



# CAREC Institute Newsletter

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## CAREC Institute Annual Report 2019

The CAREC Institute Governing Council approved the Institute's Annual Report 2019 which provides overview of the Institute's capacity building, research, and advocacy work in the past year, and offers outlook on year 2020.

In 2019, the CAREC Institute has prioritized its activities according to the CAREC 2030 document, CAREC Integrated Trade Agenda (CITA), regional road safety strategy, and the newly adopted transport and energy strategies. We have partnered with numerous international and regional institutions to conduct eleven workshops and one policy dialogue for around 300 CAREC governmental officials in areas of trade facilitation, customs modernization, economic diversification, economic statistics, energy security, reform of state-owned enterprises, accounting infrastructure, disaster risk reduction, and road safety. With policy recommendations derived from our research and workshops, we engaged in regular consultations with the senior CAREC officials through CAREC platforms, also participated in over 25 regional and partner events as panelists, keynote speakers, and content providers to advance the issues of regional cooperation and integration.

The Institute has obtained the observer status to annual meetings of ADB, IMF, and the World Bank, and formalized three more partnerships. The fourth CAREC Think Tank Development Forum held in Xi'an, the People's Republic of China (PRC), was a success, and the first round of CAREC Think Tanks Network Research Grants Program yielded satisfactory results. Read more [here](#).

## Global Uncertainty: Potential Effects on Capital Inflows into CAREC

In an [economic brief](#) titled “Global Uncertainty: Potential Effects on Capital Inflows into CAREC,” our Chief Economist writes that current heightened global uncertainty goes along with the threat of less demand for CAREC export goods, and weaker GDP growth and tax revenues. Especially, oil and gas exporters might suffer from lower commodity prices and feel pressure on the exchange rates.

In Kazakhstan, for example, the oil and gas sector accounts for more than 20% of GDP. The correlation of Kazakhstan’s exchange rate with the oil price is high, directly, and also via its close relationship with the Russian ruble which weakened in March 2020. The net importers, such as Pakistan, for which the mineral fuel imports accounted for almost 30% of the total goods import in 2018, might profit from lower oil prices in trade balance terms.

Initially, the global uncertainty was triggered by the Covid-19 outbreak. However, there are also much deeper, structural issues at work. One of them is trade wars, very likely only temporarily calmed by the US-China “phase one” deal. Another one is the increasing rivalry among major global oil producers.

An extended period of global uncertainty and of lower commodity prices could contribute to lowering the potential of the CAREC region to attract foreign investments needed to modernize the CAREC economies. CAREC members, therefore, need to step up efforts to attract foreign investment, especially outside the resource sector, they need to become part of the current technological revolution. Tighter regional integration, easier cross-border trade, and opening-up of Uzbekistan provide opportunities to make the region, as a whole, more interesting for foreign investors to utilize better economies of scale. More coordination and joint efforts, including industrialization and digitalization strategies, might benefit all. Read more [here](#).

In [another economic brief](#) about the government response measures to mitigate the economic impact of Covid-19, the author provides an overview of what possible scenarios of significant downside risks might be, and what the governments have been able to come up with.

## Upcoming: Unlocking Private Investments in Infrastructure

The CAREC Institute and the Asian Development Bank Institute (ADBI) will hold a joint policy workshop on Unlocking Private Investments for Sustainable Infrastructure in CAREC in June 2020 in Tashkent, Uzbekistan.

The policy workshop will convene renowned scholars, private sector representatives, field experts, and CAREC government officials to discuss current trends, challenges, and good practices in sustainable infrastructure financing, and innovative and practical schemes to attract private investments in cross-border sustainable infrastructure development.

According to the ADB special report on sustainable infrastructure (2017), “developing Asia will need to invest \$26 trillion from 2016 to 2030, or \$1.7 trillion per year, if the region is to maintain its growth momentum, eradicate poverty, and respond to climate change.” The total indicative investment needs for regional infrastructure in CAREC is estimated at \$79.7 billion, including \$37.5 billion for the transport sector, \$1.3 billion for trade facilitation, and \$40.9 billion for energy.

Given such significant amounts and public funding limitations, it becomes important to unlock private investments through innovative schemes, improved public-private partnerships, financial guarantees, and other fiscal tools.

In December 2019, the CAREC Institute and ADBI initiated a call for papers on “Unlocking Private Investment for Sustainable Infrastructure in Asia.” The initiative aims to put together a comprehensive knowledge product in the form of a handbook.

## Infrastructure Investments in Water Sector

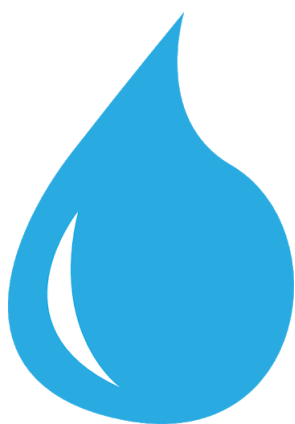
The CAREC Institute is working on an overview of the current state, future needs, and options for financing the irrigation sector infrastructure in Central Asian countries.

Some preliminary findings include that the demand for infrastructure investment in Central Asia is estimated at around 5-7% of the GDP annually. Most of the financing in the region is directed at the extractive sectors. Although, economic growth in the region is attractive for FDI, growing public debt and structural problems make infrastructure financing risky. Additionally, irregular financing prevents the water sector from long-term planning, and leads to serious delays in operation and maintenance. The paper estimates that almost 70% of irrigation infrastructure and 50% of water supply systems in Central Asia are outdated, in need of rehabilitation or replacement.

The paper suggests that development of an economic framework which promotes cooperation and integrated planning among sectors could be a solution. The approach should help leverage possible synergies for decreasing costs, assess trade-offs, develop demand-side interventions, and decentralize services to ensure sustainability of infrastructure. The Central Asian governments would benefit to introduce incentives that make water sector attractive for private and international investments. Furthermore, infrastructure concessions, land ownership around the water infrastructure, and privatization of the services may help attract much needed financing.

The paper will be available [here](#) upon publication.

## Development of the CAREC Water Pillar



The Asian Development Bank (ADB) plans to launch a small-scale technical assistance (TA) to develop the CAREC Water Pillar which will focus on the Central Asian countries which rely on shared water resources of the Amu Darya and Syr Darya river basins and are at high risk of climate change impacts.

Central Asia is water insecure due to competing demands for water resources internally, coinciding timing of peak energy requirements of upstream countries and irrigation water demands of downstream countries and limited renewable water resources of downstream countries. Despite challenges, Central Asia is a major agricultural producer, including production of water-intensive crops. Another common feature across the sub-region is the increasingly competing demands for water resources across various users (e.g., energy vs agriculture demands, urban water demands).

Economic diversification of the region and increased potential for trade in, e.g., high value agriculture products and energy, will place growing competing demands on finite water resources.

By the end of 2020, the ADB TA is scheduled to determine future demand for water resources in Central Asia up to 2050, identify water resource development opportunities, and prepare policy and institutional strengthening framework.

## Development of the Climate Change Adaptation Index

In 2020, the CAREC Institute will focus on development of the CAREC Regional Climate Change Adaption Index to complement its research on climate infrastructure and governance of 2019.

The diversity of climatic zones, variability of natural resources and associated economic activities determine multidimensional set of climate threats faced by the CAREC countries. To capture diversity of those climate challenges and conduct cross-country comparison, the calculation of the regional cross-country adaptation index will follow the vulnerability assessment approach, vulnerability defined as “the degree to which a system is susceptible to, or unable to cope with, adverse effects of climate change, including climate variability and extremes... a function of the character, magnitude, and rate of climate variation to which a system is exposed, its sensitivity, and its adaptive capacity (IPCC).”

Estimation of sectoral vulnerability indices across CAREC is proposed by juxtaposing a set of the selected indicators reflecting the *potential impacts* (exposure, sensitivity) on a system and *adaptive capacity* (economic capacity (GDP/capita), infrastructure capacity (water storage facilities, access to WASH), institutional and human capacity (government effectiveness)) of the underlying system.

The method includes calculating sub-indices of potential impacts (PI) across each sub-activity, where the sensitivity indicators serve as weights assigned to the corresponding exposure indicators and estimating aggregated PI index by summing up resulting values for each sub-activity.

[Contact us](#) for more.

## CAREC Think Tanks Network Research Grants Program 2020 Finalists

The CAREC Institute has finalized selection of the finalists under the CAREC Think Tanks Network (CTTN) Research Grants Program which aims to respond to multitudes of challenges that confront the region by focusing on production of relevant and targeted knowledge on regional cooperation. Under this Program, scholars from [member think tanks](#) are encouraged to conduct joint research and undertake comparative analysis between (sub)regions within Asia to draw lessons for promoting and deepening regional integration. The 2020 Research Grants Program has four finalists.

### Assessment of Trade Prospects in National Currencies in CAREC

Researchers from Applied Economics Research Centre of the University of Karachi and the Economic Research Center of Azerbaijan will focus on assessment of the prospects of foreign trade transactions in national/single currency among CAREC members.

This research will assess trade operations in CAREC at the current stage, present scientifically substantiated possibilities for implementation of trade operations in national currencies and make policy recommendations.

The research topic was triggered by assumptions that use of national currencies in foreign trade might prevent transfer of income to third parties; use of the third currency in international economic relations significantly increases conversion costs; and use of national currencies significantly reduces currency risks for partner countries.

The researchers plan to employ interviews, surveys, and secondary data analysis for this work.

## Exploring Export Driven Growth: Case of Pakistan-China FTA

Researchers from the School of Economics of Quaid-i-Azam University of Islamabad, and the Baku Engineering University of Azerbaijan chose the topic of “Exploring Export Driven Growth through Free Trade Agreements (FTA) among CAREC Members: Learning from Pakistan-China Free Trade Agreement.”

The study will analyze the impact of Pakistan-P.R. China FTA on creation of new export. It will estimate the size of new exports created by industries and explore reasons why some industries cannot create new exports despite the FTA. Based on the analysis, the researchers will examine the possibility of exploring new FTAs among other member countries concerning products which are likely to be mutually beneficial.

## Prospects of Tourism along Almaty-Bishkek Economic Corridor

Researchers from the National Institute for Strategic Studies of Kyrgyzstan and the Center for Trade Policy Development under the Ministry of Trade and Integration of Kazakhstan will focus on the prospect of tourism along the Almaty-Bishkek Economic Corridor (ABEC).

The study aims to analyze the current trends in tourism development in Kazakhstan and Kyrgyzstan, identify the prospects of tourism sector development in the context of ABEC, and assess the impact of tourism sector development on regional development and different sectors of the economy.

Researchers will estimate prospective indicators of tourism development along ABEC for the period of 2020-2030. For this evaluation, several forecast scenarios will be developed, including basic scenario reflecting different factors and emerging trends of growth. While developing different scenarios, implementation of proposed legal and institutional reforms and investment projects aimed at spatial development of tourism clusters will be taken into account.

Findings shall support strategic planning of relevant sectors and help promote achievement of the Sustainable Development Goals.

## Analysis of Social, Economic & Urban Aspects of CAREC 4A Corridor

Researchers from the Institute of Geography and Geo-ecology of the Mongolian Academy of Sciences and Xinjiang Institute of Ecology and Geography under the Chinese Academy of Sciences embark on spatial analysis of social, economic, and urban aspects of the [CAREC 4A corridor](#).

The research responds to the new regional development policy of Mongolia and CAREC 2030 priorities. This analysis shall contribute to the spatial planning process of the corridor. The 4A corridor intends implementation of 32 projects in the following sectors: one in health protection; 13 projects in the field of transport infrastructure (rail and highway); two projects in the field of industry; one project to upgrade the border land port; one in the field of energy; four projects related to trade, customs, professional inspection, and quarantine; three environmental projects; three in science and technology; another three in human development; and one in agriculture.

The aspects of analysis will include trade, industry, agriculture, infrastructure, transport logistics, and tourism along the CAREC 4a corridor traversing the PRC and the western region of Mongolia to determine potential centers of social and economic development and engage in a mutually beneficial integration process.



## New Appointments at CAREC Institute



### **Hans Holzacker**

Chief Economist (joined in January 2020)

For two years before joining the CAREC Institute, Hans was Lead Economist for Central Asia with the EBRD, based in Almaty, Kazakhstan. Hans has 30 years of experience as an Economist focusing on transition economies. He was Chief Economist at Golomt Bank in Mongolia and of ATFBank in Kazakhstan. He was also teaching at the Turan and Narxoz universities in Almaty. Earlier, he was a Vienna-based Senior Economist focused on Russia and Ukraine for Bank Austria, a member of UniCredit group, and was also in charge of CEE country rating. Hans was Senior Economist covering the Czech Republic, Slovakia, Slovenia, and Ukraine at the Institute of International Finance in Washington, DC, during 1999-2001, Head of Country Risk/Research at GiroCredit Research, Investmentbank Austria during 1993-99, and Central European Economist at Nomura Research Institute during 1989-93.

Hans holds a Ph.D. in Sociology and a MA in Economics from the University of Vienna. He completed a postgraduate scholarship in the Economics Department of the Institute for Advanced Studies in Vienna.



### **Qaisar Abbas, Ph.D.**

Chief of Research Division (joined in February 2020)

Dr. Abbas acquired the Ph.D. degree in Human Resource Development from the Nankai University Tianjin, the PRC, in May 2000. He performed a post-doctoral research at Cardiff Business School (UK) in September 2007. He also holds M.Sc. and M. Phil. in Economics from Quaid-i-Azam University of Islamabad. He has worked as Dean of the faculty of Business Administration at Comsats University Islamabad (CUI) and Director of CUI Lahore campus. Over the years, he has assumed various responsibilities at CUI, including Provost, Convener of Campus Selection Committee, Convener Board of Studies of Management Sciences, and Convener Board of Faculties of Business Administration and Board Member of Governor CUI in Pakistan.

Dr. Abbas has produced numerous research outputs including 38 publications in national and international journals, nine conference proceedings, and seven conference presentations. Dr. Abbas has also completed two research projects funded by the Higher Education Commission (HEC) of Pakistan and CUI. Five students have completed their Ph.D. works under his supervision. He was instrumental in launching an international research journal "South Asian Journal of Global Business Research" published by Emerald Publications. He has been actively involved in organizing a number of international workshops/seminars/conferences/forums.



### **Eisa Khan Ayoob Ayoobi**

Chief of Capacity Building Division (assumed the role in January 2020)

Mr. Eisa Khan Ayoob Ayoobi is a former Fulbright Scholar and Oxbridge Fellow at Stanford and Georgetown University respectively. With a combined BA degree in Economics and International Relations, an LLM (Master of Laws), and currently ABD in Government and Public Policy. Mr. Ayoobi brings nearly two decades of experience in capacity building with stints in civil society, private sector, and government.

Mr. Ayoobi is the author of several legal textbooks pertaining to constitutional law, human rights and criminal law of Afghanistan, some of which are adopted as integral part of the country's higher education – national law school curricula.

Prior to joining the CAREC Institute, Mr. Ayoobi was the Regional Cooperation Advisor to the Government of Afghanistan with the core responsibility of providing advice on strategic issues of regional cooperation for Afghanistan and its foreign relations with immediate and far neighbors based on a set of confidence building measures (CBMs).