



Newsletter

CAREC Senior Officials' Meeting

On June 28, 2022, Mr. Syed Shakeel Shah, Director of the CAREC Institute, spoke about the current activities of the Institute at the CAREC Senior Officials' Meeting. The meeting focused on reviewing the work of the CAREC Program and new initiatives on post-pandemic recovery, agricultural development and food security, Green Energy Alliance, and a new climate change scoping study.

Mr. Syed Shakeel Shah reported on the progress of the research project entitled "CAREC Post Pandemic Framework for Green, Sustainable and Inclusive Recovery." Its preliminary results show that the recovery from the pandemic has been rapid, with GDP in most CAREC member countries surpassing pre-pandemic levels by the end of 2021. However, recovery issues and other geopolitical developments threaten countries' economic growth and global supply chains. Furthermore, a preliminary assessment of the Environmental Performance Index shows that CAREC member countries are at different levels. CO₂ emission levels are relatively lower in some CAREC member countries and higher in others. Because environmental issues transcend national borders, they affect many countries, and CAREC economies are more vulnerable to impact. In addition, a significant part of the region's population lives below the poverty line. Therefore, CAREC member countries should develop growth models that balance growth and development goals with climate imperatives, resilience, and inclusiveness.

Mr. Syed Shakeel Shah briefed participants on the current activities of the CAREC Institute. CAREC Institute's strategy for 2021-2025 has been approved to address post-pandemic recovery challenges in the region. The Resource Mobilization Strategy was also approved, and a related working group on financial sustainability was established under the leadership of the new Deputy Director One of the CAREC Institute. The CAREC Institute, as the Secretariat of the CAREC Network of Think Tanks, joined the Global South-South Thinkers Initiative, which is carried out jointly by the UN Office for South-South Cooperation and the UNDP. Institute's ongoing research focuses on many important issues within the CAREC program thematic clusters: debt and financial sustainability, regional integration, impact of FDI, fintech, digitalization, energy transition, COVID 19-induced inequalities, healthcare, education, women's labor force participation and others. The CAREC Institute produces quarterly economic monitoring, which captures high-frequency data related to the dynamics of the region's economy and policy briefs regarding COVID-19, Afghanistan, global inflationary pressures, and other critical regional issues. Capacity-building activities are transformed to rely more on CAREC Institute's research products and delivered in cascade and hybrid course formats with the engagement of other stakeholders. The number of visitors and digital learning materials on the Institute's e-learning platform is constantly growing. The knowledge management function at the CAREC Institute has been enhanced; redesigned newsletter and knowledge products are available to over 3,000 subscribers in English, Chinese, and Russian. Eighteen knowledge adaptations were published on the ADB Asia Development Platform, and 22 publications became available online for broader use.

Inside This Issue

Meeting with Kashi University.....	2
3rd Chai Webinar.....	3
2nd Dushanbe Water Action Decade Conference	4
UNESCAP Policy Dialogue	5
Research Digests	6
Regional Cooperation on Skills Development	8

CAREC Institute's Online Resources

- [News](#)
- [Events](#)
- [E-Learning Platform](#)
- [Publications](#)
- [CAREC Program](#)

Research, Capacity Building and Knowledge Management

Research:

- Increasing number of research projects and publications
- Streamlined focus areas and flagship products
- Specialized expertise and leading research areas

Capacity Building:

- Streamlined, research-based, systematic capacity building
- On-line, open-sourced, easy to access E-Learning platform
- Demand-based, specific country and sector-based capacity building

Knowledge Management:

- Targeted advocacy- partner list, differentiated approach to stakeholders
- Media partnership, publicity and different dissemination channels
- Production of knowledge: quality, structure, design



Knowledge for Prosperity



China-Pakistan Economic Corridor Research Center

The China-Pakistan Economic Corridor Research Center was established in 2020 as part of Kashi University. The Center aims to promote regional research on various aspects of the Belt and Road Initiative for joint economic and social development.

The Center's academic exchange programs promote joint regional scientific and applied research, knowledge sharing, learning, and academic collaboration.

More details are [HERE](#).

Partnership Meeting with Kashi University

On May 17, 2022, CAREC Institute's Deputy Director One Dr. Huang Jingjing met with the delegation of Kashi University led by Mr. Xue Jihai.

Located in a vital node position of the Silk Road Economic Belt, Kashi University is committed to providing high-quality talent training and promoting the development of China-Pakistan economic corridors. During the meeting, both sides discussed the areas for potential cooperation. Mr. Xue Jihai invited the leaders and experts of the CAREC Institute to participate in the 60th-anniversary celebration of Kashi University and the international symposium of "Muztagata Forum."

Dr. Huang noted the unique position of Kashi University and the role of its China-Pakistan Economic Corridor Research Center in promoting regional cooperation. And She expressed the hope of hosting joint activities and enhancing the collaboration with Kashi University.



Partnership Meeting between the CAREC Institute and Kashi University.

CAREC Institute Delivers a Training Course on Industrial Value Chain Diagnostics

The CAREC Institute, in partnership with the United Nations Industrial Development Organization and the Asian Development Bank Institute, conducted the training course "Industrial Value Chain Diagnostics for Policymaking" from June 7 to 20, 2022.

Many governments, industries, and development groups currently focus on value chain development. Such agencies expect that by developing value chains, they may create more revenues and job opportunities for diverse communities participating in industrial value chains, thereby reducing poverty and achieving policy objectives.

This training course allowed participants to acquire the necessary knowledge to analyze specific industrial value chains and develop necessary support programs. By performing the diagnostics, participants took a "wide-angle snapshot" of the value chain and the constraints and opportunities for its development. The information provided helps make strategic decisions at the program or project level to implement development support measures at different points of the value chain. Due to its integrated character, this diagnostic tool also enables various entities in governments and the development community to join forces and cooperate in developing value chains.

The module was an online self-study course consisting of self-paced learning units, further reading, assignments, and a final quiz.

Third CAREC Chai Webinar

The CAREC Institute, in partnership with the Asian Development Bank, held the third CAREC Chai webinar on 7 June 2022 with experts from the Afghanistan Biruni Institute, UNDP, UNHCR, and the ADB. The event focused on Afghanistan's primary drivers of poverty during the last two decades.

Mr. Omar Joya from the Biruni Institute and Mr. Saurabh Shome from the Comparative Policy Design Consulting Company elaborated on their findings from recent research on "Understanding the Drivers of Poverty in Afghanistan" and proposed a policy framework for poverty alleviation in the short, medium, and long term. They highlighted the odd mixture of development experiences in Afghanistan. On the one hand, the country enjoyed unprecedented levels of income and economic growth, coupled with impressive gains in various dimensions of human development, particularly in education and health. On the other hand, Afghanistan failed to leverage the strong economic growth it experienced until 2012 and the opportunities brought about by the massive inflow of foreign aid to reduce poverty

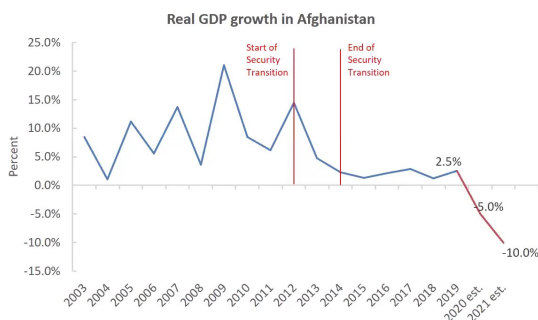
and build pro-poor institutions. They showed to what extent 'intensity' and 'type' of conflict increase poverty. While being extensively dependent on foreign aid, weak institutions could not curb pervasive corruption and vested interests. Not only the resources but also the policymaking processes were subject to elite capture and social divisions. Such trends made the country suffer from political instability and regime change waves.

Mr. Saurabh Sinha, Head of Policy Unit, UNDP Afghanistan, reflected on the keynote presentations and shared his thoughts and knowledge regarding the support programs to reduce poverty in Afghanistan.

Mr. Artur Andrysiak, Deputy Country Director, Afghanistan Resident Mission, Central and West Asia Department, ADB, spoke about ADB's work in the country, including poverty alleviation.

Mr. Nanduri Sateesh, Strategic Partnership Adviser, UNHCR, also shared UNHCR's experience and perspectives on current measures and potential interventions for poverty alleviation in Afghanistan. He highlighted the importance of evidence-based strategic response toward sustainable community development and capable governance.

All materials and webinar recordings are available through the CAREC Institute [e-learning platform](#).



CAREC Institute's Online Talks with Shihezi University

On June 21, 2022, Dr. Huang Jingjing, Deputy Director One of the CAREC Institute, attended the online talks with Shihezi University in Urumqi.

Dr. Huang noted that the CAREC Institute is an intergovernmental organization dedicated to promoting economic cooperation through knowledge generation, capacity building, and knowledge sharing in the CAREC region. The Institute, which is jointly shared, owned, and governed by eleven member countries, acts as a knowledge connector among the five CAREC clusters to ensure coherence in designing and implementing policies, programs, and projects to promote regional economic cooperation and integration.

Mr. Wang Lei, Deputy Dean of the School of Economic Management at Shihezi University, introduced the faculty and the research areas of the school and the university. As a national "Double First-Class" university in Xinjiang, and with many experts and scholars in economics and management, he expects a long-term cooperative relationship with the CAREC Institute.

Dr. Huang welcomed Shihezi University to work with the CAREC Institute on regional cooperation and knowledge exchange. Both sides exchanged views on follow-up cooperation and reached an initial intention.

CAREC Chai Series

In Central Asian culture, people have the most frank and open conversations with a cup of tea – known as the "Chai" talk.

In light of that, the CAREC Chai Series aims to facilitate open discussions among experts, think tanks and CAREC government representatives to exchange views on the regional economic cooperation and related issues.

The first CAREC Chai Webinar "Keeping a hand on the eco-nomic pulse of the CAREC region (and beyond)" was held on December 17, 2021.

The second CAREC Chai Webinar "Economic Impacts of the War in Ukraine on the CAREC Region: Preliminary Assessment" was held on April 6, 2022.

Material of all CAREC Chai Webinars are available [HERE](#).

CAREC Institute Participates in the Second Dushanbe Water Action Decade Conference

Dr. Iskandar Abdullaev, Deputy Director Two of the CAREC Institute, participated in the panel discussion "Water for Livelihoods and Inclusive Economic Growth" at the Second High-Level International Conference dedicated to the International Decade for Action "Water for Sustainable Development" in Dushanbe. The discussion session was hosted by USAID Regional Water and Vulnerable Environment Activity and the Regional Environmental Center for Central Asia on June 6, 2022. The session aimed to discuss the experience of Central Asia's low-water countries in promoting water energy, food security, and economic development.



Participants of the panel session "Water for Livelihoods and Inclusive Economic Growth."

connectivity of energy systems. The region is also facing challenges related to climate change, such as higher rates of temperature rise, increased frequency of natural disasters, shifts in precipitation patterns with historical records, significant changes in annual volume, and seasonal patterns of major rivers run-off. Water scarcity, climate change, and population growth create food security and socio-economic problems in the region.

To overcome these problems and support sustainable development in the region, Dr. Abdullaev proposed linking together water, energy, food, economic and environmental policies through integrated planning and coordination. The countries of the region should further integrate the principles of Integrated Water Resources Management in their national and regional policies to maximize the equitable economic and social well-being of their populations without compromising the sustainability of vital ecosystems. National governments should strengthen strategic planning for water resources, ensure the sustainability of water sector financing using market mechanisms and the introduction of public-private partnerships, strengthen the necessary financial, legal and technical skills, and improve joint financing and operation of transboundary infrastructure. Regional cooperation through joint water, agricultural, trade, and energy projects is essential for sustainable economic development and shared prosperity in the region.

Dr. Abdullaev stressed the importance of water as a key element in the socio-economic development of landlocked countries. The water is used to develop agriculture in arid climates and produce hydroelectric power, but environmental issues of the region have long been neglected. Central Asian countries are facing water challenges such as recurring years of drought and water scarcity, endorheic basins without direct access to the ocean, which are sensitive to various environmental changes, reduction of financing of the water sector, and strong publicly funded and subsidized energy sector, low energy efficiency and limited regional

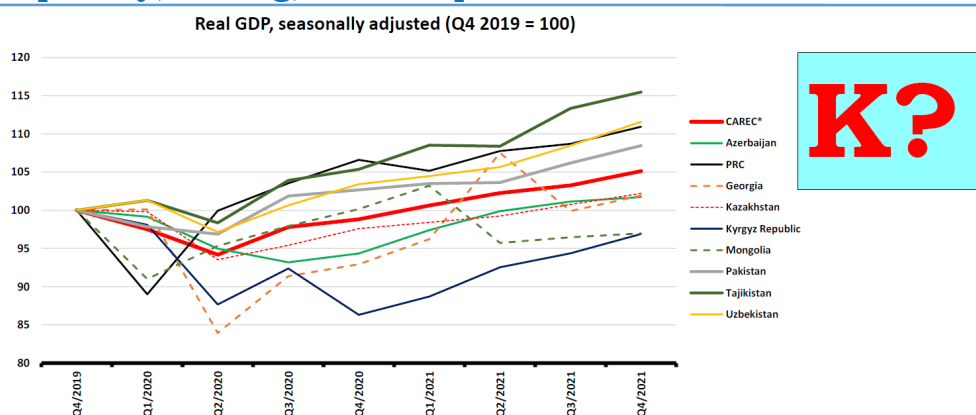
CAREC Institute Participates in the UN ESCAP's Policy Dialogue

The CAREC Institute, represented by Chief Economist Dr. Hans Holzhaacker, contributed to the Policy Dialogue “Building Forward Fairer: Economic Policies for an Inclusive Recovery and Development” hosted by the United Nations Economic and Social Commission for Asia and the Pacific on 9 June 2022.

In providing his comments on UNESCAP's 2022 economic and social survey report on Asia and the Pacific, Dr. Hans Holzhaacker emphasized that CAREC economies are impacted in many ways by the issues outlined in the report and that the policies suggested by the report are also very valid for the CAREC region. CAREC economies are too to certain extent under the threat of a K-shaped recovery from the COVID-19 pandemic. CAREC economies are too facing economic difficulties such as shrinking fiscal space due to elevated spending during the pandemic, accelerating inflation due to geopolitical tensions, substantial inequality and poverty, volatile exchange rates, and other. Climate change is altering environmental conditions, and the CAREC region is strongly exposed. Mongolia, China, Turkmenistan, and Kazakhstan emit significantly more CO₂ per unit GDP than the world on average. Therefore, policies should ensure that economic growth is more equitable, sustainable, and also more resilient to socio-economic shocks.

Dr. Holzhaacker highlighted the importance of structural development in the CAREC region through policies for ensuring welfare-enhancing digitalization, green technologies and job creation. Countries should – as suggested by the report – further promote equality and social protection by prioritizing pre-distribution over redistribution, empowering labor in compensation negotiations, ensuring fair access to education and public services, providing social protection floors and public support for reskilling and job-searching. Most importantly, countries must support inclusive human development by strengthening their health, education, food security and universal social protection systems.

K-shaped recovery also in the CAREC region? To some extent yes, and more so by population groups and sectors: hospitality, mining, for example



*Refers to the simple average of CAREC economies where data are available.
Source: CEIC, national statistical agencies, author's calculations.

CAREC Think Tanks Network Research Grants Program

The CAREC Institute's Research Grants Program aims to support scholars and researchers from members of the CAREC Think Tanks Network to produce targeted knowledge products which will add to the body of knowledge on regional cooperation in CAREC.

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 integration among CAREC member countries.

More details are [HERE](#).

Research Digest: Trade Efficiency in the CAREC Region

The research project [*"Trade Efficiency and Influencing Factors in the CAREC Region: Based on the Stochastic Frontier Gravity Model"*](#) by Wang Yue and Yan Binyang was conducted with the support of the CAREC Think Tanks Network Research Grants Program. The authors using the stochastic frontier analysis (SFA) model study the trade efficiency and trade potential factors in CAREC countries.

When measuring trade efficiency and potential based on the SFA model, the authors' primary model considers objective variables that do not change over time in the short term, such as economic scale, population size, geographic distance, shared border, and common language of bilateral countries. The trade inefficiency model identifies the main factors affecting trade inefficiencies, such as policy barriers, digitalization differences, and institutional differences.

Using the regression analysis, the authors find that the CAREC regional trade falls behind the expansion speed of the ideal boundary as the resistance of inefficiency factors in the region increased during 2001-2020, while trade efficiency gradually decreased. Fifty-six percent of countries in the CAREC region have a trade efficiency lower than 0.2, reflecting the deviation of the current actual trade status from the ideal trade level.

Trade potential factors. The regression results of the main SFA model show that trade factors strongly impact export trade efficiency. The GDP of both exporting country and destination country has a positive and significant impact on export trade, and the expansion of the national economic scale has an important impact on bilateral trade. The driving effect of the exporting country's GDP on export trade efficiency is significantly higher than that of the export destination country's GDP, indicating that it is crucial to improve a country's economic development level and maintain an effective supply of commodities for expanding export scale.

The transportation cost represented by geographic distance is the main constraint in the CAREC region. Transport costs are an important impediment to trade, indicating that CAREC regional trade is still limited by transportation infrastructure construction.

The population of exporting country and destination country has a positive impact on export trade efficiency. The increase in the population of exporting countries increases commodity market demand, while the rise in the destination country's population improves market supply capacity.

A shared border between countries has a significant positive impact on export trade efficiency. Since CAREC countries are mostly landlocked countries with relatively insufficient trade facilitation measures and complicated trade clearance procedures, trade between bordering countries saves customs clearance times.

Trade inefficiency factors. The estimation of the trade inefficiency model shows that the trade barriers of the exporting country are an important factor hindering trade efficiency. Thus, the expansion of exports requires the reduction of state export control tools, such as export subsidies, voluntary export restrictions, export sanitary and phytosanitary rules, etc. To unlock trade potential, countries can start by optimizing their trade policies, reducing government regulation, and gradually shifting to using market forces to achieve efficient resource allocation. In the process of trade cooperation among CAREC countries, each member country should pay full attention to the impact of its trade liberalization measures on its export trade.

The level of digital difference negatively impacts export trade, hindering bilateral trade efficiency. Especially under the impact of the COVID-19 pandemic, the gap in digitalization may be further widened, which may become a new factor restricting trade development. COVID-19 has indirectly promoted the spread of digital life and accelerated the application of digitalization in various fields, including international trade. However, such digital transformation is mainly reflected in countries with digital infrastructure and rich talent reserved for digital development. With weak digital infrastructure and insufficient digital development talent, countries are more likely to slow down the application of new digital technologies owing to the decrease in technology investment funds during the epidemic. In the process of regional economic cooperation in Central Asia, more attention should be paid to the difference of informatization and its influence on regional trade.

Institutional distance, which can lead to ambiguous and non-standard information exchange, increased management costs, and trade risks, has a negative but insignificant impact on the efficiency of export trade. This may be because many CAREC countries are developing countries without obvious institutional disparity and relatively strong cultural compatibility, so coping strategies are relatively easy to adopt.

Research Digest: Financial Inclusion in the CAREC Region

CAREC Institute Annual Book's Chapter 3 ["Financial Inclusion in the CAREC Region: Promoting Fintech to Meet Underserved Needs in Trade Finance"](#) by Minsoo Lee, Raymond Gaspar, Ghulam Samad, and Qaisar Abbas, examines the challenge of trade finance shortfall in the CAREC region, where 2 in 5 of micro and small firms saw their trade finance applications partially or totally rejected. Lack of access to trade finance limits small business opportunities to grow, conduct cross-border transactions and participate in international markets, making the trade less inclusive.

Applying the Heckman two-step correction model to analyze a cross-section of firms in various waves of the Asian Development Bank's Trade Finance Gaps, Growth, and Jobs Survey, the authors confirm that smaller firms are more likely to face trade finance rejections than larger firms. The average rejection rate of large firms in the CAREC region is 10% of their total trade finance applications, while the rejection rate of smaller firms ranges from 17% to 32%. Small firms' relatively weak financial position and history largely explain why their trade finance applications are most often rejected. High rejection rates of small firms are observed in major trading sectors of agriculture and mining in the CAREC region.

The authors explain the high rejection rate of trade finance applications from small firms to problems on both sides of the market. On the supply side, small firms' trade finance applications have high transaction and information costs, and letters of credit and guarantees are particularly less attractive due to relatively high transaction costs. In addition, financial institutions must bear the cost of maintaining branches, information technology systems, and other support services, as well as additional regulations and oversight when dealing with small borrowers. On the demand side, rejections are related to the inability of small firms to provide supporting documents such as official registration, formal financial information, and assets for collateral as banks are subject to increasingly stringent and complex regulatory requirements such as Know Your Customer and Anti-Money Laundering.

Rejection rates are relatively lower among firms in high-income countries, reflecting country-level factors such as risk rating and the advanced financial systems. For example, the PRC has made substantial improvements in developing financial markets with efforts to tap advanced technologies. Meanwhile, the financial

development in many other CAREC member countries remains subdued by weak financial market frameworks, alongside the slow improvement of their traditional banking sectors. Eight CAREC member countries do not have national export credit agencies, which are particularly suited to the trade finance needs of SMEs. In addition, correspondent banking, which is essential for international trade activities, is limited in Central Asia, putting the CAREC region at a greater disadvantage.

The authors provide policy recommendations on the financial inclusion of small firms. First, countries can benefit from CAREC's regional cooperation by using the internal strengths of some member countries to overcome the weaknesses of other members. The PRC, in the advanced stages of financial development, can play a huge role in building capacity and sharing best practices.

A critical element in building a robust fintech ecosystem is having adequate human resources, which is why countries should accelerate domestic and international fintech education in partnership with recognized institutions of higher learning and research institutions in the region. The region needs to bolster the ICT and digital infrastructures, using them to grow fintech and other digital financing solutions. To digitize trade finance, the region must continue to facilitate digital trade by moving away from traditional trade clearing procedures and successfully implementing paperless trade. Initiatives like e-Phyto-certification, national single window, and easing customs clearance procedures at borders have already kicked off.

CAREC member countries must ensure the quality of regulation and coherence in the region. Because the fintech industry is new, the proliferation of competing regional and national platforms without regionwide standardized processes or procedures complicates the financial infrastructure in the region. It creates a serious risk for fintech companies. Therefore, regulators and policy makers need to work together to create a "cross-border regulatory sandbox" or "fintech passport" to promote regionwide financial innovation and fintech development. CAREC regional forum could be initiated to improve cooperation and coordination of national regulatory bodies like the Association of Southeast Asian Nations Financial Innovation Network.

Three-stage fintech upgrade in China

China's three-stage fintech upgrade has made the country a global leader in the fintech ecosystem. Other countries may follow the same fintech development policy path, improving the efficiency of providing financial services.

Efforts should start by transforming the traditional financial services industry by introducing information technology to digitize and automate business processes. These changes could lead to improved management and operations efficiency.

At the next stage, financial service providers should be encouraged to build online platforms, leveraging the internet to collate users and information to enable information sharing.

Lastly, there should be a focus on integrating new technologies to reorganize traditional financial services such as financial information collection, financial risk management, and investment decision making, among other financial intelligence.

Source: Lee, M., Gaspar, R., Samad, G., & Abbas, Q. (2022). Financial Inclusion in the CAREC Region: Promoting Fintech to Meet Underserved Needs in Trade Finance, in CAREC Institute Annual Book, Ch. 3, p. 52-102.

CAREC Institute Proposes Opportunities for Cooperation in Skills Development in the CAREC Region

The CAREC Institute participated in the International Expert Roundtable Discussions on "Strengthening Regional Cooperation on Skills Development under the CAREC Program: Key Achievements, Challenges, and Opportunities for Cooperation" hosted by the Asian Development Bank on 30–31 May 2022 in Tbilisi, Georgia. Deputy Director Two represented the CAREC Institute on behalf of Director Syed Shakeel Shah in this meeting.

In a session on priority activities and proposed projects, Dr. Abdullaev spoke about the existing and potential projects on skills development in the CAREC region. The CAREC Institute intends to promote the Educational Dialogue meetings among CAREC member countries. A series of dialogues will help explore existing educational development challenges and discuss best policy development practices. By facilitating regional cooperation in education and skills development, the CAREC Institute can help develop connectivity between educational institutions, support collaborative programs, and teacher and student exchanges, develop bilateral and regional qualifications, and establish branch schools in the CAREC region. Collaboration between universities and vocational schools, facilitated by the CAREC Institute, may eventually lead to the creation of CAREC-wide networks of universities and TVET providers for regional adaptation of world best practices. The CAREC Institute can promote research and training in specific areas of education.

Dr. Abdullaev stressed that the CAREC Institute is already contributing to strengthening standardization and harmonization in higher education and TVET. The CAREC Institute is working on the development of a practical road safety curriculum for technical universities. In

addition, the CAREC Institute is developing a flagship leadership program for CAREC countries that can be expanded to target CAREC leaders in the education sector. The CAREC Institute launched a knowledge-sharing initiative among TVET schools, starting with China's cross-border exchange of experience with other CAREC countries. The existing visiting scholarship program could also be expanded to include leading TVET institutions along with think tanks and universities.

Additional proposals for the CAREC Program were made on the management and regulation of recruitment systems and developing a labor market database and information system. The CAREC Institute can contribute to a comprehensive assessment of the governance and regulation of recruitment systems, as well as case studies in relevant areas of public-private partnerships. A potential study could explore how such regional processes are harmonized and streamlined in regional blocs such as the European Union and ASEAN and suggest possible policy steps for the CAREC region. The Institute could lead the analytical work to develop a Human Development Index for the CAREC region with the necessary database. The potential CAREC Human Development Index will lay the foundation for common and holistic human development in the region and bring positive competition and cooperation among member countries in critical skill areas.

CAREC Institute

The Central Asia Regional Economic Cooperation (CAREC) Institute is an intergovernmental organization dedicated to promoting economic cooperation in Central Asia and along the Silk Road through knowledge generation and sharing. The CAREC Institute is jointly shared, owned, and governed by eleven member countries.

The Institute acts as a knowledge connector among the five CAREC themes – economic and financial stability; trade, tourism, and economic corridors; infrastructure and economic connectivity; agriculture and water; human development – to ensure coherence in the design and implementation of policies, programs, and projects to promote regional economic cooperation and integration.