COUNTRY-LEVEL POLICY PROPOSALS to STRENGTHEN REGIONAL INTEGRATION

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In 2017, the CAREC Institute has designed the CAREC Regional Integration Index (CRII) based on the Huh and Park Asia–Pacific Regional Cooperation and Integration Index (RCI) to measure the depth and breadth of regional economic cooperation among the 11 member countries. It compares the intra-CAREC state of integration vis-a-vis regional and global integration index rankings. It also helps identify policy gaps and provides policy recommendations to enhance regional integration.

Following the lead of RCI, the CRII includes 26 indicators that measure various aspects of regional integration along six dimensions: (i) trade and investment integration, (ii) money and finance integration (MFI), (iii) regional value chains, (iv) infrastructure and connectivity, (v) free movement of people, and (vi) institutional and social integration. The 26 indicators are normalized and aggregated using principal component analysis to yield an index ranging from 0 to 1, with higher values representing higher levels of integration.

Within the specific context of the CAREC region, **regional integration is a strategy that promotes the benefits of collective and collaborative activities among member countries through economies of scale, more vigorous intra-regional trade, expansion of markets, shared information platforms for exchange, and harmonized frameworks for social and economic interaction.**

Based on the CRII indices, Dr. Teresita Cruz-del Rosario, Research Consultant of the Asian Development Bank under TA8301, has prepared the country-level policy proposals to strengthen the regional integration.

Central Asia Regional Economic Cooperation (CAREC) Institute
No. 376 Nanchang Road, Urumqi, Xinjiang, the PRC
f: +86.991.8891151
LinkedIn
km@carecinstitute.org
www.carecinstitute.org

Salient Findings

Countries that score above the regional average (0.373) on the integration index are Kazakhstan, the PRC, and Kyrgyzstan.

Countries that fall below the average are Mongolia, Afghanistan, Pakistan, Azerbaijan, Georgia, Uzbekistan, Turkmenistan, and Tajikistan. However, when the PRC data is removed from the analysis, countries that report scores above the average are Uzbekistan, Georgia, and Tajikistan.

Pakistan, Mongolia, and Afghanistan remain below average, even after the PRC data is removed from analysis, suggesting that these countries are, in relative terms, more "dependent" on the PRC than the other countries.

The policy proposals are organized for three subgroupings as follows:

1) Countries that fall below average, i.e. outliers
2) Countries closer to the average, i.e. moderately integrated
3) Countries above the average, i.e. rather integrated

Specific Policy Proposals

Group 1: Outliers

Afghanistan: leverage its unique geographical position as a "land bridge" through investments in infrastructure and connectivity, support SMEs that form the bulk of its economy (75%), spur private sector development and entrepreneurship, address the country's energy deficiency, design more focused policies for financial development (its score for MFI is 0) to support SMEs and private sector participation.

Pakistan: extend support to regional value chains (especially in the apparel industry), invest in capacity building to advance the value chains, open up regional markets, support for infrastructure and connectivity that link Pakistan with two economic powerhouses: India and the PRC, support the energy and transport sectors by extending the CAREC corridors to the ports of Gwadar and Karachi and to the Turkmenistan-Afghanistan-Pakistan-India natural gas pipeline which will facilitate the import of much-needed energy resources for its development programs.

Mongolia: develop regional value chains in meat products to capitalize on its nomadic livestock industry and associated support for phytosanitary measures to address transboundary health challenges, invest in tourism development given its unique terrain (Gobi Desert), support the renewable energy (particularly solar and wind), reform the banking and finance sector.

Group 2: Moderately Integrated

Georgia: Prospective investment in the Anaklia Deep Seaport on the Black Sea Coast promises to be a "game-changer," potential to connect Central Asia to international markets. Continue tourism development to respond to the growing tourism market, diversify export markets for agriculture.

Azerbaijan: Synergies between the Baku Port and the proposed Anaklia Seaport and Special Economic Zone of Georgia should be explored to ensure that both platforms have positive externalities to the wider CAREC region and beyond. Economic diversification is advisable to reduce its over-dependence on the extractive industries by extending support to the agricultural sector where labor force participation is higher (36%) than in the oil sector (1%). High scores in Movement of People suggest that policy interventions are needed in border management, data management on entry/exit, institutional collaboration of migration and asylum flows, and legislative reform.

Uzbekistan: invest in energy exchange through the Central Asia Power System (CAPS) and regional connectivity along the major CAREC corridors particularly among Uzbekistan, Kazakhstan, and Tajikistan. Potential to develop and expand cross-border tourism and exploit Uzbekistan's valuable heritage sites. The policy advice extends to diversification of agriculture into high-value horticulture, livestock farming, and high-quality processing and distribution.

Tajikistan: conduct infrastructure investments in transport and energy (particularly the Dushanbe-Kyrgyz road network), reconnect to the Central Asia Power Systems (CAPS), leverage abundant hydropower resources for regional energy exchange to supply energy-deficient countries, invest in job creation and skills training to gradually move away from remittance dependency, support private sector development to reform the state-owned enterprises (SOEs).

Turkmenistan: as the world's 12th natural gas provider, investments in a regional natural gas program will promote regional energy security. The exploitation of the energy projects, such as Turkmenistan-Afghanistan-Pakistan (TAP), Turkmenistan-Afghanistan-Pakistan-India (TAPI), Turkmenistan-Uzbekistan-Tajikistan-Afghanistan-Pakistan (TUTAP) will develop a more streamlined regional energy exchange program. It is advised to diversify Turkmenistan's economy to reduce dependence on natural gas and cotton exports. The advice further extends to support the banking reform to increase the share of private sector credit to GDP, privatization of banks with credit extension to SMEs and large companies to diversify economic activity and spur employment outside the hydrocarbon sector, also investments in infrastructure to position Turkmenistan as a transport and logistics hub.

Group 3: Rather Integrated

Kyrgyzstan: advance along the regional value chain for the garment industry through the expansion of markets beyond Russia and Kazakhstan and invest in capacity building to include branding, distribution, and technology to deepen modernization of garment industry. Support SMEs to scale up and expand operations beyond Cut-Make-Trim (CMT) contracts. Invest in hydropower for energy exchange and agriculture.

Kazakhstan: Kazakhstan is the most integrated country in the CAREC region, with a score of 0.444, well above the regional average of 0.373 and the largest economy among the five Central Asian countries. It has a strong potential to be a transport and logistics hub to connect Central Asian countries with neighboring sub-regions. Kazakhstan's high score in MFI indicates the potential for promoting financial integration through the Astana International Financial Centre. Policy advice includes diversification of the economy beyond the extractive industries to reduce dependency on natural resources, use of Kazakhstan's high quality education through creation of regional knowledge centers.

The PRC: policy advice includes (re)focusing on trade and investment toward the CAREC region, investments in regional value chains to support the burgeoning manufacturing sectors, utilization of high quality education to establish regional knowledge centers (could be in partnership with Kazakhstan). More research is needed on disaggregated data for the Xinjiang and Inner Mongolia Autonomous Regions to focus on specific PRC policies in the CAREC region.

The Growth Triangle Approach

The concept of the growth triangle as promoted by the ADB in the early 90s could be adapted by the CAREC region, to "solve the practical problems of regional integration among countries at different stages of economic development and sometimes, even with different economic and social systems."

A grouping of countries into growth triangles could be explored along geographical lines or around sectors with complementarities (e.g., energy, transport, SEZs, manufacturing, labor, knowledge, etc.). This approach can reduce intra-regional competition and overlapping interests, enhance cooperation, and provide differentiated strategies for sub-regions.