



CAREC Institute Newsletter

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CAREC Quarterly Economic Monitor No.2

Our second CAREC Quarterly Economic Monitor looks at economic developments in the CAREC region based on full-year 2020 GDP, fiscal and external economy data, along with some high-frequency data.

Main conclusions include that the 2020 economic loss in the CAREC region was of a magnitude not seen since the early 1990s. Foregone GDP amounted to about USD 37 billion for the CAREC region excluding the People's Republic of China (PRC), and almost USD 950 billion for the PRC. Government debt further increased and is in four CAREC countries higher than 60% of GDP now. Imports contracted even more sharply than exports in 2020 due to the contraction of domestic consumption and production. This led to some improvement in trade and current account balances. The PRC's current account surplus more than tripled in the fourth quarter of 2020 from a year ago, showing that de-globalization or supply-chain diversification is not underway, at least not yet or not on the scale some analysts projected.

CAREC competitiveness slightly improved since nominal exchange rates have depreciated more than prices have increased. This was an additional reason why fewer goods were imported. They became too expensive. However, to consolidate the competitiveness gains in the medium term, production and distribution will have to become more efficient.

The findings confirm that pandemics are extraordinarily costly not only from the point of view of lost lives, health, and social interaction, but also purely economically. Substantial public and private investment in pandemic prevention certainly pays off. Continued correlation between retail sales and mobility shows that overcoming the pandemic will be crucial for revitalizing the domestic economy, even if the global economy recovers and external demand for CAREC products rises. There is the looming danger of a K-shaped recovery. The better-offs are likely to recover relatively quickly while the less well-offs will suffer for a long time, both globally and within countries. Read more [here](#).

Participation in BOAO Forum for Asia Annual Conference 2021

During 18-21 April 2021, the CAREC Institute Deputy Director One Dr. Liang Ziqian participated in Boao Forum for Asia (BFA) Annual Conference 2021 in Hainan. Dr. Liang presented the Institute's contribution, led By Dr. Qaisar Abbas, Chief of Research Division, and his team, to the BFA flagship report on addressing sustainable development deficits in Asia with the focus on healthcare, infrastructure, green and digital transformation.

Around 2,600 representatives from more than 60 countries and territories, and more than 160 media organizations from 18 countries attended the forum. BFA provides a platform for discussing regional issues, generating new ideas, and exploring potential ways forward in addressing complex challenges.

The forum discussed that bold actions and strong regional cooperation is required to overcome negative impacts of COVID-19 and make progress on sustainable development goals (SDG). The world is increasingly interconnected through travel and trade; therefore, risks and benefits are interlinked.

The Asian economies are making unprecedented efforts to meet SDGs, however prevailing dilapidated healthcare systems, inefficient hard and soft infrastructure to support trade and growth, environmental and climate issues, and lacking digital transformation, are some of the key challenges that make the Asian economies lag. Substantial fiscal stimulus is required to meet SDGs, the forum deliberated. Debt restructuring or debt relief might benefit the economies in the short run, but it will bring colossal challenges to fiscal stimuli later. So, it was argued that continuous fiscal stimulus enhancement through domestic and multilateral organizations is required for the realization of SDGs. Read more [here](#).

The CAREC Institute Deputy Director One Dr. Liang (middle) at BOAO Forum for Asia Annual Conference, 18 April 2021



Meeting with the Ministry of Foreign Affairs of Uzbekistan

On 26 April 2021, the CAREC Institute management, represented by Director Syed Shakeel Shah, Deputy Director One Dr. Liang Ziqian, and Deputy Director Two Dr. Iskandar Abdullaev held a meeting with the Ministry of Foreign Affairs (MFA) of Uzbekistan represented by the First Deputy Minister Dr. Farkhad Arziev. The Institute presented its activities to the Deputy Minister, who, in his turn, shared foreign policy priorities of Uzbekistan. He emphasized that trade activities and transport connectivity help promote regional cooperation in Central Asia. The parties discussed structured cooperation between Uzbekistan and the CAREC Institute, including topics of a regional center for transport connectivity, Aral Sea issues, and engaging MFA Uzbekistan’s new division on trade diplomacy in the Institute’s capacity building and knowledge dissemination activities.

The CAREC Institute Director and two Deputies meeting the First Deputy Minister of Uzbekistan, 26 April 2021



Quality of Life Conference: The Role of Think Tanks

On 22 April 2021, our Chief Economist Hans Holzacker participated in a conference titled “The Quality of Life: Socioeconomic Priorities and Main Directions of Increasing Public Welfare” organized by the Institute of Economics of the Science Committee of the Ministry of Education and Science of Kazakhstan.

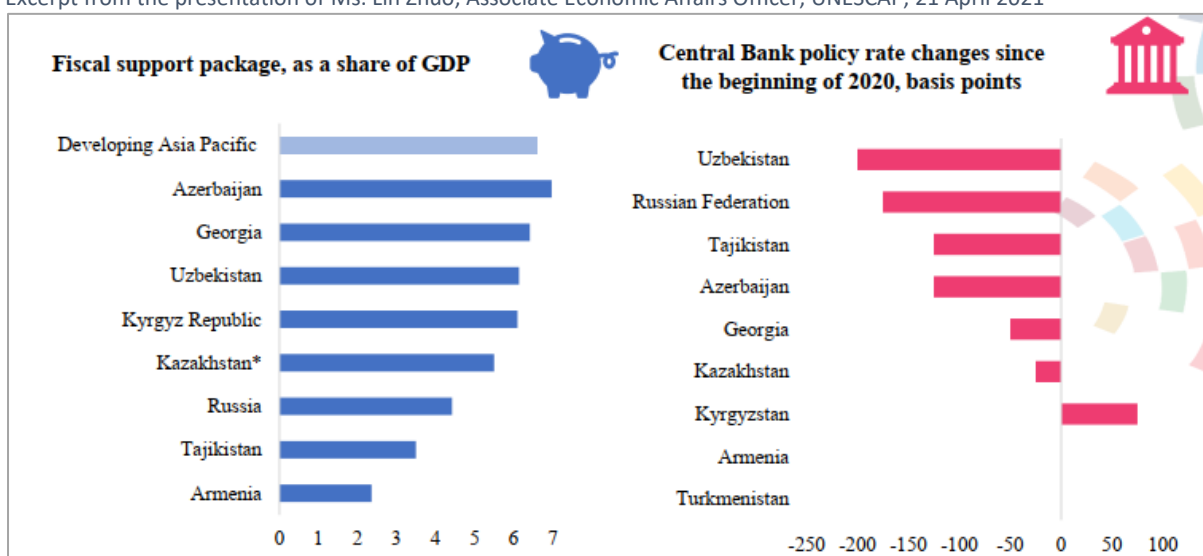
Presentations elaborated on Kazakhstan’s social policy, living conditions in rural areas, correlation between inequality and life expectancy in the regions of Kazakhstan, and reasons for infant mortality.

Hans spoke about the COVID-19 impact on think tanks, and how the pandemic has influenced the research agenda of the CAREC Institute, in particular. He introduced the CAREC Think Tanks Network to the audience. Dr. Holzacker also provided a short overview of the findings of the CAREC Institute’s recent Quarterly Economic Monitor about the costs of COVID-19 for the region in terms of forgone GDP and presented some conclusions of the Institute’s report on public attitudes towards COVID-19 vaccination in seven CAREC countries.

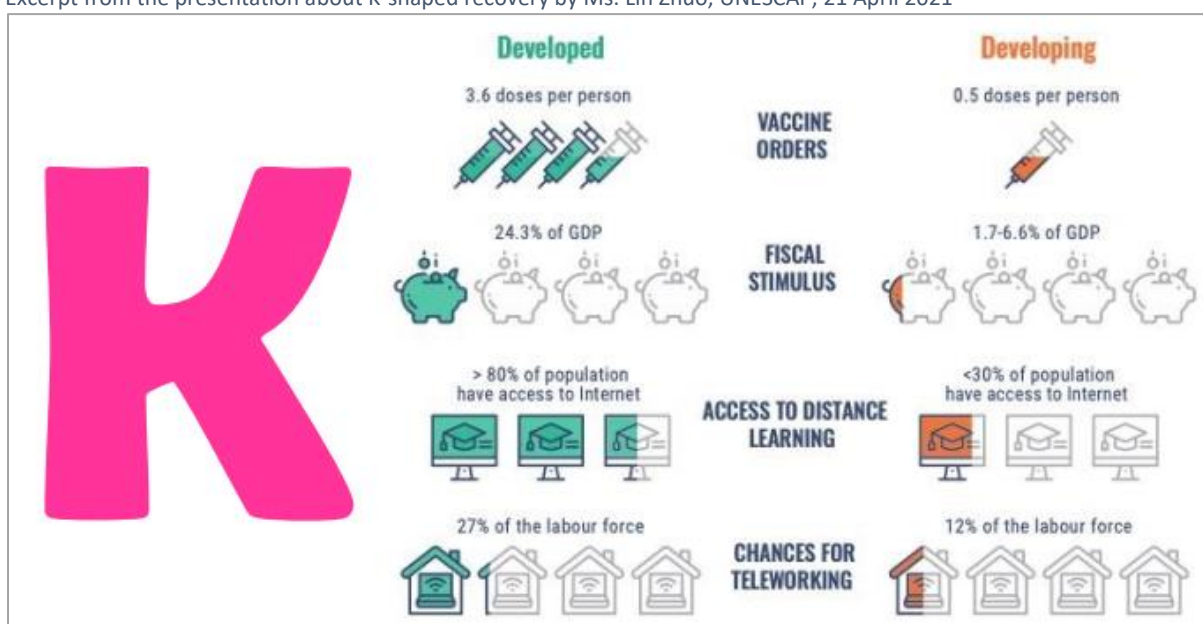
Participation in UNESCAP Event: Beyond the Pandemic

On 21 April 2021, our Chief Economist Hans Holzacker participated as a panelist in a virtual policy dialogue for North and Central Asia organized by UNESCAP. Ms. Lin Zhuo of UNESCAP presented the Economic and Social Survey of Asia and the Pacific 2021 which she co-authored. She highlighted several main messages that recovery policy packages shall focus on building resilience and the SDG 2030 agenda; planning and policymaking requires a more integrated risk management approach; and investments in social services, digital access, and green development shall be prioritized. Dr. Holzacker commented on the UNESCAP survey and its conclusions. He emphasized the need for careful phase-out of support measures to mitigate the looming K-shaped recovery in the CAREC region. He called for active policies to meet the challenges of technological change, accelerated by COVID-19, including digitalization and decarbonization. Such policies should address required re-qualification, labor market policies, infrastructure, technology transfer and foreign investment with a CAREC regional dimension, where possible.

Excerpt from the presentation of Ms. Lin Zhuo, Associate Economic Affairs Officer, UNESCAP, 21 April 2021



Excerpt from the presentation about K-shaped recovery by Ms. Lin Zhuo, UNESCAP, 21 April 2021



Blue Peace Process Webinar on Water Management in Central Asia

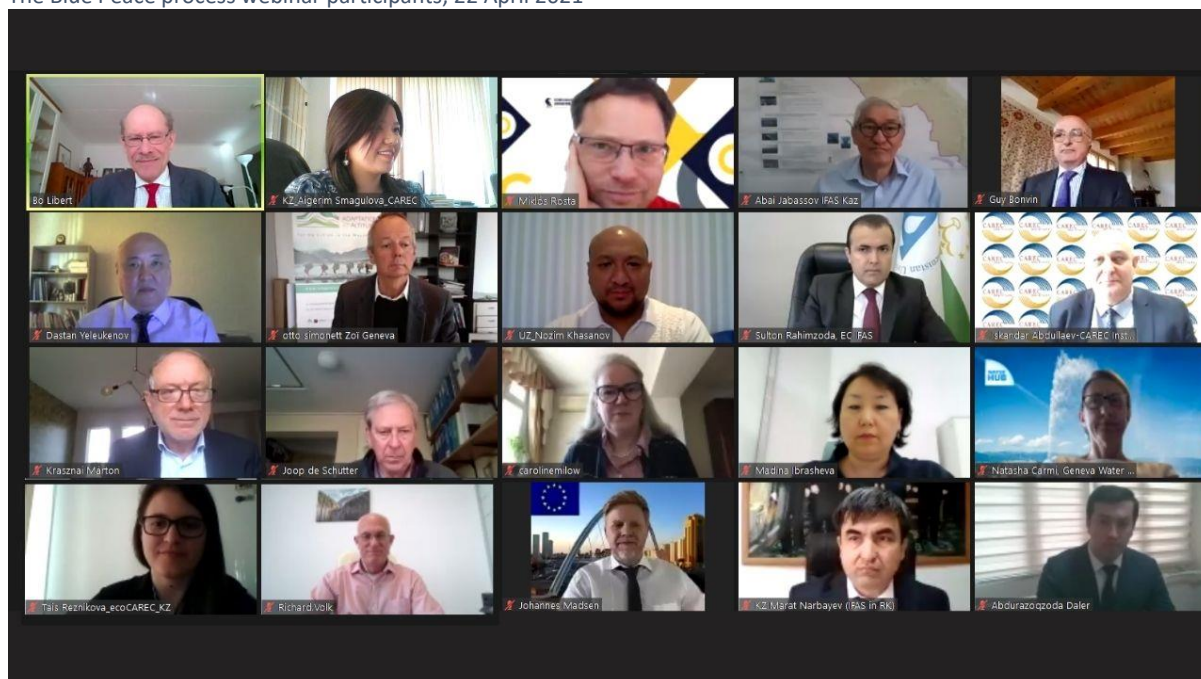
On 15 April 2021, the CAREC Institute Deputy Director Two Dr. Iskandar Abdullaev participated in a webinar organized in the framework of the program titled “Water as a driver of sustainable recovery: economic, institutional and strategic aspects of water resources management in Central Asia,” supported by the Blue Peace of Central Asia initiative of the Swiss Agency for Development and Cooperation, and the Stockholm International Water Institute, with attendance of experts from sector ministries of Afghanistan, Kazakhstan, Kyrgyzstan, Turkmenistan, Uzbekistan; EU, GIZ, and academia.

Participants discussed that national solutions alone are insufficient to cope with the long-term consequences of the climate change. They welcomed the high-level political will of recent years to strengthen regional cooperation on water. Now, the priority lies in translating this political will into concrete actions: joint strategies and bankable projects. Establishment of river basin organizations, including all riparian countries, with a broad and inclusive mandate, proper budget, and with participation of water, energy and environment sectors, economists, and financial experts in the Amudarya and Syrdarya basins was also discussed.

Discussions also focused on water as a trade connector and SDGs 5 and 6 which are essential for achievement of all SDGs. It was argued that applying the concept of Integrated Water Resources Management (IWRM) as a tool could help provide guidance on balancing the interests of various sectors dependent on water, as the economies of riparian countries are inextricably linked by the two big rivers.

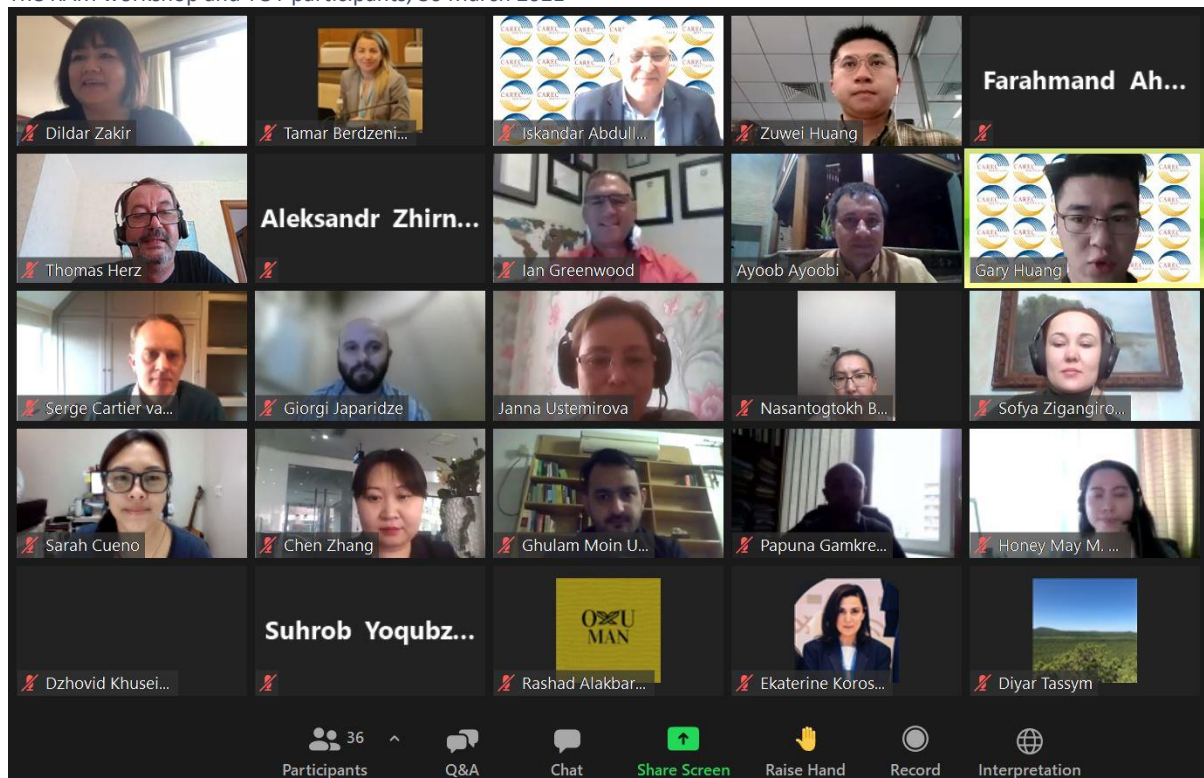
Dr. Abdullaev presented CAREC Institute’s recent research on climate change, WASH, and water infrastructure financing. He reasoned that smart climate policies and serious reforms in the water sector can help address regional water issues. He argued that analysis of investment needs of the water sector of upstream and downstream countries demonstrates not only high-level complementarity but interdependence. This way, he stressed importance of a smart regional investment concept which shall be further elaborated in a collaborative format.

The Blue Peace process webinar participants, 22 April 2021



Workshop on Road Asset Maturity Assessment

The RAM workshop and TOT participants, 30 March 2021



On 30 March and 6 April 2021, the CAREC Institute delivered a series of workshops to share preliminary findings of its CAREC road asset management (RAM) maturity assessment and discuss importance of systemic and efficient road maintenance which, in the end, contributes to connectivity, trade, economic growth, and poverty reduction. The RAM toolkit introduction was followed by a training of trainers (TOT).

The CAREC members - Afghanistan, Azerbaijan, the PRC, Georgia, Kazakhstan, Kyrgyzstan, Mongolia, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan - renewed their commitment to cross-border transport and logistics facilitation, road safety and RAM, railways, and aviation development in an updated [CAREC Transport Strategy 2030](#) adopted at the 2020 Ministerial.

There are over 800,000 km of roads in 10 CAREC members (plus an estimated 5 million km of the PRC), and an estimated 160,000 km of rail (all of CAREC), coupled with deep seaports, lake ports, and dry ports. These infrastructure requires well-maintained roads to increase speed of movement, reduce time, reduce vehicle operating cost, and achieve greater efficiency in economic relations.

The trainer of this RAM workshop, Dr. Ian Greenwood, Chartered Professional Engineer, New Zealand, pointed out: “We don’t build roads, rehabilitate roads, or maintain roads for the fun of it, we do that to deliver a service level... RAM is the process of managing the road assets – comprising of people, processes, data, and information management systems – to deliver the desired level of service at the lowest possible lifecycle cost.” This is particularly pertinent now when the world grapples with COVID-19 pandemic and its consequences, and where priority funding is directed at the health sector, small and medium enterprise survival, education, support to the vulnerable, etc.

The CAREC-specific RAM maturity assessment, discussed at this workshop, can help focus questions on matters of importance for CAREC countries. It will also help them conduct self-assessments, benchmark good practices across the region, and create more useful improvement plans going forward.

In 2020, the CAREC Institute has transformed its capacity building interventions to avoid one-off events and offer cascading training of trainers, and research-based capacity building to ensure capacity building interventions best meet the member country needs and help harmonize approaches as well as form communities of practice among CAREC leading thematic experts in priority areas of regional cooperation. In this case, in the long term, and through a collective effort, the CAREC RAM systems are expected to meet the ISO55000 standard in future.

All generated learning materials (including expert video presentations and discussions) throughout this activity are available at the CAREC Institute [e-learning platform](#).

Webinar on WASH and Financing Options in Central Asia

The WASH webinar participants, 31 March 2021



The CAREC Institute and UNICEF held a webinar on 31 March 2021 to share key takeaways from the research on development of sustainable water and sanitation systems in rural areas of the PRC, Mongolia, Tajikistan, and Uzbekistan.

The research team, representatives of multilateral development organizations, and government representatives deliberated on WASH policies, institutions and practices, financing and economic aspects, community-based water schemes, and recommendations for legal and institutional development of the WASH sector, capacity building needs, knowledge sharing, and innovative approaches to WASH management in the CAREC region.

The participants discussed how to ensure safe water and sanitation for vulnerable CAREC populations in the post-pandemic period. The COVID-19 pandemic brought the social infrastructure to the forefront and opened an opportunity for investment in CAREC region. The speakers elaborated on future cooperation needs, challenges, and priorities to support member countries in post-pandemic recovery.

An extensive coverage of the webinar and its topic was offered in Tajikistan [media](#).

CAREC Think Tanks Research Grants Program Finalists

The CAREC Institute has finalized the selection of the third pool of the research grants program finalists to support scholars from members of the CAREC Think Tanks Network (CTTN) to produce targeted knowledge products which will add to the body of knowledge on regional cooperation in CAREC. In the framework of the CTTN grants program, scholars from member think tanks are encouraged to research CAREC integration topics and undertake comparative analysis between (sub) regions to draw lessons for promoting and deepening regional cooperation.

So far, six research papers have been completed under this program since 2019. The CAREC Institute presents findings of this research to policy makers for consideration. It also offers a discussion platform through the annual think tanks forum which has been convening since 2016.

The following research has been prioritized this year:

Customizing the CAREC Corridors: Product Specificity of the Intra-Bloc and Extra-Bloc Trade

Dr. Junaid Ahmed, Pakistan Institute of Development Economics, and Dr. Amjad Masood, Bahria Business School of Islamabad, will study the product specificity of the CAREC corridors to explore the optimal level of integration in CAREC considering the heterogeneity of economic structures, labor force preparedness, population size, market size, natural resources, geography, etc.

The study will focus on trade along six CAREC corridors, within and outside CAREC. The analysis will be conducted for exports, disaggregated in terms of different sectors, as well as products, classified on the basis of value addition, i.e., export of raw materials, intermediate goods, and final goods. Furthermore, the team will analyze product specificity of trade flows along each of the corridors. The findings will offer insight in industry inter-dependence and provide information to equip the corridors with various facilities according to requirements of specific products and regions.

Trade Potential, Resistance Factors in CAREC and Policy Implications under RCEP

Dr. Wangyue of Renmin University of the PRC will look into options for coordinated development of trade interests of CAREC members. Through the analysis of trade volumes and trade structures, also by establishing a stochastic frontier analysis (SFA) model, the study will measure the trade efficiency and potential among CAREC countries and clarify the gap between actual and ideal scenarios.

The research aims to suggest ways to boost trade confidence in CAREC, measure the impact of tariffs and other factors on trade efficiency, and identify opportunities for consensus among countries in the CAREC region to remove unnecessary obstacles. Based on the analysis of the CAREC region and the experience of the Regional Comprehensive Economic Partnership (RCEP), the study will propose policy recommendations to solve practical issues for enhancement of economic ties among members.

Exploring Contingency of Productivity Spillovers of Chinese Outward FDI on Socio-Economic Characteristics of CAREC Countries

Dr. Fareeha Adil and Mr. Asif Razzaq of Sustainable Development Policy Institute of Pakistan, and Dr. An Hui of Dalian University of Technology of the PRC will estimate productivity spillovers from Chinese outward foreign direct investment (FDI) conditional on socio-economic features (human capital, institutional governance, existing infrastructure, and technical capability) of CAREC countries using annual data from 2003 to 2019. Researchers will test the convergence theory of Findlay (1978) and

Wang and Blomstrom (1992) which states that the rate of technology diffusion in a relatively under-developed country could be especially high.

To test the conditional hypothesis of FDI productivity spillovers, a dynamic panel threshold regression model will be used which yields reliable estimates in the presence of conditionality and endogeneity arising from unobserved factors. This study can demonstrate to policymakers a possible impact of Chinese foreign investment on productivity growth in CAREC countries.

Regional Integration through Community Entrepreneurship: Learning from the 'One Tambon, One Product' Program in the Greater Mekong Subregion

Dr. Linda Yin-nor Tjia from City University of Hongkong of the PRC and Dr. Guanle Lim from National Graduate Institute for Policy Studies of Japan will analyze the 'One Tambon, One Product' (OTOP) program in Thailand, a key economy of the Greater Mekong Subregion (GMS), and its policy emulation in the CAREC region.

Introduced in 2001 at the subdistrict (tambon) level in Thailand, the OTOP supports locally-made products by encouraging each tambon to identify and select one renowned product to market. In return for their efforts, the communities receive official support, ranging from soft loans to subsidized training.

Mirroring the OTOP, the research will attempt to identify relatively simple (but unique) indigenous products that produce high commercial and economic returns, while decentralizing economic decision-making to the grassroots. Preliminary suggestions include two potential products to be promoted: halal-certified lamb from Kazakhstan and camel wool from Mongolia. Researchers will examine both products in detail and present the analysis as case studies to demonstrate their linkages with the wider socioeconomic system.

This research will adopt process tracing to identify events and processes, especially to document best practices. Primary data collection will include online interviews with key management figures of CAREC and GMS as well as national government officials involved in regional cooperation. Secondary data collection will involve desk research of reports published by international organizations as well as national governments, and technical periodicals.

Multi-Vector Ocean Corridor Policy Proposals for Development of the Northern Corridor

Dr. Albina Muratbekova of Eurasian Research Institute of Kazakhstan, Mr. Tristan Kenderdine from Future Risk Australia Pty Ltd, and Ms. Niva Yau from the OSCE Academy Bishkek will look into policy options for multi-vector ocean corridor development.

The team of researchers argues that Central Asia is traditionally analyzed as landlocked, however, the combination of inland water transport on the Ob'-Irtys' river system and a thawing Arctic Ocean, making the northern sea route viable, opens the possibility for increased maritime transport directly from Kazakhstan to both Europe and East Asia. The team will apply a constructivist international relations approach to opening transport, trade, and economic corridors in the north-facing Central Asian axis. The study will propose policies to develop an Ob' Economic Corridor connecting western China, Kazakhstan, segueing with the Tashkent-Shymkent corridor and incorporating Bishkek-Almaty corridor into an Arctic Ocean maritime transport vector to Sabetta containerized port in Russia. The study will consider existing legal framework and multilateral systems integration, existing and proposed industrial and transport infrastructure, and consider the trade potential for opening Central Asia to Europe and East Asia via Arctic Ocean shipping vector.

New Publications on CAREC

[Analysis of Public Attitudes towards COVID-19 Vaccination in Selected CAREC Countries](#)

In Q1 2021, the CAREC Institute jointly with the Public Opinion Research Institute (Kazakhstan) conducted population polls about public attitudes towards vaccines in seven CAREC countries: Georgia, Kazakhstan, Kyrgyzstan, Mongolia, Pakistan, Tajikistan, and Uzbekistan. Results suggest that, on average 65% of the surveyed population would get vaccinated, the most popular argument being “I want to protect my family.” Some 35% are skeptical about vaccines, with large differences among countries. The polls show that if people do not trust COVID-19 vaccines, this is out of safety concerns, disregard of danger, or disbelieve in vaccines. Read more [here](#).

[Harnessing the Role of Technology in Promoting Safe Tourism Destinations](#)

The CAREC Institute’s extensive research on harnessing the role of technology in promoting safe tourism destinations in CAREC overviews losses incurred in the industry owing to the COVID-19 pandemic, discusses some deep-rooted challenges, lists benefits of technology application, and provides recommendations for CAREC members, also for multilateral development partners to revive the tourism industry and enhance its experience. Read more [here](#).

[Workshop Report: Regional Improvement of Border Services](#)

This workshop report summarizes the virtual workshop conducted during 14-22 January 2021 by the CAREC Institute and the Asian Development Bank (ADB) on the topic of border crossing improvement with the participation of project managers of ADB-funded projects and international development partners who shared lessons with other CAREC representatives. Read more [here](#).

[Determinants of the Export Performance of SMEs in Kyrgyzstan](#)

The CAREC Institute Economist Kamalbek Karymshakov contributed to the Asian Development Bank Institute’s (ADBI) working paper series on SME participation in global value chains. His findings for Kyrgyz SMEs indicate that important determinants of the export performance of SMEs are quality standards, participation of foreign capital in the ownership of firms, and availability of financial resources. He argues that the provision of information about quality requirements, provision of infrastructure to cope with quality requirements, and support for the transfer of new technology are necessary measures to facilitate exports. Attracting foreign investment and improving the general investment climate should go along with the transfer of knowledge and skills to local producers in partnerships with foreign firms. Here is the link to the [book](#) and to the [chapter](#).

[Why is Energy Access not Enough for Choosing Clean Cooking fuels? SDGs and Beyond](#)

The CAREC Institute Economist Kamalbek Karymshakov contributed to the ADBI’s working paper series on the topic of energy access and cooking fuel choice.

The paper argues that access to cleaner fuels promotes cleaner fuel use but does not necessarily lead to a complete transition to the use of modern fuels. The study uses representative household survey data to study household energy use decisions in three middle-income countries: India, Kazakhstan, and Kyrgyzstan. The paper discusses the role of access to natural gas, free fuel, convenience, multi-use of fuels determined by the installed heating systems, built-in environment, and other socioeconomic factors for households’ fuel choice for cooking. The results show that access to natural

gas increases the likelihood of opting for natural gas, while the availability of free fuel in rural areas and the coal-based heating system promotes the use of solid fuels. Read more [here](#).

Easing Pakistan's Chronic Energy Crisis through Improved Tariff Subsidy

The CAREC Institute Senior Research Specialist Ghulam Samad contributed to Development Asia's policy brief series on the topic of energy in Pakistan.

He states that Pakistan is facing a chronic energy crisis. A fragile distribution system, electricity demand–supply mismatch, and reliance on fuel oil, coupled with a shortage of inexpensive domestic gas supplies have led to massive power outages or long hours of load shedding. The Government of Pakistan has initiated a tariff differential subsidy, however, the lack of sufficient financial resources in the sector and the government's delayed or incomplete payment of this subsidy have led to welfare losses and the accumulation of circular debt. The author argues that the tariff differential subsidy in Pakistan must be more targeted and reduced. Read more [here](#).

CAREC Railway Sector Assessments

The ADB's CAREC Program has produced 10 country specific CAREC railway sector assessments which summarize the findings of the railway sector assessment for each of the countries. The country-specific papers examine the context, characteristics, performance, and potential of railways, and identify opportunities for future investment, commercialization, and reform. Read more [here](#).

CAREC Road Safety Engineering Manual 4: Pedestrian Safety

The ADB's CAREC Program has produced a fourth manual in the road safety series which focuses on the provision of safer pedestrian facilities in the CAREC countries, particularly on physical road infrastructure. It also gives an overview of facilities that have proven to assist pedestrians including those in high-risk groups. Aimed at engineers, project managers, planners, traffic police, and other decision-makers, the manual shows how wise investment in pedestrian facilities can save lives, prevent injuries, and return major economic benefits to the CAREC countries. Read more [here](#).

Call for Proposals: Visiting Fellow Program

The CAREC Institute and ADB have started receiving applications for the third round of the Visiting Fellow Program from researchers who are citizens of ADB member countries. The call is open till **20 May 2021**.

The fellowship is intended for scholars to pursue research on topics which are relevant to the [CAREC 2030](#) priorities. Research proposals are invited for the following thematic areas:

- 1) promoting trade, FDI, and regional and global value chain participation
- 2) achieving better recovery through resilient policies (focus on tourism and climate change)
- 3) facilitating cross-border infrastructure and connectivity among CAREC members
- 4) promoting the regulatory environment for regional public goods (e.g., vaccinations)
- 5) leveraging digital technologies for sustainable economic development

A strong preference will be given to proposals that address cross-border issues in the CAREC region (where at least two, preferably three or more, countries are taken as a unit of analysis) that are considered to be of strategic importance and propose options for policy solutions for important challenges for the region. Apply [here](#).