



# CAREC Institute Newsletter

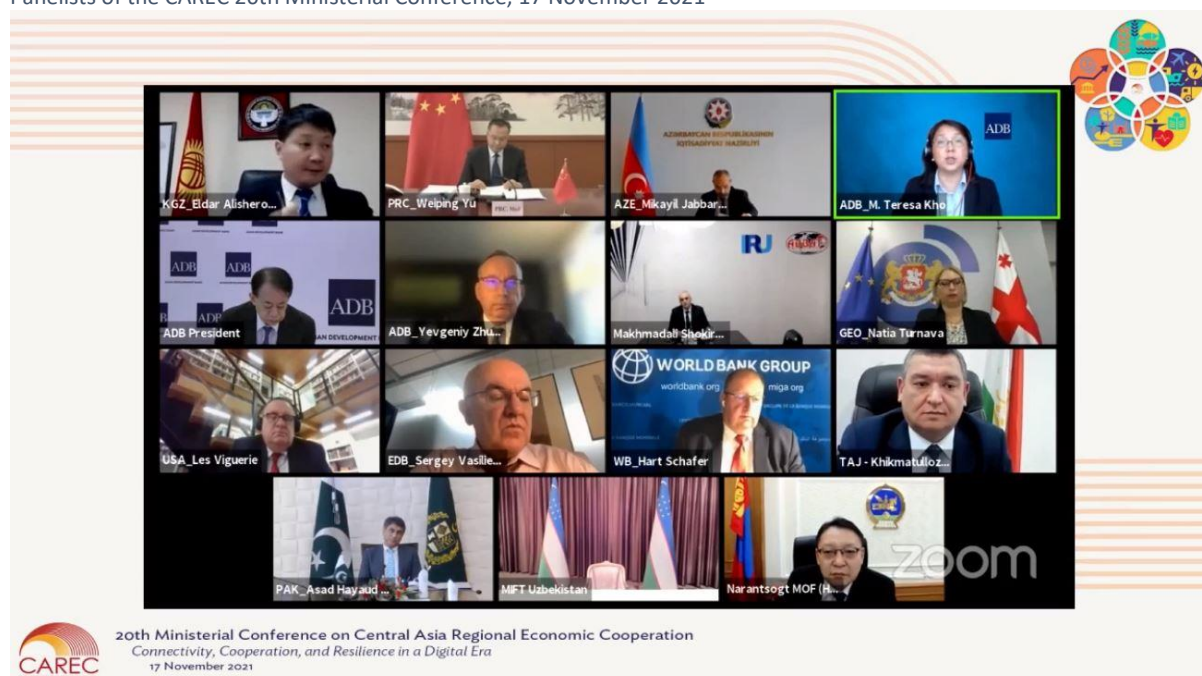
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In this issue:

CAREC 20th Ministerial Conference.....	1
The 5th CAREC Think Tanks Development Forum .....	2
CAREC Think Tanks Network Research Grants Program Results .....	3
Trade Efficiency and Influencing Factors in the CAREC Region .....	3
A Diagnostic of the CAREC Intra-Bloc and Extra-Bloc Trade .....	3
Learning from the GMS “One Tambon One Product” Program .....	4
Productivity Spillovers of the Chinese Outward FDI.....	5
Public Service Delivery and E-Governance: The Case of Azerbaijan.....	5
Policy Brief: Leveraging Fintech for CA’s Trade Financing Needs.....	6

## CAREC 20th Ministerial Conference

Panelists of the CAREC 20th Ministerial Conference, 17 November 2021



The CAREC Ministers and development partners convened on 17 November 2021 in a virtual mode to discuss the cooperation aspects, review progress, adopt CAREC Digital and Health Strategies 2030, and issue a joint ministerial statement. Mikayil Jabbarov, Minister of Economy of Azerbaijan, chaired the conference, who also delivered a special address of H.E. President Ilham Aliyev.

Masatsugu Asakawa, President of the Asian Development Bank (ADB), summarized the Bank’s support to CAREC members and stressed the importance of regional cooperation in these testing times. Subir

Lall, Deputy Director at the International Monetary Fund (IMF), delivered a recorded statement sharing insights about macroeconomic stability in CAREC. He pointed out uneven and fragile recovery, headline and food inflation, high oil prices exerting pressure on inflation, also noted that oil importers are expected to grow stronger than oil exporters in 2022. He alerted the audience that employment may not recover easily in CAREC as the erosion of skills takes place and some jobs may not be recouped after the pandemic, pointing out that the pandemic exposed all the structural weaknesses of labor markets and economies in the CAREC region, e.g., big share of informality, large public sector employment. He further emphasized that the low pace of vaccination continues affecting the recovery negatively. Given protracted recovery and limited fiscal space, he stressed that CAREC governments need to accelerate structural reforms to incorporate inclusiveness and resilience. He recommended investing in health and education, supporting youth and women, and reducing informality.

The Vice President of the Asian Infrastructure Investment Bank (AIIB) Ludger Schuknecht shared AIIB's investment priorities until 2030, and Hartwig Schafer, Vice President at the World Bank, highlighted areas where the Bank is fully aligned with the ADB, namely: boosting economic connectivity, reducing climate change effects, building resilience, and developing human capital.

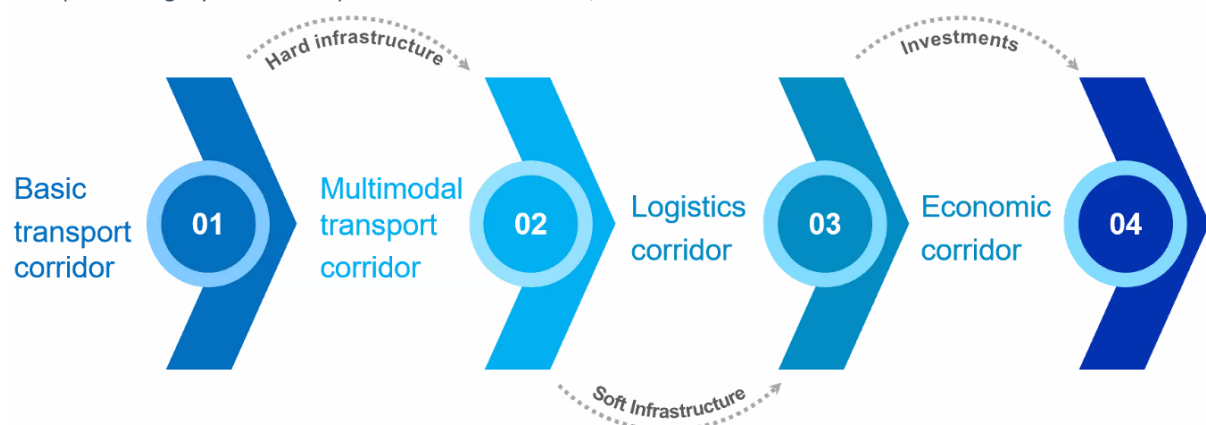
The CAREC Institute Director Syed Shakeel Shah expressed further commitment of the Institute to provide demand-driven knowledge solutions to CAREC members, and thanked the People's Republic of China (PRC) and ADB for support, also all CAREC members for continued cooperation. His comments were further complemented by the Tajikistan representative Nematullo Hikmatullozoda who thanked the Institute for timely topical analysis, and executive memos regarding transport and connectivity.

The Vice Minister of the PRC Ministry of Finance Yu Weiping delivered his remarks along with Minister Turnava of Georgia and Mian Asad Hayaud Din from the Ministry of Economic Affairs of Pakistan who briefed the audience about a recent transit trade agreement signed with Uzbekistan.

Representatives of the Islamic Development Bank (IsDB), Eurasian Development Bank (EDB), UNESCO, governments of USA and Japan briefed the audience about their work progress and future plans in the region and supported the spirit of cooperation. The conference materials are available [here](#).

## The 5th CAREC Think Tanks Development Forum

Excerpt from Evgeny Vinokurov's presentation at the forum, 23 November 2021



The 5th CAREC Think Tanks Development Forum organized by the CAREC Institute in partnership with the ADB-Regional Knowledge Sharing Initiative (ADB-RKSI), and the Tashkent Institute of Irrigation and Agricultural Mechanization Engineers (TIAME) took place on 23-24 November 2021 in a virtual mode.

Over 150 representatives of think tanks, governments, and development institutions attended this event themed “Economic Corridors: Pathways to Regional Growth.”

Panelists presented the analysis of the development context and trends. Numbers of transit traffic and share of cargo flows, also forecasts, were offered for different economic corridors in CAREC. It was argued that economic corridors help achieve economies of scale, form economic clusters and develop regional value chains. They become successful when corridors connecting gateways (cities) coupled with supporting institutions (logistics) improve the competitiveness of a geographic space (country).

The best practices were shared from the Greater Mekong Subregion (GMS), South Asia Subregional Economic Cooperation (SASEC), and Malaysia. The forum fully conformed with the spirit of the new Olympic motto "Faster, Higher, Stronger.... Together," and the participants explored pragmatic ways of achieving these results. The forum materials are available [here](#).

## CAREC Think Tanks Network Research Grants Program Results

Under the [CAREC Think Tanks Network](#) (CTTN), the CAREC Institute has launched the Research Grants Program in May 2019 and has finalized three phases of selection since then to support scholars and researchers from members of the CTTN to produce targeted knowledge products which would add to the body of knowledge on regional cooperation in CAREC. So far, six research papers have been published 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 finalized in 2021:

### Trade Efficiency and Influencing Factors in the CAREC Region

Wang Yue and Yan Binyang from Renmin University analyzed trade efficiency and influencing factors in CAREC (using the stochastic frontier gravity model) and found that Central Asian countries have insufficient regional cooperation in trade. Their model yielded 56% of countries with a trade efficiency score lower than 0.2. Further, they reported an actual decline in trade efficiency from 2001 to 2020. According to their findings, the transportation cost represented by geographic distance is a major constraining factor in the CAREC region while interconnectivity serves as an important aspect to drive the development of trade. “The trade barrier of export countries is an important factor hindering trade efficiency,” they write. To expand exports, government regulations should be reduced and market forces should be used to realize the effective allocation of resources. “The informatization difference among CAREC countries has a significant negative impact on trade efficiency. Further expansion of informatization gap caused by COVID-19 may become a new hindering factor in the development of trade, which deserves policy attention,” researchers conclude. Read more [here](#).

### A Diagnostic of the CAREC Intra-Bloc and Extra-Bloc Trade

Amjad Masood and Junaid Ahmed from Pakistan Institute of Development Economics (PIDE) examined the dynamics of intra-CAREC trade flows and trade potential with the neighboring regions, namely, Russia, Europe, the Mediterranean, the Middle East, and South Asia. The findings show that CAREC-WC (CAREC without the PRC) has a higher comparative advantage in labor- and resource-intensive manufacturing sectors, which explains the overdependence of these countries on few export industries. Similarly, trade complementarity is analyzed among CAREC members, CAREC exporters,

and the neighboring regions. Furthermore, the researchers examine the logistic performance and cost of exporting. They conclude that there is an opportunity for trade expansion indicated by the Trade Complementarity Index, however, the dismal logistic conditions dampen this opportunity.

For empirical analysis, they estimated a structural gravity model to examine the trade effect of regional trade agreements (RTAs) on bilateral exports of eight CAREC members, namely, Afghanistan, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Mongolia, Pakistan, and Uzbekistan between 2000 and 2019 years. The estimates show a positive and statistically significant trade effect of the RTAs on intra-bloc trade. However, the effect of RTAs is trivial for exports outside the CAREC region. The underlying reason is that there are only few trade agreements involving non-CAREC countries.

Regarding individual exporting countries of the CAREC region, the trade-facilitating role of RTAs is evident for Kazakhstan, Pakistan, and Uzbekistan. On the other hand, exports of Mongolia seem to divert more towards non-RTA member countries. The findings of this report have implications for several policy dimensions with respect to the export potential of the region. Read more [here](#).

## Learning from the GMS “One Tambon One Product” Program



Linda Tjia Yin-nor from City University of Hong Kong and Guanle Lim from National Graduate Institute for Policy Studies made a comparative SWOT analysis of Mongolia’s and Kazakhstan’s respective agricultural products — camel wool and halal-certified lamb meat — against the famed “One Tambon One Product” (OTOP) program implemented in the Greater Mekong Subregion (GMS). In the paper, the GMS and CAREC economies are juxtaposed not only for having comparable states of development but also for their past socialist influence, reliance on state-owned enterprises (SOEs), and generally underdeveloped entrepreneurship. The researchers argue that Mongolia and Kazakhstan may draw lessons from the GMS growth trajectories and challenges, for example, emulating its growing integration with wealthier more advanced East Asian economies to attract additional investment, technology, as well as stronger commercial and socioeconomic exchanges.

The study therefore analyzes not only factors that underlie the OTOP’s critical success but also developmental issues (e.g., rural self-sufficiency, product differentiation, sociocultural preservation, infrastructural deficits, and lack of public-private cooperation). It also examines OTOP’s adaptability/replicability in Mongolia and Kazakhstan, thereby illustrating how OTOP may be relevant and impactful to the CAREC 2030 vision. As the analysis shows, it depends a lot on place-specific

factors, therefore policies that may best facilitate industrial and economic growth, suggested in the paper, include consistent, steadfast leadership at both national and local levels; properly planned and executed incentivization (e.g., star-rating and product certification); and increased private-sector participation to encourage sustainable, bottom-up entrepreneurship. Read more [here](#).

## Productivity Spillovers of the Chinese Outward FDI

A team of CTTN grantees - Asif Razzaq, Fareeha Adil, Hui An – analyzed if the increased international trade and investment produce technology spillovers for host economies, and whether the PRC, as an emerging economy, has enough technical capabilities to produce technology spillovers for developing or underdeveloped host countries, and what is the role of technology gap to realize these spillovers.

They find that foreign direct investment (FDI)-induced technology spillovers are not direct or linear but rather conditional on the prevailing technology gap between the PRC and FDI recipient countries. They describe different attributes of a technology gap that may exert different impacts, e.g., Observed Technology Gap (OTG) perceived as differences in learning abilities, Expected Technology Gap (ETG) understood as firm's capability to learn from leading-edge technologies.

The team employed dynamic panel threshold regression for empirical analysis using the annual data of 46 developing Belt and Road Initiative (BRI) countries (including CAREC economies) from 2004 to 2019. The main findings include that FDI-induced technology/productivity spillovers are mainly positive when OTG (ETG) is higher (lower) than a certain threshold. These findings imply that countries/enterprises with a lower ETG are better at absorbing advanced technology from foreign firms when facing a higher OTG. Thus, a lower ETG channel optimal benefits from prevailing OTG. They conclude that most CAREC countries fall within the optimal threshold levels, endorsing positive spillovers from FDI inflows. These results are consistent across different model specifications and suggest pertinent policy recommendations. Read more [here](#).

## Public Service Delivery and E-Governance: The Case of Azerbaijan

The CAREC Institute, jointly with IsDB and ADB, delivered a webinar on best practices of e-governance on 10 November 2021. This webinar featured the case of Azerbaijan and its public-private partnership called Azerbaijan Service and Assessment Network (ASAN) which provides 140 services by 11 public organizations, 180 services by 30 private organizations, and which was modeled after Estonia's e-government platform.

It was shared at the webinar that ASAN serves the citizens through eight characteristic of good governance, namely: rule of law, equitability and inclusiveness, participation, consumer orientation, accountability, responsiveness, transparency, effectiveness, and efficiency. In nearly three years of operation, ASAN has handled 47 million applications establishing standards and work principles, eliminating conflict of interest and duplications. It employs 2,000 youth and processes 31,000 daily applications through a single window approach.

ASAN has been recognized at the United Nations Public Service Forum and Awards Ceremony in 2019. Today, work is ongoing on the ASAN association to champion the south-south cooperation which includes so far Azerbaijan, Turkey, Indonesia, Morocco, Montenegro, Uganda, Afghanistan, and United Arab Emirates.

Further, ADB's Seok-Yong Yoon spoke about ADB's digitalization projects, and the importance of both physical and institutional aspects. He highlighted that a digital ID is a foundation for any e-service, and stressed the importance of contextual and localized approaches.



Qaisar Abbas and Ghulam Samad from the CAREC Institute research division shared findings of the Institute’s recent research on [e-commerce](#) and [COVID-19 impact on MSME](#) in selected CAREC countries. After which Azerbaijan’s State Agency for Public Service and Social Innovations shared best practices of their ABAD program which started in 2016 to support family businesses. The webinar series of e-governance are set to continue.

Excerpt from Qaisar Abbas’ presentation, UNCTAD B2C e-commerce index 2020, 10 November 2021

2020 Rank*	Economy	Share of individuals using the Internet (2019 or latest)	Share of individuals with an account (15+, 2017)	Secure Internet servers (normalized, 2019)	UPU postal reliability score (2019 or latest)	2020 Index value	Index value change (2019-2020)
47	Georgia	71	61	64	98	73.6	0.5
55	The PRC	61	80	54	85	70.1	1.3
60	Kazakhstan	87	59	63	64	68.2	-0.4
61	Mongolia	76	93	60	31	65.0	7.6
65	Azerbaijan	81	29	49	82	60.0	-1.8
97	Kyrgyzstan	80	40	47	11	44.3	8.0
107	Uzbekistan	30	37	50	30	37.0	-8.4
116	Pakistan	24	21	35	50	32.5	-1.2
121	Tajikistan	36	47	36	1	30.0	4.3
143	Afghanistan	18	15	29	7	17.1	-1.1
	<b>Median</b>	<b>66</b>	<b>43</b>	<b>49</b>	<b>40</b>	<b>52</b>	<b>0.1</b>
	<b>Average</b>	<b>56</b>	<b>48</b>	<b>49</b>	<b>46</b>	<b>50</b>	<b>0.9</b>

\*Data unavailable for Turkmenistan

Source: [UNCTAD](#), 2021

## Policy Brief: Leveraging Fintech for CA’s Trade Financing Needs

The CAREC Institute and ADB have completed work on a joint policy brief which explores the wider adoption of financial technology (fintech) to narrow the trade finance gap for MSME in CAREC member countries.

The policy brief narrates that shortage of trade finance constrains MSMEs from carrying out viable international trade transactions and their integration into global value chains. An average of 57% of the total value of trade finance applications by MSMEs in the CAREC region were rejected in 2018, more than the 33% experienced by MSMEs in other Asian economies. The region’s MSMEs experience difficulties getting trade credit due to their poor financial standing along with the lack of formal documentation. The region can tap fintech to cater underserved trade finance needs of smaller businesses.

The policy brief recommends that CAREC countries, in collaboration with private partners, update their financial, regulatory, and technology infrastructures toward fintech development. Efforts shall include digitizing and automating business processes toward improved management and efficient operations of traditional financial services. There is also a need for harmonized and improved information and communications technology (ICT) and digital infrastructure among CAREC countries. Read more [here](#).