



CAREC Institute Newsletter

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New Approaches to Measuring and Assessing Regional Integration

The CAREC Institute Director Mr. Syed Shakeel Shah was invited to participate and present at the Asian Development Bank (ADB)'s webinar titled New Approaches to Measuring and Assessing Regional Cooperation and Integration held on 16-17 April 2020. The webinar aimed to present progress on the regional cooperation and integration (RCI) methodology, discuss current needs in RCI operations, and agree on research areas based on RCI indicators that respond to stakeholder needs.

Mr. Shah's presentation covered progress and challenges in measuring regional integration in CAREC. Among challenges, he listed size asymmetries, varying stages of development of key economic structures, eight of the eleven countries being landlocked, CAREC not fully integrated into the global rule-based trading system, and fragmented regionalism with multiple and disjointed economic and trade arrangements.

For further study, he shared CAREC Regional Integration Index ([CRII](#)) recommendations which include: 1) explore possibility of a formal regional trading arrangement, 2) study trade-offs between non-discriminatory regional integration and domestic development challenges, 3) explore instruments to balance proposals on regional integration through special and differential treatment in view of size asymmetries and landlocked status of most CAREC economies, 4) integration of sustainable development goals and COP21 into CAREC regional integration framework. Additionally,

Mr. Shah shared various ideas being discussed within the Institute regarding redesigning CRII and improving its methodology, including grouping CRII in four dimensions and replacement of principal component analysis with factor analysis.

Trade Impact of Reducing Time and Costs at Borders in CAREC

The Asian Development Bank Institute (ADBI) released a working paper on trade impact of reducing time and costs at borders in CAREC. Using the novel data of the [Corridor Performance Measurement and Monitoring](#) (CPMM) trade facilitation indicators specific to the CAREC countries, this study investigates the extent to which reduced time and cost at the border crossing points facilitates trade among the CAREC countries.

The researchers Messrs. Kijin Kim and Paul Mariano found that (i) time taken at an importer border is more influential in promoting trade than at the exporter border, and (ii) at an importer's border, time is a more objective measure than cost in determining trade flow changes. Gravity model estimations show that reducing time at the importer border by 10% increases intraregional trade among CAREC countries by 1.41%. However, simulation results show that trade facilitation only at borders may not be sufficiently effective to lead to broader economic impacts in the CAREC region; rather, holistic approaches at and behind borders are needed. Read more [here](#).

Visiting Fellow Program 2020 Finalists

The CAREC Institute and the ADB have finalized selection of five fellows under the 2020 Visiting Fellow Program. The preference was given to proposals that addressed cross-border issues relevant to the [CAREC 2030](#) operational priorities. The final body of research is expected for Q4 2020. The 2020 finalists are:

Trade and Economic Integration of the Pamir and Wakhan Corridors

Mr. Jakub Polansky of the University of Central Asia in Tajikistan will research the topic of trade and economic integration of the Pamir and Wakhan corridors traversing geographically remote and economically isolated areas of Afghanistan, the People's Republic of China (PRC), Pakistan, and Tajikistan.

While there are multilateral plans to establish a surface connection between Chitral in Northern Pakistan through the Wakhan Corridor in Afghanistan to Ishkashim in Tajikistan, and then further onwards through Murghab over the Kulma Pass to Kashgar in the PRC (which would give the landlocked areas direct access to both the PRC and seaports of Gwadar and Karachi in Pakistan), traders currently have to use longer and costlier routes to reach or transit through these areas.

The research will construct and quantify a model of direct and indirect cost components of trade through direct observation; assess the magnitude of the potential for regional economic integration through decomposition of demand factors; and propose a research strategy for analysis of the impact of transit trade on the livelihoods of the affected population.

Identification and Spatial Mapping of Economic Clusters in CAREC

Mr. Syed Muhammad Hasan of Lahore University of Management Sciences will focus on spatial mapping of existing economic activities along the corridor traversing the PRC, Pakistan, and Tajikistan to facilitate informed policy decisions along the corridor, such as the optimal location for

Special Economic Zones (SEZ), design of specific interventions required to boost local and regional economies, decisions about optimal investment in human resources, etc. The economic corridor development is closely connected with the spatial organization of economic activities to bring together existing infrastructure, policies, and institutions to improve investment climate that will create jobs and sustainable growth. The researcher will also include China-Pakistan Economic Corridor (CPEC) into the analysis to identify complementarities between CAREC and CPEC.

Regional Energy Integration Prospects in CAREC

In support of the CAREC Energy Strategy 2030, Ms. Bulganmurun Tsevegjav from the Sustainable Development and Climate Change Department of ADB will analyze prospects of the integrated energy planning and trading mechanisms which can be achieved in CAREC.

After studying lessons from existing regional and sub-regional energy integration and cooperation initiatives, Central Asia - South Asia (CASA)-1000 project, Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline, Convention on the Legal Status of the Caspian Sea, etc., the researcher will propose the most attractive options for customization and/or replication in CAREC to achieve reduction of unit costs; allow faster implementation; reduce the costs of spare parts, maintenance, and staff training; and achieve more optimized allocation of energy resources through standardized design and multilateral trade frameworks.

Dialogue Platforms for Agriculture and Water Cooperation in CAREC

Mr. Dovlet Jumagulyyev of the Interstate Commission for Sustainable Development of the International Fund for Saving the Aral Sea in Turkmenistan will focus on consolidating knowledge resources regarding agriculture and water and involving the academic network of Central Asia in a regular online dialogue for knowledge exchange. Topics will focus on irrigation methods, environmentally friendly cultivation of crops common for Central Asia (cotton, cereals, rice, horticulture, melons), productivity and yield, food standards and quality control systems, transboundary rivers, etc. The researcher will aim at identifying innovation champions and engaging the whole network in exchange of knowledge and ideas.

Climate, Water, and Agriculture Nexus in Central Asia

Mr. Samrat Kunwar of the College of Saint Benedict and Saint John's University of Minnesota, USA, will look into the climate, water, and agriculture nexus in CAREC through application of the Ricardian method to account for numerous adaptation and substitution strategies that farmers might employ in response to the changing climate, and get a more accurate assessment of climate change impacts.

The researcher assumes that weather variability and frequency of weather shocks is likely to increase in future, straining adaptive capacities of farmers in CAREC. The findings of this study could be useful to facilitate policies for successful adaptation to the changing climate and its impact on agriculture and water in CAREC. Some examples of practical public policies resulting from this study could be allocation of additional investments in agricultural research with a view to enhance the potential positive impact and mitigate negative effects of climate change; implementation of support systems in the form of loans, access to seeds, and technical advice on crop management and water harvesting options; design of novel forms of climate insurance programs to the vulnerable population; and provision of irrigation systems to the farming population at a minimal cost.

The research intends to inform policy makers about the most advantageous approaches.

Covid-19 and the Economy: Prospects, Shocks, and Measures

In a new economic brief, our Chief Economist explores scenarios for economic development and recovery with a focus on the CAREC region. He discusses potential trajectories and duration of the recovery and emphasizes that the current crisis can incentivize more sustainable development in future.

He goes on to discuss the relative higher importance of demand than supply shocks and gives an overview of public and external debt levels in the CAREC region. Interest service on public debt is only about 10% of tax revenue in advanced economies, but about 14% in emerging markets and as high as 33% in low-income countries. Moreover, a substantial part of public debt in emerging markets is vis-a-vis non-residents, usually in foreign currency. Some data for the CAREC region: in the Kyrgyz Republic, 82% of public debt were owed to non-residents in 2019, in Tajikistan 76%, in Kazakhstan 35%, in Pakistan 29%. Tax revenues of oil and gas exporting countries of the region will sharply drop due to low prices.

CAREC countries with high public and external debt might need support from the international community. Low-income countries, including Afghanistan and Tajikistan need debt relief. The international financial institutions have begun to provide support via tools such as the Rapid Credit Facility (RCF), Rapid Financing Instrument (RFI), IMF's Catastrophe Containment and Relief Trust (CCRT) Facility and the Extended Credit Facility (ECF).

Further, our Chief Economist provides recommendations that could serve as a checklist of how to design, target, and time crisis mitigation measures to avoid double dip recessions or prolonged stagnation. The economic brief then summarizes the CAREC country efforts to handle the pandemic and ensuing economic consequences, and proposes strengthening sustainable and green investment, including investments in health systems to be more resilient in case of future epidemics. Financing of such investments should become more favorable when the crisis recedes as capital returns from safe havens, and the record liquidity pumped into markets will seek investment opportunities. Read more [here](#).

Regulatory Framework for E-commerce: Policy Brief for CAREC

The globalization of commerce requires consistent laws and regulations not only to authorize but also regulate electronic communications.

For this purpose, the CAREC members have all enacted relevant laws but the laws are not always consistent, and they are often out of step with the best practices. After a rigorous review of the relevant legislation and the dominant international literature and model laws, in a policy brief about the regulatory framework for e-commerce in CAREC, the CAREC Institute recommends that CAREC members to update their legislative framework, ensure conformity with internationally recognized standards, and harmonize laws and approaches among themselves. Adherence to a number of international conventions is also recommended in this process.

The policy brief sets out the key policy issues: how strictly the state must prescribe acceptable methods of authenticating text and transacting parties; what shall be done to promote privacy, to prevent cybercrime and to protect consumers; how to follow the leading international trends, while expressing some concerns about the ability of private and public actors to make safe choices and about the ability of some member states to administer an effective regulatory regime. Read more [here](#).

CAREC Institute Starts 2020 Webinars

On 8 April 2020, the CAREC Institute, Asia-Pacific Finance and Development Institute (AFDI), Global Development Learning Network (GDLN), and Association of Chartered Certified Accountants (ACCA) co-hosted a webinar to share measures and experiences of the People’s Republic of China (PRC) in fighting the Covid-19. Professor Chen Mingquan, a Chief Physician of the Department of Infectious Diseases and Director of the Emergency Department of Huashan Hospital, Fudan University, was the guest speaker. The webinar recording is available [here](#).

On 17 April, the webinar topic covered the analysis of the economic impact of Covid-19 globally and, specifically, on CAREC. The CAREC Institute’s Chief Economist Dr. Hans Holzhaecker discussed measures taken by governments to mitigate consequences for their economies and the population. The CAREC Institute Director Mr. Syed Shakeel Shah noted in his opening remarks: “There is a light at the end of the tunnel. The IMF has predicted a sharp upturn in global economy in 2021, with global economy growing at a robust 5.8 %. Within that, share of growth for developing economies is predicted at 6.6%. However, growth will, in a large part, depend upon measures adopted by governments in developing countries to absorb this huge shock while keeping the essential growth infrastructure intact. This includes, *inter alia*, large and small businesses and banking sector, and a conducive social order.” The webinar presentation and recording are available [here](#).

The 17 April 2020 webinar screenshot

CAREC policies (continued)

	Afghanistan	Azerbaijan	PRC	Georgia	Kazakhstan	Kyrgyz R.	Mongolia	Pakistan	Tajikistan	Turkmenistan	Uzbekistan	Number of countries with these policies
Transfers or cash handouts to quarantined households, families with children, the elderly or other vulnerable population groups			●	●	●	●	●	●			●	7
Providing a food safety net for the most vulnerable			●	●		●		●			●	5
Central bank policy rate cuts			●		●		●	●			●	5
Liquidity support to banks			●	●	●		●					4
Extension of loan/interest repayment periods		●	●	●	●	●	●	●			●	8
Prudential requirements loosened			●	●	●	●	●					5
Intervention on foreign exchange market				●	●							2
Establishing a support fund collecting private donations		●	●	●			●	●			●	6
Approaching development partners for help	●	●	●	●		●	●	●	●		●	9
Mutual help given within CAREC		●	●		○		●	●			●	5

On 29 April 2020, Mr. Michael Taylor, ACCA Chief Economist, the author of the ACCA 2020 Q1 Global Economic Conditions Survey ([GECS](#)) shared his views on the outlook for the global economy as it faces unprecedented crisis caused by Covid-19. Mr. Taylor discussed severity of the current contraction in output across the world, global policy responses, recovery prospects, also main indicators of GECS which provide good insight into the views of finance professionals on investment, employment, and costs. The Q1 2020 survey took place between 28 February and 12 March 2020. Visit our website for the webinar [recording](#).

Videoconference on Unlocking Private Investment in Infrastructure

On 25 March 2020, the Asian Development Bank Institute and the CAREC Institute co-organized a videoconference on Unlocking Private Investment in Sustainable Infrastructure in Asia. The videoconference aimed at exchanging views and research findings on private investment potential and opportunities for the CAREC region.

Some preliminary calculations show that the demand for investment in CAREC amounts to \$79.7 billion till 2030. The water sector upgrade in Central Asia necessitates around \$20-25 billion. The region loses \$4.5 billion annually due to lack of investment and cost of non-cooperation. Hence, attracting private investment for sustainable water infrastructure becomes vital.

The participants highlighted potential opportunities for unlocking private investment, importance of pension funds and life insurance, PPPs and financial education of the general public. While PPPs can stimulate sustainable infrastructure projects, financial literacy can provide investment knowledge that will ultimately affect the overall private investment mobilization. Dr. Umid Abidkhadjayev, Deputy Director of Center for Economic Research and Reforms of Uzbekistan, presented a case study of the Toshguzar-Boysun-Kumkurgon railway line in Uzbekistan to demonstrate the impact of infrastructure investment, and importance of evidence-based infrastructure financing.

There was a shared understanding among the participants that promoting sustainable infrastructure in the region can be successful by ensuring that it considers both socio-economic and environmental aspects, and by active engagement of state and private actors. The videoconference proceedings report is available [here](#).

Videoconference on Water Cooperation in Central Asia

The CAREC Institute Deputy Director Two Dr. Iskandar Abdullaev was invited to participate and present at the videoconference titled Environmental Problems in Water, Air Contamination and City Construction in Uzbekistan and Central Asia held on 18 April 2020 by the Bishkek-based Central Asian Bureau for Analytical Reporting under the Institute of War and Peace Reporting with support of the Norwegian Ministry of Foreign Affairs.

Dr. Abdullaev' presentation covered water cooperation in Central Asia, environmental and socio-economic aspects, transboundary cooperation issues, climate change impacts, and best practices in adaptation. "For sustainable development, the Central Asian countries shall integrate ecological aspects of water management into planning to meet their strategic goals. The countries of the region need long-term cooperation to protect water and its quality. The limits of trial and error in the field of ecology have long been exhausted," Dr. Abdullaev said.

Meeting with the Xinjiang Institute of Ecology and Geography

On 9 April 2020, the CAREC Institute Capacity Building Division representatives met with the Xinjiang Institute of Ecology and Geography (XIEG) of the Chinese Academy of Sciences to discuss areas of cooperation. Mr. Zhang Yuanming, the XIEG Director, expressed interest in the CAREC Institute internship program for XIEG doctoral students, and proposed formalizing the relationship in a Memorandum of Understanding. Further discussions focused on the online workshop modality to cover the topics of ecological and environmental monitoring and scientific practice in Central and Western Asia, regional water management, and climate change. The CAREC Institute staff were invited as guest speakers at XIEG.