

Newsletter

CAREC Institute's Director Participates at the ADB's Regional Cooperation and Integration Conference

Mr. Syed Shakeel Shah, Director of the CAREC Institute, participated in the 2022 Regional Cooperation and Integration Conference entitled "Strengthening Regional Cooperation and Integration in a New Era of Collective Action" organized by ADB in Bangkok, Thailand, on August 23-25, 2022.

Regional Cooperation and Integration (RCI) is one of the operational priorities (OP7) under ADB's Strategy 2030, which has three pillars of high quality connectivity, regional trade and investment and promoting regional public goods. Every two to three years, the RCI community of the ADB holds a conference to collect feedback on ADB actions and strategies, share knowledge, and explore innovative RCI initiatives.

The 2022 RCI Conference deliberated on progress on OP7 and delineated on the future direction for RCI in the remaining strategy period. Officials from ADB member countries involved in RCI initiatives, development partner organizations, research and capacity building institutions, regional cooperation organizations, private sector and civil society organizations had extended sessions on current progress and future priorities for strategy pillars and cross cutting themes.

Syed Shakeel Shah, Director of the CAREC Institute observed that ADB has made substantial progress on OP7 through its regional integration programs like CAREC, and also proved a reliable partner for member countries in dealing with COVID19 pandemic and aftermath. Some of the lessons from pandemic, like innovative ways to keep borders open for trade, can have good lessons to carry forward trade facilitation agenda. Moreover, although there is encouraging overall growth in Asia Pacific region in RCI as measured by ARCII, Central Asia and South Asia have shown the least integration below Asian average. This may require additional approaches to improve RCI. Director endorsed a proposal for deeper, more open and wider RCI as proposed in mid-term review, while suggesting prioritization. In an informal CAREC session, Director met ADB CAREC Secretariat and national focal points of program for a candid review of issues, progress and expectations from the CAREC Institute.

In their country statements, the PRC emphasized greater role for the CAREC Institute for providing research and capacity support to CAREC Program in enhanced frameworks. In his presentation on Scoping Study on Climate, ADB Consultant Johannes Linn also emphasized role of the CAREC Institute in developing niche areas for research and augment capacities in dealing with this very important cross cutting issue.

The conference ended with strong member countries and development partners committed to synergizing RCI for a new era of RCI.

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Participants of the 2022 Regional Cooperation and Integration Conference.

Conference “Trade Facilitation in CAREC: A 10-year CPMM Perspective”

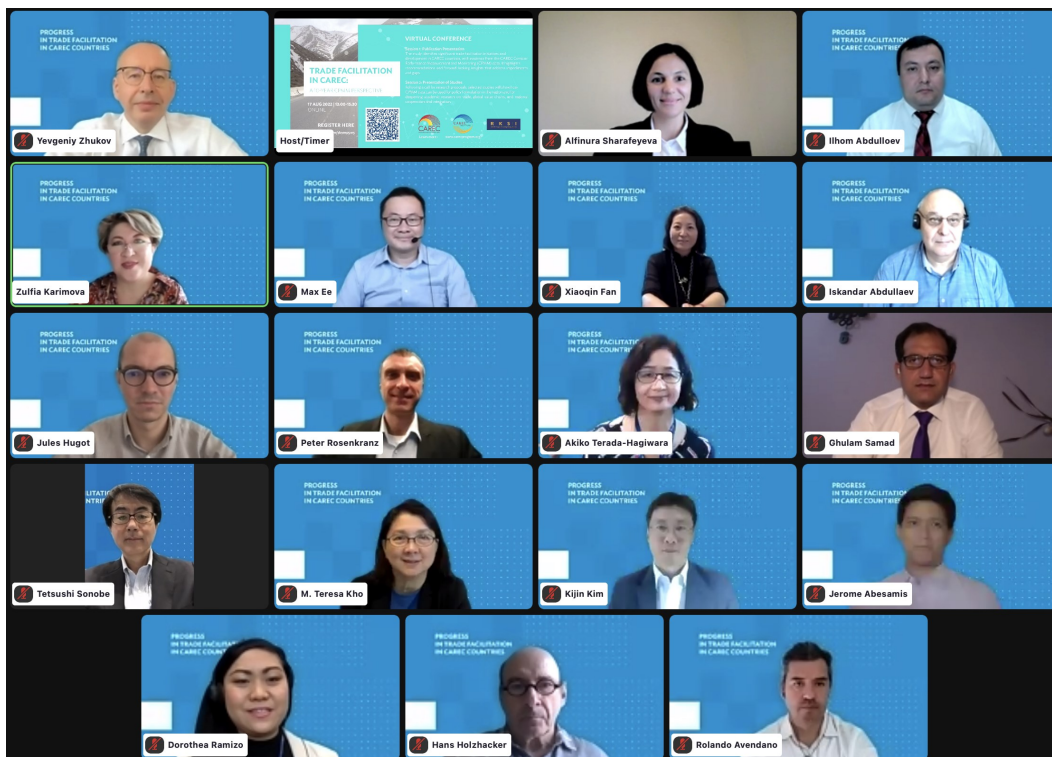
The CAREC Program and the CAREC Institute jointly organized a conference “Trade Facilitation in CAREC: A 10-year CPMM Perspective” on August 17, 2022. The purpose of the conference was to present research findings which identify significant trade facilitation and development initiatives in the CAREC countries, with evidence from the CAREC Corridor Performance Measurement and Monitoring (CPMM) data.

The conference brought together leading researchers, experts, policy makers, and representatives of international organizations to discuss the implications of research and policy related to CAREC's transport and trade facilitation, and how CPMM data and results can be used to support policy development in the region.

During the first session of the conference, Dr. Zulfia Karimova, Principal Regional Cooperation Specialist of the ADB, and Mr. Max Ee, the ADB Consultant, presented the results of the new CPMM study “Trade Facilitation in CAREC: A 10-year CPMM Perspective” providing an in-depth empirical analysis of the data and information about current impediments to regional trade that require change. The study marks a decade of implementation of the CPMM mechanism and highlights its importance in influencing investment decisions and evaluating the impact of policy implementation.

The CAREC Institute presented a case of the successful advocacy campaign with the Government of Pakistan based on the CPMM findings. The CAREC Program and the CAREC Institute jointly initiated a policy dialogue process with national stakeholders in 2020, bringing the CPMM research evidence into national policies. Country-specific CPMM policy briefs have been prepared by the CAREC Institute and addressed to national policy makers, providing information on the current situation of regional trade cargo and recommendations for improvement. Through policy briefs, the CAREC Institute engages in two-way communication with national governments when the latter take necessary policy action based on CPMM results. The Government of Pakistan provided a considerate response to the CPMM policy brief in 2020 with information on the rapid and effective steps undertaken to address the bottlenecks, which resulted in a significant improvement in border crossing.

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Speakers of the conference “Trade Facilitation in CAREC: A 10-year CPMM Perspective.”

In the second session, chaired by Dr. Iskandar Abdullaev, Deputy Director Two of the CAREC Institute, the preliminary results of five research projects by independent researchers were presented. The independent studies employ the CPMM database on different topics such as trade, regional cooperation and integration, and global value chains. Dr. Abdullaev stated that all five studies bring new knowledge and modern research approaches to using the CPMM data for policy formulation in the region and deepening academic research in relevant areas.

Dr. Ghulam Samad, Senior Research Specialist of the CAREC Institute, presented a study on “Geographical Proximity and Trade Impact in the CAREC Region,” which uses CPMM data for 165 regions across the CAREC region. The study finds that the recently implemented electronic Sanitary and Phytosanitary certifications had a positive impact on the trade facilitation in the CAREC region, and the regional trade agreements and free trade agreements facilitate trade among CAREC countries. The study recommends implementing digitalization initiatives at border crossing points and promoting a regional trade agreement for CAREC to accelerate trade flows and volumes.

A paper by Dr. Alfinura Sharafeyeva “Analysis of the Impact of Trade Costs on Exports of Final and Intermediate Goods at the Sectoral Level in Post-Soviet Central Asia and the CAREC region” provides an estimation of the impact of trade costs on exports in Central Asia based on a structural gravity model. The author finds that the export of perishable agricultural products is more sensitive to higher trade costs than other commodity groups. She suggests considering diversified approach with budget allocations in trade facilitation programs to increase CAREC countries’ potential gains from trade.

Dr. Kamalbek Karymshakov presented an empirical study on “Trade Facilitation, Infrastructure and International Trade in Central Asian Countries,” which examines the impact of infrastructure and trade facilitation on international trade in Central Asian countries – Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan. The results of the study show a significant positive impact of infrastructure on the import volume. This relationship is non-linear, suggesting that infrastructure development promotes import of goods over time. The study also finds that the speed of movement along the CAREC corridors have a strong influence on Central Asian countries' imports. The study recommends complementing the infrastructure development with joint trade facilitation measures among CAREC member countries.

Mrs. Dorothea Ramizo presented the study “Non-tariff Measures and Time and Costs at Border Crossing Points of Perishable Goods: Impact on CAREC Intra-Regional Trade,” which finds that not only the length of time and cost of clearing goods at the border have negative impact on intraregional trade, but also the behind-the-border measures. She highlighted the importance of structural reforms in trade facilitation, such as bolstering capability and capacity of sanitary and phytosanitary laboratories and modernizing regulations to meet international standards.

Dr. Kijin Kim presented the study “The Effects of Lockdowns on Time to Clear Goods at the Border of the CAREC Countries During the COVID-19 Pandemic,” which finds that the 1-point increase of the COVID-19 stringency index in CAREC countries increases the outbound time by 0.7 percent by the initial month of implementation and increases the inbound time by 0.5 percent up to the 5th month after implementation. The outbound border crossing points are more affected by stringency measures imposed than those in the inbound border crossing points. However, the outbound border crossing points are more resilient to the changes in the stringency measures as the impact only lasts for a month.

The CAREC Program and the CAREC Institute remain committed to their country members in providing an independent assessment of the regional trade situation, and a new series of CPMM research papers and country-specific policy briefs will be produced for national governments based on the new CPMM report.

CAREC Institute Holds the Second Climate Change Dialogue

The CAREC Institute hosted its Second Climate Change Dialogue on 02 August 2022 with representatives of regional organizations in the CAREC region to discuss the CAREC Climate Scoping Study, commissioned by ADB CAREC Program.

In his opening speech, Mr. Syed Shakeel Shah, Director of the CAREC Institute, stated that with emerging from the COVID-19 pandemic, the world is facing a global social and environmental emergency. Global temperatures rise above target, causing catastrophic climate change related problems. Countries in the CAREC region, one of the world's most vulnerable regions, experience greater seasonal and geographic fluctuations in temperature and precipitation, which affect household well-being. The countries need to rethink their economic growth models and to understand the problems associated with climate change to draw actions to respond to environmental and social impacts. In this regard, the CAREC Institute holds a series of dialogues on climate change. The First Climate Change Dialogue discussed how CAREC countries are developing and trying to implement national mitigation and adaptation strategies. The Second Climate Change Dialogue focused on regional priorities and joint actions in collaboration with regional organizations.

During the first session of the dialogue, the ADB consultant team, led by Dr. Johannes Linn, presented the scope of the study, which is to develop a cross-cutting, systematic, and strategic approach by the CAREC Program to the regional climate agenda. The study will inform CAREC member countries, the CAREC Secretariat, regional organizations, and development partners about climate change issues, as well as national and regional policies and instruments related to climate change, explore the role and mechanisms of regional cooperation on climate issues in the region, and identify potential entry points for the CAREC Program and the CAREC Institute in addressing

climate change challenges.

In the second section, the representatives of regional organizations in the CAREC region presented their organizations' activities, while underlying major climate issues and policy challenges, and pressing climate change issues to be addressed by the CAREC Program and the CAREC Institute. Representatives of regional organizations identified key areas for regional cooperation, such as promoting climate education, developing the capacity of public sector, civil society, the private sector and households to combat climate change, organizing regular policy dialogues, accessing to financial resources for joint actions, collecting and processing data and sharing best practices on policy development, conducting research to fill information gaps in climate change in Central Asia. Experts named water, energy, agriculture, disaster preparedness, security and health, digitalization, vulnerable communities, and gender as key priority areas.

Dr. Iskandar Abdullaev, Deputy Director Two of the CAREC Institute, concluded the Second Climate Change Dialogue, appreciating the participants' feedback on the CAREC Climate Scoping Study and proposals for regional cooperation on climate change issues, and informed that the CAREC Institute will further continue dialogues dedicated to addressing climate change challenges in the CAREC region, expressing hope for further collaboration on this subject.

All materials of the First and the Second Climate Dialogues are available at CAREC Institute's [e-learning platform](#).



Speakers of the CAREC Institute's Second Climate Change Dialogue.



CAREC Institute Quarterly Economic Monitor: Issue 7

The CAREC Institute published its seventh issue of the Quarterly Economic Monitor. The new release examines economic development in the CAREC region based on the latest available GDP, fiscal, monetary, inflationary, and external economic data, as well as some frequently recurring data, and discusses some aspects of current and potential future developments.

The new issue of the CAREC Institute Quarterly Economic Monitor discusses three themes: a) the recovery and growth prospects, b) the room for maneuver that is left for fiscal and monetary policy to support growth, c) the CAREC region's progress in catching up with the developed economies and the role that the investment to GDP ratio has played for this.

Despite some volatility in annual growth, almost all CAREC economies have reached real GDP levels well above those of 2019. Real GDP growth rates in Q1 2022 remained mostly little changed from the previous two quarters. All economies with data availability except Mongolia have achieved

positive yoy growth since Q2 2021. However, the PRC's GDP growth weakened to 0.4% yoy in Q2 2022, because of renewed COVID-19 infections and related containment measures.

While the COVID-19 recession has been largely overcome in the CAREC region, new challenges darken the growth outlook. New COVID-19 virus variants, the conflict in Ukraine and its global and regional economic consequences such as high inflation and the disruption of global value chains worsen growth prospects. This prompted international financial institutions to forecast lower GDP growth in 2022 and 2023 for about one-half of the CAREC economies.

The Quarterly Economic Monitor suggests implementing a set of deepened structural policies to increase investment efficiency and accelerate technological change while fostering the development of human capital and labor force skills that are needed for the adoption and running of advanced technologies. More details are [HERE](#).

CAREC Institute Meets with Xinjiang Department of Commerce

On August 5, Dr. Huang Jingjing, Deputy Director One of the CAREC Institute, met with Mr. He Guoqing, Deputy Director of the Department of Commerce, during her visit to the Department of Commerce of the Xinjiang Uygur Autonomous Region. The parties discussed issues of mutual cooperation and prospects for international business talent training.

Dr. Huang presented the latest research projects and training activities of the CAREC Institute on financial and macroeconomic stability, digitalization, infrastructure development, agriculture, water resources, and climate change. She expressed her hope to strengthen cooperation with the Department of Commerce and jointly involve Xinjiang business community in trade-related capacity building activities.

Deputy Director He Guoqing noted the role of the CAREC Institute as a knowledge exchange platform, promoting the robust business relationships in the CAREC region and cooperation between Xinjiang enterprises and international partners. He emphasized that research topics such as trade facilitation conducted by the CAREC Institute are important for the development of international trade and regional economic integration.



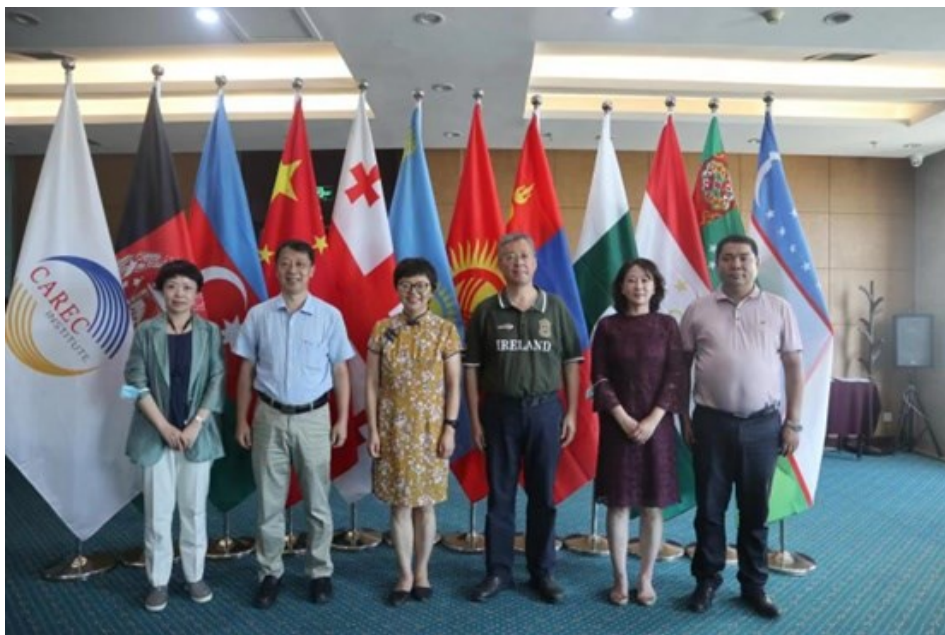
Partnership meeting between the CAREC Institute and the Department of Commerce of the Xinjiang Uygur Autonomous Region.

Partnership Meeting with Hohai University

On August 2, Dr. Huang Jingjing, Deputy Director One of the CAREC Institute, met with a delegation of visitors from Hohai University headed by Professor Zhou Haiwei. Dr. Huang introduced the activities of the institute, noting that the CAREC Institute is an intergovernmental organization dedicated to promoting economic cooperation in the CAREC region by providing evidence-based research, capacity building services, knowledge sharing, and networking with research institutions.

Dr. Zhou Haiwei, Dean of Business School at Hohai University, spoke about main research areas of the school and expressed interest in close collaboration with the CAREC Institute on knowledge creation and sharing.

Dr. Huang welcomed Hohai University as a national leading university specialized in water conservancy, and invited the university to engage in strategic research by mobilizing relevant intellectual resources with the CAREC Institute for regional cooperation and knowledge exchange. The parties exchanged views on further cooperation, as well as academic exchange mainly on the CAREC water research.



Partnership meeting between the CAREC Institute and Hohai University.

CAREC Institute Contributes to Discussions on E-Commerce Legislation of the Kyrgyz Republic

Dr. Qaisar Abbas, Chief of the Research Division of the CAREC Institute, participated in the expert discussions of the draft analytical report on the regulatory framework for e-commerce in the Kyrgyz Republic, organized by the Asian Development Bank on August 10, 2022.

The report looks at the e-commerce law from different angles: electronic transactions, electronic signatures, trust services, and how traders and regulators manage to comply with the law. The report examines the legislation of the Kyrgyz Republic in the light of international standards and considers the possibilities of its harmonization. The assessment examines how the content of the current legislation serves the country's development goals, identifies legal and regulatory barriers to efficient and effective e-commerce, and provides recommendations for improvement.

Dr. Abbas congratulated the authors on a good assessment, which provides valuable information for understanding the status and development of e-commerce legislation in the Kyrgyz Republic. Dr. Abbas suggested supplementing the report with additional analysis of international best practices

and case studies to describe current issues in e-commerce legislation in the Kyrgyz Republic, highlighting the relevance of regional economic cooperation for the development of e-commerce, evaluating the implementation progress of e-commerce regulations, and explaining how formal and informal factors impede e-commerce in the country.

The draft report on the regulatory framework for e-commerce in the Kyrgyz Republic complements the joint research project of the CAREC Institute and the Islamic Development Bank *"Digital CAREC: Analysis of the Regional Digital Gap, Phase I"* which finds the highest digital gaps in e-payments and e-commerce, and moderate gaps in digital access and infrastructure across six CAREC countries – Afghanistan, Azerbaijan, Kyrgyzstan, Pakistan, Tajikistan, and Uzbekistan. The CAREC countries have not fully benefited from the digital economy transformation and face such issues as outdated regulations, uncompetitive investment policies, varied digital infrastructure, absence of a national digital platform agenda, heavy reliance on primary industries, and fragmented governance structure.

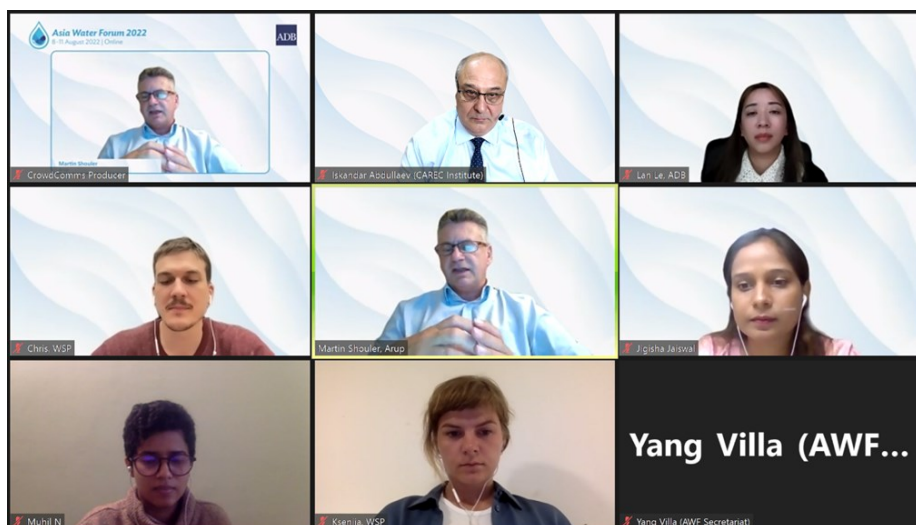
CAREC Institute Participates in Discussions at the Asian Water Forum

Dr. Iskandar Abdullaev, Deputy Director Two of the CAREC Institute, presented at the Asia Water Forum the issues of promoting the sustainable financing and private participation in the Central Asian water infrastructure. The Asia Water Forum was organized by the Asian Development Bank under the title of “Toward a Resilient and Water-Secure Asia and the Pacific” from 8 to 11 August 2022.

increasing population are leading to stronger regional competition for water resources, which may limit the future economic development of the region.

The Central Asian region faces high demand for infrastructure financing which amounts to 8-10% of GDP per annum. The World Bank estimates that the Central Asian region needs investments of at least US\$20-25 billion to restore or expand outdated and develop new infrastructure. However, countries' investment opportunities are limited due to infrastructure bottlenecks and high public debt. The participation of the private sector in investments in the water sector is practically non-existent due to the lack of investment incentives. As the result, the water sector is predominantly financed from state budgets and managed by state or semi-state organizations. Current government funding is insufficient to meet the growing needs, leading to the deterioration of the water supply infrastructure.

In his closing remarks, Dr. Abdullaev presented policy recommendations for improving private sector participation in water sector finance in the Central Asian region. He emphasized the importance of introducing public-private partnerships in the field of irrigation services, improving the legal framework and investment climate for private sector participation, increasing efficiency, accountability and transparency in water management, promoting integrated water resources management, building the necessary skills, reforming the agriculture sector to generate higher demand for private sector water services, leasing irrigation facilities to the private sector. Dr. Abdullaev proposed the creation of a water-energy consortium for Syr Darya and Amu Darya to jointly finance and operate transboundary infrastructure. Such a consortium will enhance the region's ability to access international funding, which could benefit regional water infrastructure.



Participants of the panel discussion at the Asian Water Forum.

The Asia Water Forum provides a platform for sharing knowledge on water information, innovation, and technology and aims at discussing ways to identify and adopt innovations that best address the requirements for a resilient and water-secure Asia and the Pacific, and to keep the profile of water high on the region's development agenda.

Dr. Abdullaev spoke about water sector problems in the Central Asian region, which are exacerbating due to climate change and increasing demand for water. Water remains the main engine of social and economic development in Central Asia, and access to water resources is a key economic, social, and political priority of national governments in the region. However, the region is already facing water shortages because of the impact of climate change. Projections show that the per capita water supply in Central Asia will decrease from 2500 to 1400 cubic meters/per capita per annum. The impact of climate change and the growing demand for water because of

Webinar “Debt and Financial Sustainability in the CAREC Region”

On August 24, the CAREC Institute hosted a webinar on “Debt and Financial Sustainability in the CAREC Region” that discussed the comprehensive overview of the debt situation and fresh evidence on broad-based debt accumulation in the CAREC region by considering the individual country growth dynamics.

Mr. Syed Shakeel Shah, Director of the CAREC Institute, in his welcoming speech, emphasized the importance of public and external borrowing as an important economic tool to finance critical investments - crucial for accelerating economic development and growth, more importantly, coping with the effects of crisis caused by the COVID-19 pandemic. The COVID-19 pandemic and the ongoing geopolitical conflict in Ukraine have presented developing countries with difficult challenges in maintaining their financial health. To maintain existing long-term policies, governments are often forced into costly fiscal support packages to counter economic shock and manage inflation. This increases borrowing. As a result, the debt situation in developing countries is deteriorating, which puts pressure on balance of payment deficit and foreign exchange reserves. To overcome the fiscal crisis, the CAREC countries must have effective debt management and debt transparency mechanisms in place. Furthermore, constant economic restructuring reform need to be held to strengthen the competitiveness of domestic economies to increase export revenue and improve resource mobilization. Strengthening the combination of macroeconomic policy with fiscal policy framework together with debt management strategy is crucial to ensure the debt sustainability of the CAREC countries.

Dr. Ghulam Samad, Senior Research Specialist of the CAREC Institute, discussed the findings of Chapter 4 of the CAREC Institute’s Annual book *“Debt and Debt Sustainability in the CAREC Region.”* He stressed that

debt sustainability is not a technical assessment though a lot of technical issues feed into the debt sustainability assessments but eventually, debt sustainability is judgmental as it considers lots of different economic things. Debt sustainability should not be linked to a threshold if a country is above or below that threshold will be considered debt unsustainable or sustainable. The level of debt is not important for a country’s assessment, but three important factors like structure of the debt, the nature of economic policies, and the trajectory going forward. The level of debt (debt to GDP) in the advanced economies is around 150%; in contrast, the level of debt to GDP in Sri Lanka and Pakistan was around 100% and 75%, respectively. The impact in terms of debt stress or debt default is visible in Sri Lanka and Pakistan.

Resident and non-resident debt paints a very different picture, highlighting the importance of the disaggregated debt structure dimension in debt sustainability analysis, which implies different approaches to debt management. The study also shows that sustained large budget deficits, current account deficits, currency depreciation, reduced foreign direct investment, and depletion of foreign exchange reserves are the main causes of public and external debts. Some countries in the region are facing liquidity and solvency problems caused by the historical structure of their economies, the conflict in Ukraine, inflation in the region, and debt repayments. The study suggests that the CAREC countries should continue with tax policy reforms, financial sustainability strategies, and expenditure control and optimization. More importantly, countries must increase their exports and restructure their economies for sustainable economic growth.

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Speakers of the webinar “Debt and Financial Sustainability in the CAREC Region.”

The invited experts from the World Bank, the ADB, the ADBI, the IMF, the CAREC Institute, and partner organizations discussed key issues related to debt management in the CAREC region, as well as ways to resolve the debt crisis and achieve debt sustainability in the current post-crisis period. The experts agreed that the pandemic has impacted debt performance in almost all CAREC countries and suggested that countries' recovery policies should target at green and inclusive economic growth and include measures to implement structural reforms and attract more investment from the private sector by improving the business environment, strengthening regional cooperation and closer coordination with international financial institutions. Furthermore, while emphasizing the significance of the capacity of the debt management intuitions and policy makers' ability to

respond to market conditions on time, the experts stressed the importance of the work of the CAREC Program and the CAREC Institute to promote macroeconomic policy dialogue, regional learning and coordination, including the development of appropriate countercyclical policy responses at the regional level.

Dr. Iskandar Abdullaev, Deputy Director Two of the CAREC Institute, concluded the discussion by underlining the role of development partners in enhancing the quality of the debt management institutions in the CAREC countries, and the importance of in-depth analysis and transparency for stronger coordination between macroeconomic policy, fiscal framework and debt management strategy in the medium term.

Research Digest: Household Energy Consumption During the COVID-19 Pandemic

CAREC Institute Annual Book's Chapter 9 *"Household Energy Consumption Behaviors During COVID-19 in Mongolia"* by Dina Azhgaliyeva, Ranjeeta Mishra, and Kamalbek Karymshakov investigates the determinants of household demand for space heating in Mongolia and compares differences before and during the COVID-19 pandemic.

In cold developing countries like Mongolia, heating is a basic survival good and lockdowns due to COVID-19 have made people spend more time at home, changing the fuel needs for cooking and heating. At the same time, Mongolia is experiencing an increasing urbanization, the growing overall population and the impacts of climate change which have led to an increase in energy demand. The country requires access to reliable and clean heating services for survival.

The authors compared data from the December 2020 and 2018 UNICEF MICS Plus Longitudinal Household Survey rounds collected from 2,000 households. The comparison shows that more households switched to cleaner heating in 2020 compared to 2018. The share of households using central heating increased from 19% in 2018 to 26% in 2020, and the share of households using improved fuel for their heating increased in 2020. However, between 2018 and 2020 there was no significant difference in the proportion of households using cleaner fuels and technologies for heating (district heating, renewables and

electricity), as clean heating is mainly used by wealthier and more urban households.

Using the multinomial logit model, the authors studied the factors affecting the choice of space heating system in Mongolia. The regression results show that in December 2020, during the COVID-19 pandemic, compared to 2018, households were more likely to use district heating and manufactured space heaters than cooking stoves for heating. This could be due to the need to spend more time at home due to lockdowns and the preference for staying in a warmer and more comfortable home.

The regression results also show that female-household heads are more inclined toward adopting a cleaner source of residential heating. The authors suggest the government to focus on women-centric interventions, where the primary beneficiaries are female household members, to raise awareness and use cleaner energy sources.

Households located in rural locations showed a reduced probability of using central heating. The authors suggest to focus on efficient production, transmission, and distribution to improve the central heating system and expand its network to newly developed areas. The use of clean heating is particularly important during lockdowns such as during the COVID-19 pandemic, to avoid the hazardous effects of indoor pollution due to indoor solid fuel combustion.

Research Digest: E-Commerce Taxation in Central Asia

CAREC Institute Annual Book's Chapter 2

"E-Commerce Taxation in Central Asia: The Current State and Opportunities for Reform" by Nikolai

Milogolov examines tax policy developments in the context of digitalization in Central Asia's four economies: Kazakhstan, the Kyrgyz Republic, Tajikistan, and Uzbekistan.

Applying a comparative case study research approach to explore the state of play in e-commerce tax regulation, tax administration development, and the economic significance of trade in digital services, the author offers some recommendations for tax policy.

The e-commerce landscape varies across the four countries, with Kazakhstan and Uzbekistan leading the way. The tax policy of Uzbekistan is particularly active in regulating e-commerce, providing significant tax incentives in this sector. At the same time, there is a significant underdevelopment of the necessary infrastructure for e-commerce taxation, especially in the Kyrgyz Republic, Uzbekistan and Tajikistan. Investment projects are needed to close the development gap between all three countries and Kazakhstan. In addition, Kazakhstan has a significant negative balance in digital services trade (DDS), mainly outside of Central Asia, which requires lowering barriers for DDS providers.

In Kazakhstan, Tajikistan, and Uzbekistan, foreign digital services are subject to VAT in accordance with the OECD recommendations for taxing digital services in the state in which they are consumed. This requires registration of foreign suppliers with local tax authorities. The Kyrgyz Republic did not join this trend but announced its intention. This regional harmonization of indirect taxation policies – the adoption of the same VAT rules for e-services based on place of destination principle – is important for creating a level playing field and ensuring tax neutrality at the international level.

The issue of taxing the profits of Big Data "consumer-facing" foreign digitalized multinational enterprises (MNEs) is not yet being addressed in all four countries with any unilateral measures. Introduction of a unilateral measure by one state can create a barrier to its market and therefore loss in regional economic competition in the e-commerce sector. Therefore, the Central Asian countries need to have own regional position on taxing the profits of Big Data consumer-facing MNEs with virtual economic presence there. Such a position could be different from the OECD Pillar 1 proposal because three of the four Central Asian countries are not participating in the BEPS Project.

Incorporating the new Article 12B (income from automated digital services) of the UN Model Convention into national tax treaty policy can be a relevant option for Central Asian countries. However, this requires renegotiation of all bilateral tax treaties, which is hard to achieve in practice and takes a long time.

The author suggests countries to have a unified position for a regionally harmonized turnover tax on the gross revenues of foreign digitalized businesses (DST) based on the common model legislation. The DST is targeted at economic rents obtained by foreign digitalized MNEs. Such a DST has two important advantages: fiscal efficiency and simple design. This tax could be administrated by the mechanism used for the VAT on digitally provided services; therefore, it is technically feasible. Some countries of the region (e.g., Uzbekistan and Tajikistan) and other developing countries already apply specific indirect taxes (excises) as a tool for the fiscal extraction of rent in the telecommunications sector. The author suggests that the DST is fiscally efficient and simple, yielding tax revenues that are crucial for Central Asian countries to finance their digital development gaps. The model regional legislation will minimize the current distortions in tax policies among these countries and create a level playing field for their intraregional market.

Finally, tax systems are not only about collecting taxes but also about helping businesses. Kazakhstan and Uzbekistan have already introduced some tax benefits for e-commerce businesses. As the well-tailored and simplified tax system promote the formalization, the author suggests the creation of simple and clear tax conditions for the leading foreign and local e-commerce platforms operating in the SMEs' markets. The digital platforms can perform the following functions in the tax compliance process: firstly, they can withhold taxes as a tax agent, and secondly, they can provide tax authorities with real-time information about the activities taking place on the platforms. Mobile applications can be used as effective tools for self-assessment and tax payment by the self-employed. Such tax developments could create simple, transparent and neutral tax conditions for SMEs and self-employed service providers trading through digital platforms. The digitalization of tax administration can be used to level the playing field in digital markets between local and foreign suppliers, to lift the self-employed out of the informal economy, and to tax new forms of digital business such as internet platforms.

Upcoming Events in September



The Sixth Annual CAREC Think Tank Development Forum (CTTDF) will be organized in a hybrid format (physical and online) in Baku, Azerbaijan, on September 15-16, 2022, under the theme "Recalibrating Growth Dynamics for Inclusive and Sustainable Economies." The Forum is organized in partnership with ADB-PRC Regional Knowledge Sharing Initiative (RKSI), Economic and Scientific Research Institute (ESRI) of the Ministry of Economy of Azerbaijan, Center for Economic and Social Development (CESD), Azerbaijan, and supported by the ADB.

Link for virtual Forum participation:

<https://us02web.zoom.us/j/84309633286?pwd=V1UxOHJDV3lRMnN3Mmpnb2Zlb295Zz09>

Meeting ID: 843 0963 3286, Passcode: 227456

The CTTDF is annually organized under the auspices of the CAREC Think Tank Network (CTTN). Every year the Forum brings together leading practitioners from think tanks, multilateral development partners, governments, and the private sector from the CAREC region to brainstorm regional challenges and provide diverse perspectives and innovative solutions to address these challenges through dialogue, experience sharing, and knowledge collaboration.

In its sixth year, the CTTDF's main discussions will be around the growth, inclusivity and sustainability in the region. The leading regional think tanks and experts will present and deliberate upon, among others, (i) the outcomes of the CTTN regional research project on "COVID-induced inequalities: education, health, digital access, and women's workforce participation." (ii) the state of progress on UN Sustainable Development Goals (SDGs) in the region; (iii) climate change and green energy in the CAREC region; and (iv) geopolitical uncertainties, COVID-19, and the impact on growth and inclusivity. Lead presentations by well-known institutions and renowned experts on each topic will be complemented by country case studies by leading CAREC think tank representatives. The Forum will be live-streamed on the Zoom platform, and the CAREC Institute offers free online participation in the Forum for institutions from the CAREC region and beyond.

Established in 2017, the CTTN is a network of leading think tanks from the member countries of the CAREC Program. Consistent with the CAREC 2030 objectives to promote policy dialogue among members and development partners and deliver and disseminate quality knowledge services for regional economic cooperation, the CTTN brings together leading regional think tanks to promote regional cooperation and integration through shared ideas, information, and joint research. To this end, the CTTN administers a research grants program (RGP) to encourage member think tanks to undertake research on pressing regional issues and organize an annual CAREC think tank development forum (CTTDF) to serve as a platform for the exchange of ideas and knowledge.

For more information about the CTTN, CTTDF, and RGP, please follow this QR code:



Upcoming Events in September

Workshop on Promoting Sustainable Economic and Social Development

Date & time : 26-30 September 2022, 15:00 – 17:30 (Beijing/Manila time).

The CAREC Institute, in collaboration with Xiamen National Accounting Institute (XNAI), will host an online workshop on the theme “Promoting Sustainable Economic and Social Development” on 26-30 September 2022 time under the Capacity Building Program for Asian Economic and Financial Talents.

The main objective of this five-day workshop is to jointly create a platform and invite officials and experts from CAREC countries to share practical experience in sustainable economic and social development, build collective capacities, and deepen cooperation to find solutions to problems.

The workshop will invite experts from international institutions, officials from the Ministry of Finance of the People’s Republic of China, renowned scholars, and relevant executives from related institutions and enterprises. The experts and speakers will deliver lectures, present case studies, and conduct seminars on sustainable development goals, inclusive growth in the post-pandemic era, digital economy, green finance, public-private partnership, etc.

The language of the workshop will be English with simultaneous Russian interpretation. Participants can register and join the workshop through the following link:

https://us02web.zoom.us/webinar/register/WN_gFO05WmaT3eK6CPJD9Q0Yw

Forum on Developing Sustainable Economic Zones in the Central Asia Regional Economic Cooperation (CAREC) Region

Date & time: 13-14 September 2022, 9:00– 17:00 (Mongolia time).

The CAREC Institute, in partnership with the ADB and the Ministry of Economy and Development of Mongolia, will host a hybrid workshop on “Developing Sustainable Economic Zones in the Central Asia Regional Economic Cooperation (CAREC) Region” in Ulaanbaatar, Mongolia from 13 to 14 September 2022.

This two-day workshop will share trends and concepts related with the new model of economic zones as well as lessons and best practices on emerging issues and challenges faced by SEZs in CAREC countries and other regions. The workshop also aims to promote dialogue, close collaboration, and networking among CAREC countries and other regions’ policymakers and SEZ authorities, and international experts.

Second Muztagata Forum — International Academic Seminar on China-Pakistan Economic Corridor

The Second Muztagata Forum — International Academic Seminar on China-Pakistan Economic Corridor will be held in a hybrid format (physical and online) in Kashi, Xinjiang Uygur Autonomous Region of the People’s Republic of China on 23 September 2022. The forum aims to strengthen the cooperation between the academic circles of China and Pakistan, promote the high-quality development research of “the Belt and Road” and the China-Pakistan Economic Corridor, and further consolidate the China-Pakistan all-weather strategic partnership. The forum will bring renowned scholars from the PRC, Pakistan, Afghanistan, the United States, Japan, and other countries to discuss the opportunities, challenges, and approaches to promoting China-Pakistan economic corridor development.

The forum will be organized in partnership with the Research Center of China Pakistan Economic Corridor of the State Ethnic Affairs Commission (Kashi University), Central Asia Regional Economic Cooperation Institute, Shenzhen Pairing Assistance to Xinjiang Front Headquarter and Kashi Economic Development Zone with the support from Embassy of the Islamic Republic of Pakistan Beijing, Peking University, Tsinghua University, Nankai University, and Kashi Prefecture Government.

The online registration link will be shared shortly through CAREC Institute’s website. Chinese and English interpretations will be provided.

CAREC Institute

The Central Asia Regional Economic Cooperation (CAREC) Institute is an intergovernmental organization dedicated to promoting the economic cooperation in the 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 design and implementation of policies, programs, and projects to promote regional economic cooperation and integration.