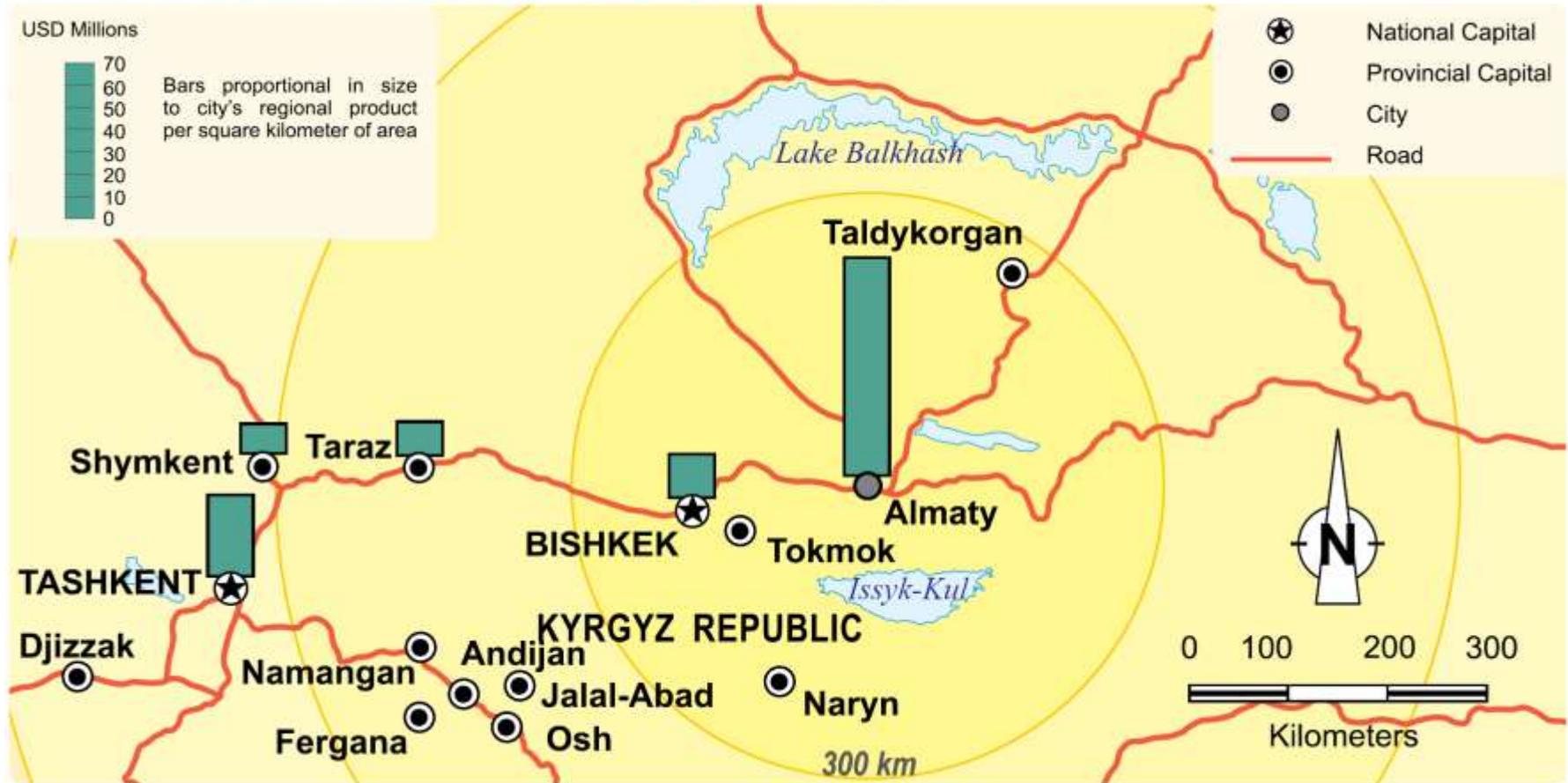
Agreements on trade and factor mobility within region  
Shared facilities (research, central banks, regulatory bodies)

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

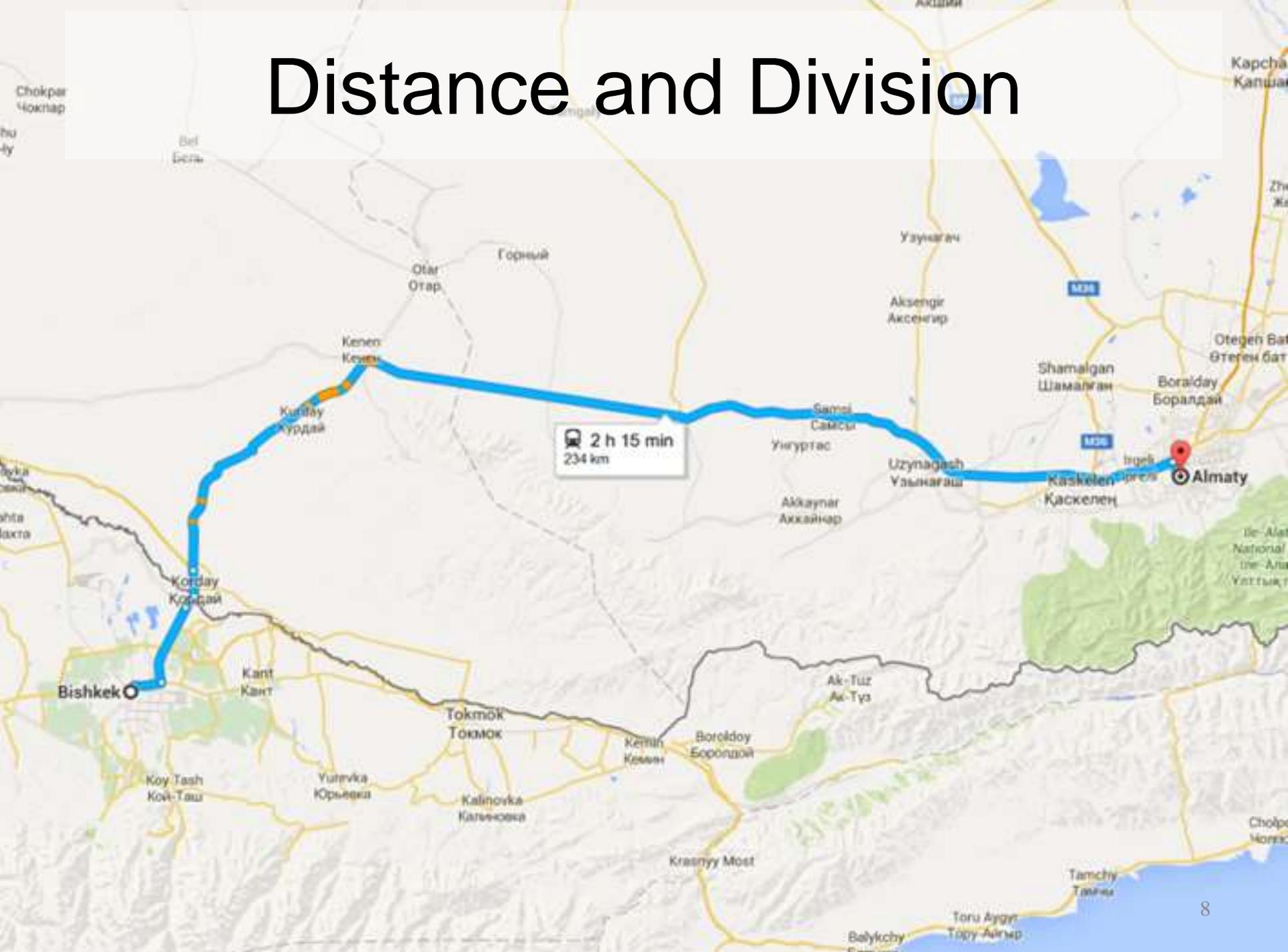
# Density

## 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?

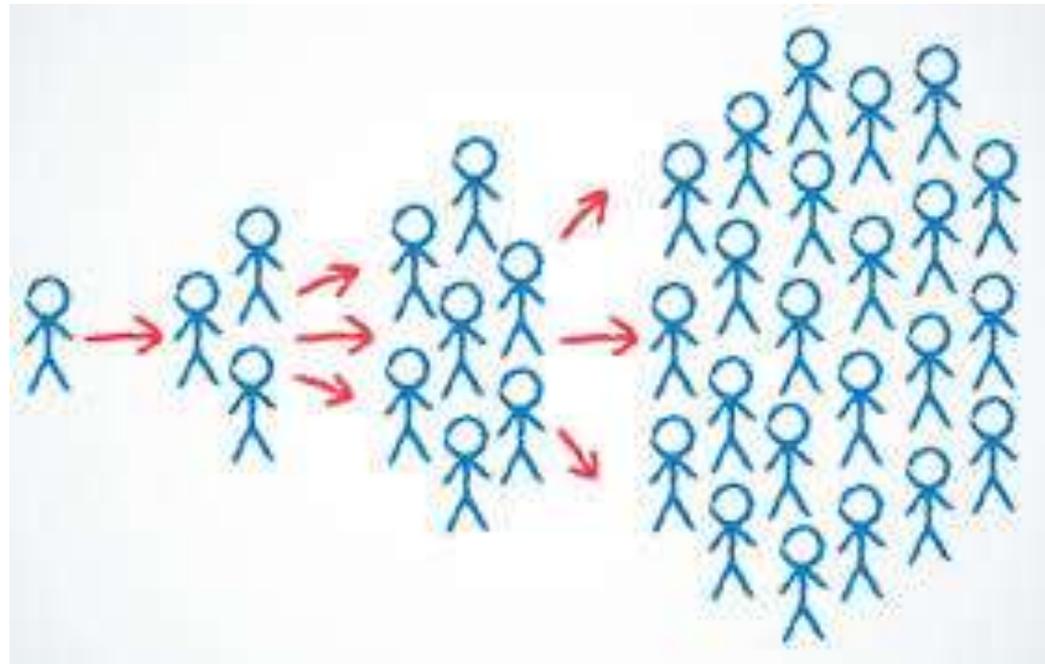
- ABEC situation is different
  - Less financial resources, less risk appetite
  - ABEC is linking cities in two countries
- Thus, ABEC has to justify the rationale of the combination and sequence of projects

# 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)

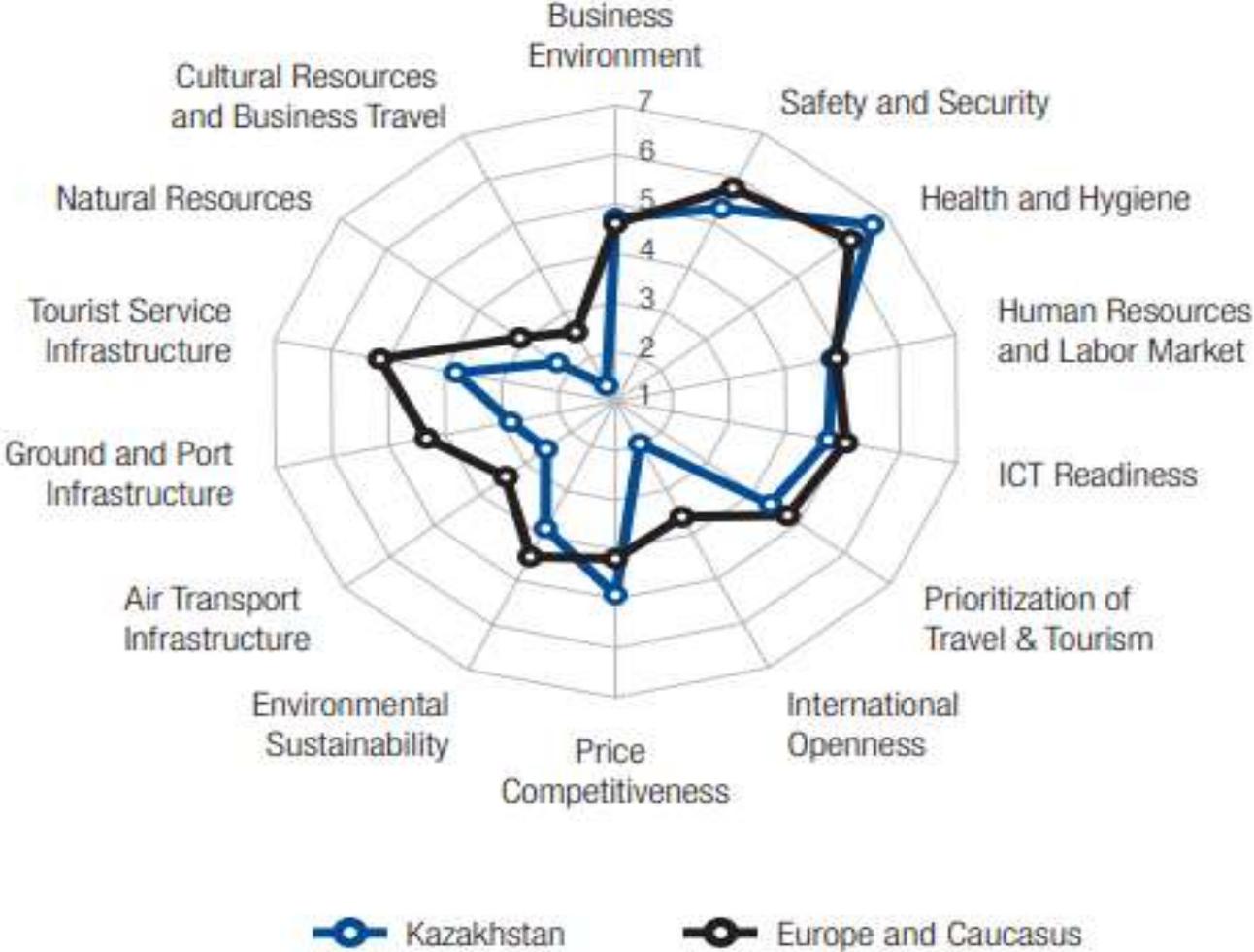
# Agriculture: Cross-Border Value Chains

- 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.