



CAREC Institute Newsletter

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CAREC Institute Governing Council Held Its 12th Meeting

Participants of the 12th CAREC Institute Governing Council meeting, 8 December 2021.



The CAREC Institute Governing Council held its 12th meeting on 8 December 2021 to approve the Institute's operational plan and budget for 2022, provide direction and guidance, and endorse various governing documents. At this council meeting, the national focal point (NFP) of the People's Republic of China (PRC) took over the chairmanship from Azerbaijan.

The CAREC Institute Director Syed Shakeel Shah briefed the council on the Institute's work results. The Asian Development Bank (ADB) Director General for Central and West Asia Eugene Zhukov congratulated the Institute on increased recognition and called for more targeted and relevant research for member countries. The ADB's Principal Regional Economist Lyaziza Sabyrova highlighted the importance of enhancing work on the decarbonization cooperation platform.

Tajikistan NFP Nematullo Hikmatullozoda noted the increased relevance and utility of the Institute's work in the last two years, and requested more focus on people-to-people relations and consideration of the national context in the Institute's work, establishment of closer operational ties with sectoral branches and technical coordination committees.

The PRC NFP Lu Jing recommended strengthening convergence with other regional initiatives, and enabling provision of regional public goods. He advised the Institute to focus on public health, climate change, green development, and digital economy; promote trade; facilitate investment; consider member country development needs and trajectories; employ the demand-driven approach; strengthen dialogue; expand and enhance the research network and its impact; provide higher quality policy advice to achieve more resilient post-COVID recovery; host more flagship forums to increase visibility; strengthen institutional capacity and financial sustainability; and optimize resources.

Economic Brief: Analysis of Inflationary Pressures in CAREC

Our Senior Economist Chen Lihong analyzed inflationary pressures in the CAREC region to find that an average annual inflation in CAREC accelerated from 5.9% in December 2020 to 9.2% in September 2021 with some countries sustaining inflation rates above double digits, such as the Kyrgyz Republic where the consumer price index (CPI) rose 13.5% year-on-year in September 2021. There is sizable uncertainty about the inflation outlook due to factors such as supply chain disruptions, high commodity prices, increased food prices, soaring housing prices and inflation expectations. She concludes that global inflationary pressures could eventually ease because long-term inflation expectations are well anchored, but the outlook varies markedly and in some developing economies high inflation is likely to last longer mainly affected by factors such as rising food prices and currency depreciation. Read more [here](#).

Launch of CAREC Chai Webinar Series

On 17 December 2021, the CAREC Institute in collaboration with the ADB launched the CAREC Chai webinar series. This initiative aims at bringing together prominent speakers, on a regular basis, to discuss the trajectory of economic recovery from the COVID-19 pandemic in the CAREC region, the progress achieved, obstacles, and the outlook. The inaugural event was titled "CAREC Chai: Keeping a Hand on the Economic Pulse of the CAREC Region (and beyond)."

"The pandemic taught everyone to embrace, diversify and come together on a new journey to overcome new challenges. When countries align around a common objective through a regional cooperation mechanism, they can achieve more, even more than the period before the pandemic. Hence, the pandemic has shown how regional cooperation can be a desirable goal," said the CAREC Institute Director Syed Shakeel Shah in his opening statement. He also noted that demand shocks have been replaced with supply shocks as inflationary pressures are building around the economies, and

the global logistics crisis is adding another dimension to it as shipping costs are reaching unprecedented levels. Some economies, notably the PRC, were able to carry out modernization of logistics chains with enhanced use of artificial intelligence (AI) and digital technologies leading to quicker turnaround times. For others, the process was slow leading to significant delays.

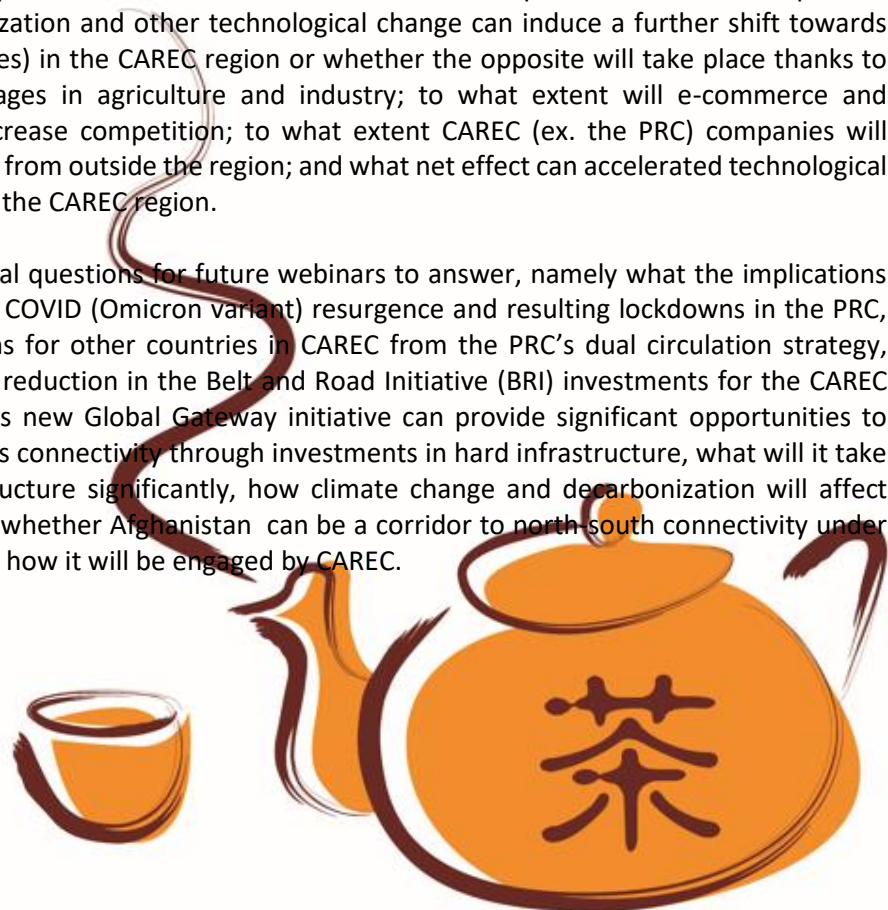
Selim Çakir of the International Monetary Fund noted, *inter alia*, that overcoming vaccine hesitancy remains crucial, and sudden tightening of financial conditions in the US and other major economies could lead to capital outflows. In order to bolster growth, he recommended investing in youth and women, digitalization, adaptation to climate change, and transition to lower carbon dependence, also reducing informality in CAREC.

Dominik Peschel from the ADB PRC mission discussed economic developments in the PRC, including the recent slowdown in growth and investment and the dichotomy of moderate consumer price inflation and much higher producer price inflation.

Richard Pomfret of Adelaide University noted that recent price hikes and disruptions in ocean transport is a major competitive boon for the land transport across Euro-Asia, and that multiple corridors enhance competition, lower prices, and reduce scope for political interference. He also reasoned that the recent opening up of Uzbekistan and the improvement in diplomatic relations among Central Asian countries at the presidential level may result in improved conditions for cross-border trade and transit facilitation.

The CAREC Institute Chief Economist Hans Holzacker discussed if CAREC's post-COVID development returns to normal or enters a "new normal." He noted that CAREC economic recovery is underway against the backdrop of an apparent overall slowdown in economic growth in the 2010s. Value added in services has been rising faster than GDP in most CAREC economies; that CAREC countries are vulnerable to commodity price fluctuations and decarbonization. His presentation raised important questions whether digitalization and other technological change can induce a further shift towards services (and which services) in the CAREC region or whether the opposite will take place thanks to new comparative advantages in agriculture and industry; to what extent will e-commerce and enhanced connectivity increase competition; to what extent CAREC (ex. the PRC) companies will cooperate with companies from outside the region; and what net effect can accelerated technological change bring on growth in the CAREC region.

This webinar invited several questions for future webinars to answer, namely what the implications might be from a potential COVID (Omicron variant) resurgence and resulting lockdowns in the PRC, what could be implications for other countries in CAREC from the PRC's dual circulation strategy, implications of the recent reduction in the Belt and Road Initiative (BRI) investments for the CAREC region, if BRI and the EU's new Global Gateway initiative can provide significant opportunities to further strengthen CAREC's connectivity through investments in hard infrastructure, what will it take to improve "soft" infrastructure significantly, how climate change and decarbonization will affect regional connectivity, and whether Afghanistan can be a corridor to north-south connectivity under current circumstances and how it will be engaged by CAREC.



Knowledge Sharing: Impact of COVID-19 on Tourism and MSME

On 30 November 2021, the CAREC Institute held a virtual webinar titled “Impact of COVID-19 on Tourism and Micro, Small, and Medium-sized Enterprises (MSME) in the CAREC region.” This webinar shared findings of the Institute’s [research](#) on how smaller firms coped with the pandemic in selected CAREC countries and elaborated on lessons for policymakers in the region. It also helped policymakers from CAREC and interested audiences exchange views about challenges in their respective economies and options to tackle the negative consequences of the current situation. The participants were able to share their thoughts and ask questions about strengths and opportunities of the [tourism sector](#), MSMEs, and [e-commerce](#) in the region.

The webinar recording and materials are available [here](#).

Research Roundtable on Corridors and Connectivity

Participants of Cambridge University Central Asia Forum conference, 6 December 2021.



From 6 to 9 December 2021, Cambridge University Global Challenges Research Fund (GCRF) COMPASS Central Asia Forum held a conference on connectivity in the Eurasian region in partnership with the CAREC Institute.

The event brought together a number of researchers from different regions to discuss a wide range of connectivity issues. The conference focused, among others, on resilience and fragility, science and diplomacy, post-1991 economic landscape, environment and climate change, economic corridors and connectivity in the Eurasian region.

The speakers included Prof. Elena Korosteleva, University of Kent, Principal Investigator, GCRF COMPASS project, Prof. Magnus Marsden, University of Sussex & Advisory Board Member, GCRF COMPASS project, Prof. Shailaja Fennell, University of Cambridge, Director, Centre of South Asian Studies, Syed Shakeel Shah, Director, CAREC Institute, Nick Ray, Convenor Central Asia Forum & Fellow, Jesus College, Cambridge University.

The CAREC Institute Director Syed Shakeel Shah noted in his opening statement that future developments will depend to a larger extent on the ability of economic powers to forge a consensus on the Eurasian connectivity in terms of multi-modal transport corridors connecting economic agents in the countries morphing into economic corridors forging new regional value chains. He also underlined the importance of a continental vision of connectivity. The PRC, India, Southeast Asia and Europe account for half of the global GDP and they are geographically connected through the Eurasian land mass. The gravitational force of these economies can sustain long term growth in trade if infrastructure is improved and standardized and enabling trade policies coupled with trade regulatory reforms lead to efficient border controls requiring less time and cost for crossing. This transcontinental trade can have positive spillovers in the region in the form of new regional value chains and investment.

On the last day of the conference, the CAREC Institute hosted a research roundtable on corridors and connectivity. It was moderated by the CAREC Institute Deputy Director Two Dr. Iskandar Abdullaev and Peter Nolan of the University of Cambridge. Discussions centered on potential new corridors across Central Asia, the PRC's role in increasing connectivity and its Belt and Road Initiative (BRI), the trans-Caspian corridor, and South and Central Asian relations.

The CAREC Institute's Chief Economist Hans Holzhaecker focused on BRI's activities in the region, and Senior Research Specialist Ghulam Samad presented Pakistan's trade relations with Central Asian countries. The first presenter highlighted the economic East-West bipolarity on the Eurasian continent brought about by the rise of the PRC and its implications for trade and transportation across the CAREC region. Similarly, the second presenter pointed out that a regional free trade agreement with Central Asian economies may not bring perceived benefits (building a competitive environment, developing regional integration, increasing trade volume) to Pakistan's economy, yet connecting with Central Asia provides an opportunity to get access to Eurasian Economic Union countries.

The CAREC Institute Research and Partnerships Fellow Shakhboz Akhmedov presented the potential of economic corridors in Central Asia. He stressed the economic prospects of the potential Kyzylorda-Uchkuduk economic corridor that may improve transport connection between Kazakhstan and Uzbekistan and their trade relations while increasing the trans-Caspian corridor utilization. The Uchkuduk-Kyzylorda corridor, located at the midpoint of roads, can foster the agglomeration of economic and trade activities in proximity to the Caspian Sea, helping Central Asia link with Turkey, the Middle East, and Africa, additionally reduce the road traffic in the Tashkent region.

At the follow-up session, Dr. Dina Azhgaliyeva of the Asian Development Bank Institute (ADBI) presented the recent book – [Unlocking Transport Connectivity in the Trans-Caspian Corridor](#). The book examines physical infrastructure development in the region, particularly transport and energy infrastructure, and its implications for trade and economic opportunities.

The roundtable benefitted from active participation of various researchers from the University of Cambridge and other research institutions. In the end, the organizing parties agreed to continue collaboration and hold cooperative events in future.

Seminar on Overcoming Difficulties to Pursue Common Development

At the invitation of China Public Diplomacy Association and Chinese People's Political Consultative Shanghai Committee, Deputy Director One of the CAREC Institute Dr. Liang Ziqian attended a seminar titled "Overcoming Difficulties to Pursue Common Development and Working Together to Create a Shared Future — Chinese Enterprise Participation in the Belt and Road Initiative (BRI)" on 15 December 2021 in Shanghai.

Dr. Liang Ziqian attending the seminar in Shanghai, 15 December 2021.



Participants shared views on development opportunities, and discussed Chinese enterprise performance in BRI projects. They noted that BRI shall accelerate opening up, and enhance participation in global cooperation and development.

Several roundtables were held on grasping the changes in the world context and the impact of these changes on BRI, opportunities and challenges faced by Chinese enterprises participating in BRI in the context of COVID-19, and the role of public diplomacy.

Dr. Liang Ziqian noted that BRI has become a popular international cooperation platform and has contributed significantly to promotion of trade growth, economic development, and improvement of people's livelihoods in countries along the route.

Participation in Ecology Session of Euro-Asia Economic Forum

On 14 December 2021, the CAREC Institute Deputy Director Two Dr. Iskandar Abdullaev delivered a thematic speech at the ecology session of the 9th Euro-Asia Economic Forum organized by China Center for Shanghai Cooperation Organization (SCO) Environmental Cooperation under the guidance of the Ministry of Ecology and Environment of the PRC. Vice Minister Zhao Yingmin opened the forum titled "Changes in the Post-Pandemic Era — Green Innovation and Low Carbon Development" and addressed over 100 participants.

The ecology session was one of the important activities of the 9th Euro-Asia Economic Forum. Participants exchanged views on green and low-carbon development policy plans, market measures, international cooperation achievements, green and low-carbon technology innovation and application. Dr. Abdullaev provided an overview of environmental challenges in Central Asia including standards and regulations, monitoring and reporting, and highlighted the importance of international cooperation.

Visiting Fellow Program 2021 Results

The CAREC Institute has been running a Visiting Fellow Program (VFP) in partnership with the ADB since 2020. The VFP supports scholars from the ADB member countries to produce targeted knowledge products which will add to the body of knowledge on regional cooperation. Under the VFP framework, scholars are encouraged to research regional integration topics and undertake comparative analysis between (sub) regions to draw lessons for promoting and deepening regional cooperation.

Since the beginning, research papers concerning migration, promotion of low-carbon energy, spatial mapping of economic clusters, and climate change impact on agriculture have been completed under this program. The CAREC Institute presents findings of this research to policy makers for consideration. It also offers a discussion platform through its annual think tanks forum which has been convening since 2016.

The following research has been completed this year:

Human Capital Development in CAREC: Policy Lessons from ASEAN

The 2021 visiting fellow Teresita Cruz-del Rosario, Research Associate at the Asia Research Institute at the National University of Singapore, studied the relationship between investments in health and education and regional cooperation and integration (RCI) outcomes through a comparative analysis of performance of countries in CAREC and ASEAN subregions. She used four indices — Human Development Index (HDI), Human Capital Index (HCI), CAREC Regional Integration Index (CRII), and Asia-Pacific Regional Cooperation and Integration Index (ARCII) — to draw conclusions.

Her comparative study highlighted high levels of human capital development (HCD) in ASEAN that can provide lessons to CAREC countries. She concludes that Singapore offers incontrovertible evidence of high performance in HCD and is also the most integrated economy in ASEAN. Singapore's technical and vocational education system is the main focus of the case study. This report makes an important contribution to the policy discussion on RCI from the perspective of regional public goods (RPG) and advances the argument that creation and distribution of RPG is vital to RCI. Read more [here](#).

Fostering Prosperity in Fergana Valley thru Economic Development

Another visiting fellow 2021 Sobir Kurbanov researched how Fergana Valley can drive economic prosperity and growth for the entire Central Asia. He writes that challenges include the legacy of vague borders causing tensions over shared natural resources and infrastructure amid high population density, high levels of poverty and environmental degradation. Additionally, various trade and non-trade barriers have been imposed by bordering countries, also infrastructure and logistical deficiencies contribute to economic fragmentation and complicate the prospects for cooperation.

The author suggests horticulture to be considered for regional competitive value chain development to drive growth in Fergana Valley. Further, he proposes a comparative analysis of successful approaches from South Asia and Africa to address barriers and promote regional integration. The paper concludes with a proposed roadmap of locally relevant recommendations on how to transform the region into an important hub for growth and connectivity in Central Asia. It is expected that the paper will help identify entry points to inform the relevant government policies, potential development partner programming, and private sector investment to promote regional cooperation in Fergana Valley. Read more [here](#).

Comparing Regional Integration in ASEAN and CAREC

Falendra Kumar Sudan has built the ASEAN-CAREC Digital and Sustainable Regional Integration Index (ACDigiSRII) to analyze the level of integration in ASEAN and CAREC economies, to identify the drivers of regional integration (RI), and to determine progress in RI during 2010-2020. He found that the CAREC region performed better than the ASEAN region in dimensions of trade and investment (except for 2020), regional value chain (RVC) integration, movement of people and regional cooperation during 2010-2020. The ASEAN region performed better than the CAREC region in sustainable financial integration since 2015 and infrastructure integration (except for 2018-2020) with significant variations and volatilities in most dimensions across countries. The ACDigiSRII indicates that policymakers in ASEAN-CAREC countries should prioritize diverse areas of RI. Sustainable development indicators reveal the significance of inclusivity and environmental protection in RI, and help policymakers monitor the progress in seven dimensions of sustainable development. The ACDigiSRII suggests that facilitation of the movement of people, substantial regulatory cooperation in digital trade, trade in information and communications technology goods, and development of e-commerce platforms are essential for sustainable development in the CAREC region. The paper will soon be available [here](#).

COVID-19 Pandemic and Impact of Environmental Regulations

Irfan Saleem examined the impact of environmental regulations on trade competitiveness for CAREC countries and their bilateral export flows with environmentally stringent OECD countries in the wake of the COVID-19 pandemic. This research finds some vivid evidence of the CAREC region becoming a pollution haven for most pollutive exports to OECD countries. According to the study, the effects of environmental regulations on the pollutive industrial trade of the CAREC region are sensitive to the choice of industry and empirical methods used. Most CAREC countries have enjoyed export competitiveness in most pollutive industries during the entire study period. The author suggests that environmental policy designed to achieve social benefits with industrial trade competitiveness is carefully weighted to incorporate more disaggregated level sector impact by bringing in the diversity of measurements needed for each pollutive industrial sector rather than framing the policy on the belief that “one size fits all.”

The findings also suggest that the COVID-19 pandemic resulted in the volatility of export competitiveness in most pollutive and less pollutive sectors for the CAREC region. During the pandemic period, some countries of the CAREC region with a narrow-base / less diversified and natural resource-based export have witnessed competitiveness shocks and loss of export competitiveness while others with more diversified export-base suffered less. Therefore, the study recommends adopting mutually supportive trade and environmental policies which promote and expand diversified, sustainable production and export competitiveness at the sectoral level in the CAREC region. The study recommends the CAREC region to ensure that the 2030 sustainable development agenda aligns the ambitious environmental regulations compliance targets with greener industrial production and trade. The paper will soon be available [here](#).

Services Gravity in CAREC Countries

Naseem Faraz analyzed the services sector in the CAREC countries which accounts for 51% of the cumulative GDP. She investigated export-import margins of services at the sectoral level for individual CAREC members and found a huge dissimilarity in trade in services across members. The author argues that free trade agreements (FTA) in products (goods) can accelerate trade growth if governments also consider FTA in the services sector. The paper will soon be available [here](#).