



# Newsletter

## CAREC Institute Contributes to Discussions on Financial Stability in the Region

Director of the CAREC Institute, Mr. Syed Shakeel Shah, participated in the high-level panel discussion on *"Dealing with Risks and Vulnerabilities: Tightening Global Financial Conditions Amid Post Pandemic Recovery and Geopolitical Conflict"* at the 2022 CAREC Economic and Financial Stability Cluster High Level Policy Dialogue on October 4, 2022.

The CAREC region faces the rising inflation which has tightened global financial conditions, increasing investor concerns about elevated economic risks and inflation prospects in the region. A rapid increase in the policy interest rate may expose the financial system of CAREC countries to vulnerabilities that have built up from higher levels of debt and inflation. Higher financing costs are expected to weaken the solvency of firms and the repayment capacity of households. Central banks in the CAREC countries face a difficult choice between containing inflation and supporting credit growth and economic recovery. The dialogue brought together senior officials from ministries of finance, central banks, and other officials and private sector representatives from CAREC countries, as well as senior representatives from the ADB, the IMF and the WB, to discuss emerging risks and vulnerabilities to financial stability in the region and propose innovative solutions and policies to mitigate these risks.

Mr. Subir Lall, Deputy Director of the IMF's Middle East and Central Asia Department, delivered a keynote presentation on the IMF's assessment of region's outlook driven by two main factors: 1) heightened uncertainties associated with geopolitical developments, and 2) synchronized monetary tightening across the globe to deal with higher inflation. The recovery from the pandemic was mainly driven by strong domestic demand, supported by counter-cyclical policies, and borrowing in low-income countries. However, the strong response to COVID-19 has eroded the macroeconomic buffers that many countries in the region built up before the pandemic, and public debt has reached a historic high. Inflation and job losses have increased poverty in some countries. Food security in terms of availability and affordability remains a challenge. Remittances are also likely to decline due to the geopolitical tensions, reducing the disposable incomes of many, especially the poor. Continued inflation and rising poverty and inequality may exacerbate socio-political tensions, creating further risks to stability and growth. In response, central banks in the region have embarked on a tightening cycle by raising their interest rates. Global financial conditions tightened faster and sharper than expected that reflects the synchronized monetary policy response of central banks around the world to rising inflation.

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“To ensure macroeconomic stability and resilience, countries need to rebuild the buffers that have served them well during the pandemic, but this must be done in such a way as not to damage the still fragile recovery,” said Mr. Subir Lall. Monetary policies in most countries should seek to contain demand pressures and bring inflation down. Where possible, exchange rates should be allowed to adjust and absorb external shocks. Fiscal consolidation should be a priority in countries with elevated debt levels and may entail cuts in lower priority expenditure, including subsidies, while protecting growth and spending on critical infrastructure, health and education. The limited policy space in many countries raises the urgency of structural reforms to promote more resilient, sustainable, and inclusive growth, create more jobs and generate higher incomes. Some of the policies include strengthening governance and the business climate, reducing the role of the state, diversifying trade, and supporting growing transition.

Mr. Syed Shakeel Shah, Director of the CAREC Institutes, stated that even CAREC countries were able to reach their pre-pandemic economic growth rates, the new challenges such as geopolitical tensions and the conflict in Ukraine, high inflation and disruptions of global value chains worsen growth prospects. The particular concern is food inflation, especially for net importing countries of the region. CAREC countries have experienced food inflation of up to 20% in a region where food-related expenditure constitutes up to 42% of the total household expenditures. In addition, the external debt in some CAREC countries exceeds two-year export earnings that becomes visible in the trends in the foreign exchange reserves which declined over the past two years. Central Asian economies are more resilient to the shock of the conflict in Ukraine because of higher remittances and inflow of money from Russia, a strong ruble because of policy taken by Russian government. However, the increased risk of escalation of the conflict continues to pose a serious threat for CAREC region. With a risk of global economic recession, an anticipated crash of commodity prices and a new sanction package coming to force against Russia may have negative impact on the CAREC economies. The policymakers in the region should work closely with the international financial institutions to avoid situation of over-indebtedness and persistent macroeconomic imbalance, when compounded by an extended shock may result in the collapse of economies. Countries should continue economic restructuring, economic diversification, and to mainstream necessary reform processes so to strengthen their long-term macroeconomic framework.

Mr. Syed Shakeel Shah emphasized the importance of the regional cooperation in dealing with risks. The CAREC Regional Integration Index indicates at low economic integration of the region requiring more proactive actions to improve the trade of goods and services, and movement of capital and people. The “soft” side of the regional cooperation should be strengthened by introducing regional single windows data interchanges for easily flow of trade through borders. The CAREC countries should continue working on health issues and strengthen the current regional arrangements to prevent future outbreaks. Countries must work closely together on food security and climate change adaptation and mitigation as the region is already experiencing mega climate-related events. In this regard, the CAREC Program and Institute are working together to promote cooperation among countries in these areas and develop policy recommendations and conduct advocacy campaigns.

Country delegates - Mr. Koba Gvenetadze, Governor of the National Bank of Georgia, Mr. Jameel Ahmad, Governor of the State Bank of Pakistan, Mr. Enkhtaivan Ganbold, Deputy Governor of the Central Bank of Mongolia, and Mr. Rustam Tahirov, Head of the Financial Stability Department at the Central Bank of the Republic of Azerbaijan - further shared their experiences and insights on rising risks from deteriorating global economic outlook and tighter global financial conditions, as well as the policy measures taken by their institutions to mitigate risks and vulnerabilities.

## CAREC Institute Presents Its Climate Change Reports at Harvard University Webinar

The CAREC Institute and the Center for Russian and Eurasian Studies at Harvard University jointly organized an open webinar “*Central Asia’s Climate Risks: Can Energy Diversification Help?*” on October 25, 2022. The webinar brought together academia, policy makers and representatives of international financial institutions to discuss climate change and mitigation measures affecting the water-energy nexus in Central Asia.

The webinar discussed vulnerability to climate change, the current state of the water-energy relationship, and gaps and prospects for regional cooperation in Central Asia, based on the findings of three recent reports published by the CAREC Institute: 1) [\*Climate Vulnerability, Infrastructure, Finance and Governance in CAREC Region\*](#), 2) [\*Sustainable Pathways to Energy Transition in the CAREC Region: A Governance Perspective\*](#), and 3) [\*Water-Agriculture-Energy Nexus in Central Asia Through the Lens of Climate Change\*](#).

Mr. Shakhboz Akhmedov, Senior Research Fellow at the CAREC Institute, opened the discussion by highlighting the climate change challenges and providing statistical analysis of increasing frequencies of extreme climate events in the Central Asian region. Countries in the region exhibit much higher rates of temperature rise than the world average over the past hundred years. The temperatures are predicted

to rise in the future, influencing changes in precipitation patterns and annual volume, and seasonal patterns of rivers’ run-offs. This further exacerbates the water scarcity already seen in the southern part of the region.

Dr. Iskandar Abdullaev, Deputy Director Two of the CAREC Institute, further discussed the relationship between water resources, agriculture, and energy in Central Asia. Due to both continued population growth and economic development, energy projections indicate that power demand in Central Asian countries will increase by at least 50% and in Kazakhstan by almost 90% by 2050. Central Asian economies face energy shortages, aging infrastructure, and increasingly inefficient and unreliable energy-generating facilities. “Adding new capacities of all types of renewable energy sources will improve reliability and cover the energy demand in the future. However, while energy-rich countries are actively using new renewable energy resources and developing the standard principles and specific legislation, the energy-poor countries lack financial capacity and seek outside funding,” said Dr. Iskandar Abdullaev.



Speakers of the webinar organized by the CAREC Institute and Harvard University.

Dr. Johannes Linn, ADB Consultant, contributed to the discussion by highlighting the preliminary findings from a new ADB-commissioned

study on climate change in the CAREC region. The purpose of the study is to identify the major climate change issues in the region and explore the role and mechanisms of regional cooperation on climate. The report identifies seven core areas that CAREC countries commonly worry about the impact of the climate change are: energy, water, agriculture, transport, cities, disasters, and health. The seven cross-cutting issues for addressing climate change in the region include 1) macroeconomic management in relation to climate change and transition, 2) ICT and digital development, 3) hydrometeorological development, 4) institutional capacity in the countries for dealing with climate change, 5) the costs and benefits of climate actions, 6) just transition, in particular, the gender dimensions of climate action, and 7) how best to communicate and advocate for climate change action. The report also provides an analysis of three important policy aspects -- the national climate commitment and strategies for each of the 11 CAREC countries; financing requirements and potentials; and the scope and existing institutional platforms for regional action.

All panelists agreed that the insufficient regional cooperation on climate change could contribute to the region's vulnerability to climate change and suggested that strong regional cooperation and governance mechanisms could help reduce negative consequences of the climate impact.

## CAREC Institute Continues Strategic Partnership with Sustainable Development Policy Institute

On October 25, the CAREC Institute and the Sustainable Development Policy Institute (SDPI) of Pakistan signed a new Memorandum of Understanding reaffirming their intention to continue their cooperation in strengthening regional cooperation and integration to promote sustainable economic development and shared prosperity. The first memorandum between the CAREC Institute and the SDPI was signed on April 02, 2018. The partnership aims at supporting the mechanisms for the exchange of knowledge and experience between two institutes. The parties agreed to jointly organize and participate in forums, conferences, trainings, seminars, and academic and professional meetings, provide necessary mentorship and learning opportunities for young professionals, conduct joint research, and foster capacity building activities.

The parties also agreed to organize regular consultation meetings to determine priority areas for joint activities under the newly signed Memorandum of Understanding.



Signing ceremony of the new Memorandum of Understanding between the CAREC Institute and the SDPI.

## Economic brief: Environmental, Social, and Governance in the CAREC Region

[CAREC Institute's recent economic brief](#) looks at the Environmental, Social, and Governance (ESG) development in the CAREC region. ESG, which embeds environmental, social, and governance considerations into investment and business activities, has been an important direction of sustainable finance. ESG development can help accelerate the transition of CAREC member countries to green, sustainable economies, given the region's relatively fragile natural and geographical conditions.

The CAREC country members have varying levels of ESG policy and investment development. ESG disclosure and transparency have been improving in recent years in several CAREC members while much progress still has to be made in the practical development and implementation of ESG frameworks. All stakeholders, including governments, financial institutions, standard setters, industry groups, academic institutions should work together to better shape ESG strategies at the national and multinational levels and design and implement ESG rules and standards at the firm level and to accelerate the process of ESG development.

### About SDPI

Sustainable Development Policy Institute (SDPI) is established in 1992 as an independent policy think tank that provides advice to public, private, and voluntary organizations, and undertakes policy-oriented research and advocacy. The SDPI produces knowledge that can enhance the capacity of government to make informed policy decisions and to engage civil society on issues of public interest.

For more information visit SDPI's [website](#).

### Some examples of ESG factors:

#### Environmental

- climate change
- carbon management
- resource depletion
- waste and pollution
- loss of biodiversity
- energy consumption

#### Social

- job creation and working conditions
- equal opportunity
- employee conditions and diversity
- impacts on local communities
- social impact of products
- gender-based violence and harassment

#### Governance

- values and culture
- board diversity and structure
- ethics and compliance
- shareholder rights
- disclosure and transparency



## CAREC Institute Concludes Preliminary Discussions of Its Upcoming Background Report for a “Post-Pandemic Framework for a Green, Sustainable and Inclusive Recovery”

On October 10, the CAREC Institute, in collaboration with the CAREC Secretariat, organized a virtual consultation meeting to discuss the preliminary findings of the institute’s background report for a main deliverable for the CAREC Ministerial Conference “*Post-Pandemic Framework for a Green, Sustainable and Inclusive Recovery*.” The meeting was the final event in a series of preliminary discussions held by the CAREC Institute with experts from national and regional think tanks, and the CAREC Institute’s Advisory Council. The final discussion brought together representatives from ADB, the CAREC Institute, and national governments of CAREC countries to share feedback on the report’s findings and policy implications.

Mr. Syed Shakeel Shah, Director of the CAREC Institute, welcomed the participants of the meeting, emphasizing the importance of the study conducted by the CAREC Institute for policy actions in the current incredibly complex operational environment. “There are many challenges triggered by COVID-19 pandemic and the geopolitical situation that have led to very high inflation, especially food inflation, disruptions in global value chains and problems of balance of payments. The report provides important policy recommendations on how to sustain long-term growth and strengthen regional economic integration,” said Mr. Syed Shakeel Shah.

Ms. Lyaziza Sabyrova, Director of the Regional Cooperation and Operations Coordination Division, ADB’s Central and West Asia Department, welcomed the meeting’s participants, emphasizing the need for cooperation for a green, sustainable, and inclusive recovery in the region. She mentioned about “three C” challenges the region is facing: the first “C” is COVID-19, which is having a negative impact on education, health and jobs. The second C is climate change affecting the CAREC region, exemplified by the recent flooding in Pakistan. And the third “C” is the conflict between Russia and Ukraine, which caused inflation, rising interest rates and the cost of capital, and an influx of emigrants into the region. Addressing these issues collectively and adopting corrective

economic policies depend on the connectivity, economic integration, and cooperation among the CAREC countries.

Dr. Hans Holzhaecker, Chief Economist of the CAREC Institute, then presented the findings of the report. He stressed that most CAREC economies outgrew the COVID-19 recession in 2021 as consumption and foreign trade recovered. However, the mineral fuel net importers saw foreign trade deficits widen. Public debt in CAREC countries increased in 2020, and in some countries the high share owed to non-residents makes refinancing difficult. The CAREC countries have been exposed to immense impacts of climate change such as water shortages, food insecurity, loss of livelihoods, health issues, and natural hazards. CAREC countries need to increase productivity and advance social protection, gender equality and women’s empowerment together with further upgrading education and health care to achieve inclusive green growth and sustainable economic development. The productivity push should come in digitalization, trade facilitation, foreign direct investments, and the development of human capital.

Mr. Saad Paracha, Unit Head of the ADB’s CAREC Program, spoke about the Framework for a Green, Sustainable and Inclusive Recovery which includes recommendations on key policy actions for the CAREC region that are developed based on the preliminary discussions of the research findings. “The framework includes four important principles: i) productivity push through digitalization, innovation and investment; ii) green growth through climate action, sustainable agriculture and energy transition; iii) promoting equality through social protection, gender, education and health; and iv) promoting a stronger, more resilient regional cooperation,” said Mr. Saad Paracha.

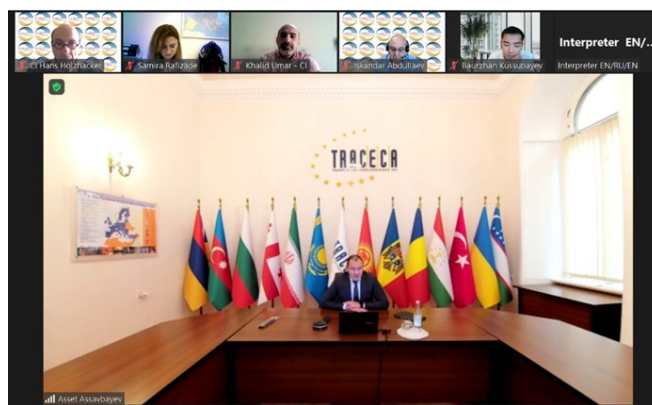
The final discussion of both the report and the framework will take place during the upcoming CAREC Ministerial Conference, where CAREC ministers will identify top joint priorities for the post-pandemic recovery based on regional cooperation and economic integration.

## Partnership Meeting Between the CAREC Institute and TRACECA

Representatives of the CAREC Institute, Deputy Director Two Dr. Iskandar Abdullaev, Chief Economist Dr. Hans Holzhacker and Head of the Strategic Planning Department Mr. Khalid Umar, held a partnership meeting with Mr. Asset Assavbayev, Secretary General of the Permanent Secretariat of the Intergovernmental Commission TRACECA on October 21, 2022.

The parties briefed each other about current activities and focus of research aimed at the development of transport corridors as a sustainable multimodal transport network that contributes to the smooth and uninterrupted trade flow in the Central Asian region. Dr. Iskandar Abdullaev informed the TRACECA representatives about CAREC Institute's research on digitalization and performance assessments of the CAREC corridors, as well as about distance and online learning courses which are provided using a specially developed e-learning platform of the institute.

The meeting concluded with a mutual exchange of views on such areas of cooperation as digitalization and integration of trade corridors. Both sides exchanged invitations to upcoming events in 2023 and agreed to continue working on developing joint activities.



Partnership meeting between the CAREC Institute and TRACECA.

### About TRACECA

**Sustainable Development Policy**  
Transport Corridor Europe-Caucasus-Asia (TRACECA) is an international transport program involving the European Union and 12 countries of the Eastern European, Caucasus and Central Asian region.

The Intergovernmental Commission TRACECA supports initiatives promoting the development of regional transport dialogue and ensuring the efficient and reliable Euro-Asian transport links, promoting the regional economy on the whole.

For more information visit TRACECA's [website](#).

## Field Visits: CAREC Institute Advises on Climate Change and Resilience in Central Asia

Dr. Iskandar Abdullaev, Deputy Director Two of the CAREC Institute, participated in a field trip from 27 to 30 September to selected small river basins in the Fergana Valley to present the results of institute's research and capacity building activities related to climate change. This is a knowledge-sharing initiative organized to support transferring new knowledge into practice to improve the resilience of livelihoods to climate change.

During the field visit, Dr. Abdullaev discussed the results of the CAREC Institute's climate vulnerability research study and shared information on the current water and agriculture situation and potential impact of climate change on livelihoods of people in the Fergana Valley. Dr. Abdullaev participated in meetings with experts from local hydrometeorological and water authorities to discuss water management, the impact of climate change on water resources and people's livelihoods, such as reduced food production, water consumption and loss of jobs in agriculture.

The field trip was organized under the project "Climate Change and Resilience in Central Asia" implemented jointly by UNDP and the Center of Hydrometeorological Service of the Republic of Uzbekistan. The project aims to support stability and climate resilient development in the Fergana Valley, a transboundary area among the Kyrgyz Republic, the Republic of Tajikistan, and the Republic of Uzbekistan. The project facilitates risk-informed policymaking and the integration of climate-fragility risks into water policies and river basin management plans to improve the sustainable use of water resources in the Fergana Valley.



Meeting with local stakeholders during CAREC Institute's field visit to the Fergana Valley.

## CAREC Institute Participates in the SDG<sup>nexus</sup> Network Meeting

The CAREC Institute, represented by Deputy Director Two Dr. Iskandar Abdullaev, took part in the meeting of the SDG<sup>nexus</sup> Network Project on October 10-15, in Giessen, Germany. The purpose of the meeting was to review the progress of the project in 2020-2022, discuss the new opportunities and directions of cooperation in the field of academic research in the Central Asian region.

The SDG<sup>nexus</sup> Network is a global community of higher education institutions and research centers committed to promoting the Agenda 2030 for Sustainable Development. Network members are dedicated to achieving this by establishing a common research framework related to the Sustainable Development Goals, building on existing experience, acquiring and sharing knowledge to strengthen development cooperation and contribute to the

national economies and academia.

Dr. Iskandar Abdullaev contributed to various aspects of the progress review and planning of the SDG<sup>nexus</sup> Project, highlighting potential new areas for intervention in advancing digitalization, poverty reduction, energy transition and water management in the CAREC region. Dr. Abdullaev briefed network members on CAREC Institute's Visiting Fellows Program, Think Tank Grants Program, CAREC Think Tank Development Forum, Policy Dialogue series, and other activities as potential opportunities for regional partnerships between higher education institutions and research centers in the CAREC region.

Dr. Abdullaev expressed the readiness of the CAREC Institute to cooperate with the next phase of the SDG<sup>nexus</sup> Network Project as its regular member.



Participants of the SDG<sup>nexus</sup> Network Meeting.

## Research Digest: Potential “One Tambon, One Product” Programs for Kazakhstan and Mongolia

The study *[“Community Entrepreneurship in Central Asia: Learning From the One Tambon, One Product Program in the Greater Mekong Subregion”](#)* by Linda Tjia Yin-nor and Guanie Lim, funded by the CAREC Think Tanks Network Research Grants, analyzes the possibilities of using the local entrepreneurship stimulus program “One Tambon, One Product” (OTOP) for production of camel wool in Mongolia and halal-certified lamb in Kazakhstan. The study analyzes the rural and sector developmental issues and OTOP’s adaptability in Mongolia and Kazakhstan.

Looking at the experience of the Greater Mekong Subregion, the authors identify critical success factors for a successful OTOP — strong and determined leadership at the national and local levels, material commitment over a long period, which is usually provided by the national government with some foreign assistance, and the OTOP program must be initiated by the national government and run by local communities.

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In June 2005, the Government of Mongolia approved the One Settlement One Product Program (OSOP), which is an integral part of the rural development and livelihoods policy. Mongolia also has the world's largest population of Bactrian camels. OSOP in Mongolia has made some progress in premiumizing camel hair as a rare organic product with great export potential. Mongolian camels need to withstand the extreme cold of winter and the desert heat of summer; thus their wool has exceptional thermostatic properties: it is durable yet light. Moreover, a recent study on baby (one-year-old) camel hair showed that when combed rather than sheared, its fibers are as fine as cashmere and, when properly processed, produce comparable end products. In this way, baby camel wool can become a new luxurious yet sustainable fiber that can be promoted as an alternative to cashmere.

The authors propose to improve collaboration between herders, manufacturers and academia to improve the value chain at all levels: breeding camels for wool, developing more efficient and cheaper processing methods, dyeing camel hair and manufacturing finished products. The stakeholders need to increase the learning opportunities for herders on camel breeding, proper ways and tools to harvest, sort, and price camel wool and link directly herders and their cooperatives to domestic and international manufacturers and marketplaces. In addition, OSOP's one-stop shop should be promoted to provide comprehensive assistance in product development, marketing, and access to finance and markets. Domestic and international promotion of baby camel wool will help to better inform customers about fiber's cashmere-like properties. The government should continue to offer policy incentives for the processing of camel wool and the production of finished products in Mongolia, as well as take measures to improve customs control to prevent the entry of fake camel wool products into the country and protect Mongolian certification marks and trademarks at the international level.

OTOP/OVOP is a new program that has been partly delayed due to the COVID-19 outbreak in Kazakhstan. OVOP-facilitated halal-certified lamb has great potential to achieve export suitability through four stages of product premiumization: 1) developing a strong brand; 2) maintaining consistent product quality; 3) meeting customer satisfaction; and 4) connecting to local society and culture.

The authors consider it appropriate to initiate the OTOP program to raise native purebred lambs among small farms in the eastern and northwestern parts of Kazakhstan for three reasons. First, the northern part of Kazakhstan already specializes in large private farms and agriculture enterprises to rear cattle for meat and milk to maximize land productivity. The production of sheep and goat milk is small, and large farms raise sheep mainly for wool. Considering the low level of purchases and the small number of stocks in the eastern and northwestern parts of Kazakhstan, these regions have great potential to create a strong brand of purebred lambs in Kazakhstan. Second, there are practices and preference in smaller households to keep sheep and goats for self-consumption and trade at local bazaars because they are small and are quicker to consume than cattle. They usually house their cattle in the backyard for the night and graze them in the pasture for a half day's walk. This style of family farming with place-based personalistic care is the best way to relate to the premiumization of indigenously bred lamb. The authors suggest that Ust-Kamenogorsk, Semey and Taldykorgan in the east of Kazakhstan and Aktyubinsk in the northwest can become experimental zones of premium farming.

The authors recommend that key stakeholders in Kazakhstan should facilitate the identification of the indigenous lamb by providing necessary assistance to local households, such as access to land and insurance against extreme climate conditions. The government should implement a detailed and holistic approach to halal certification that eliminates domestic and regional discrepancies, as well as provide subsidies and trainings on halal certification to specific premium halal lamb processors. Businesses, in turn, must develop customer loyalty to premium halal products by ensuring a 100% halal supply chain. Local authorities can play an important role in the production of halal meat by providing government subsidies, allocating resources to facilitate company registration, halal trademark certification, disease control, meat quality assurance, logistics infrastructure, as well as veterinary control, measures to mitigate the effects of extreme weather events. Local governments should also consider taking necessary steps to delineate core and niche markets between large and small producers, address deep-rooted tensions between them, and help small-scale herders improve access to pastures, waterways and public road transport.



# Research Digest: Fostering Prosperity in the Fergana Valley

The study on *"Fostering Prosperity in the Fergana Valley through Economic Development, Cross Border Trade, and Investment"* conducted by Sobir Kurbanov under the CAREC Institute's Visiting Fellow Program sees the Fergana Valley as a center of regional growth and prosperity for the whole of Central Asia.

The Fergana Valley, uniquely located at the crossroads of historical regional trade, economic and transport corridors and the interstate borders of Uzbekistan, Tajikistan and Kyrgyzstan, has unique opportunities and strong comparative advantages for economic prosperity and growth throughout Central Asia. It's about 14 million inhabitants, occupying only 0.5% of the territory of Central Asia, make up more than 20% of the entire population of Central Asia. In addition, the Fergana Valley is about 300 km long and 170 km wide, making it one of the most densely populated parts of the Central Asian region. The Fergana Valley is divided between Uzbekistan (with 60% of valley's territory), Tajikistan (25%) and Kyrgyzstan (15%). The valley not only includes some of the most productive agricultural land, but also has a relatively high level of industrial development compared to other parts of Central Asia. All three regions of Uzbekistan that are part of the Fergana Valley (Andijan, Namangan and Fergana) produce about 20% of the national GDP and almost 40% of all agriculture. Other provinces are Sughd in Tajikistan, making up nearly 45% of national GDP; and Batken, Osh, and Jalalabad in Kyrgyzstan, making about 13% of national GDP.

The recent liberal open market reforms launched in Uzbekistan removed existing barriers to trade and created unique opportunities to unlock regional economic cooperation potential in the Fergana Valley. Valley's economic potential is the strongest in Uzbekistan due to a relatively large number of growth factors, including entrepreneurial workforce, modern production, attractive destinations for tourism and services, competitive SMEs, textile, agricultural and food processing capacity.

Horticulture is seen as one of the main potentials for developing regional competitive value chains

that drive growth and competitiveness in the Fergana Valley. This is due to the unique fertile irrigated lands and climate of the valley. There are unique opportunities for the export of organic fruits and vegetables to Russia and China using existing transport corridors.

The region also faces high risks, including a legacy of un-delineated borders putting pressure on shared natural resources (water and land) and infrastructure amid high population density, poverty and environmental degradation. In addition, various trade and non-trade barriers created by cross-border countries, lack of infrastructure and fragmentation complicate the prospects for regional integration. Lack of connectivity and infrastructure, economic isolation, high poverty and lack of employment opportunities are causing the mass labor emigration of young male population. These risks cause permanent fragmentation, increase the likelihood of conflict, and may ultimately undermine prospects for regional growth and economic integration.

The author suggests that the countries of the Fergana Valley, in the spirit of the ongoing reforms in Uzbekistan, continue trade liberalization, harmonize border and customs administration and procedures using digital technologies, and improve logistics, including trade and transit infrastructure, which can further bring significant benefits in developing trade and attracting investment to the region. The stakeholders should develop co-production centers and strengthen cross-border value chains, and explore other forms of mutually attractive cross-border economic cooperation that enhance the competitiveness of the regional economy. The continued strong political will of national governments to address specific regional issues and active partnerships between them, involving the private and civil sectors, are critical to the economic development of the region. In the report, the author provides detailed recommendations for national governments, international development agencies and the private sector.

## About 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.