Sustainable Regional Development in the CAREC Region

Regional Cooperation in the Time of COVID-19: Lessons Learned and Way Forward

A Policy Note for the High-Level Session during the ADB Annual General Meeting

ADB 53rd Annual General Meeting
Central Asia Regional Economic Cooperation
17 September 2020
Manila, Philippines
I. Introduction

- The Central Asia Regional Economic Cooperation (CAREC) Program aims to support socio-economic development in its member countries through cooperation guided by the overarching vision of “Good Neighbors, Good Partners, and Good Prospects”. Endorsed at the 16th Ministerial Conference in October 2017, the CAREC 2030 strategy seeks to expand the horizons of economic cooperation in the region by better connecting people, policies and projects for shared and sustainable development.

- CAREC 2030 envisages focus on five operational clusters going forward: (i) economic and financial stability; (ii) trade, tourism, and economic corridors; (iii) infrastructure and economic connectivity; (iv) agricultural water; and (v) human development. The integration of the use of information and communication technology across CAREC operations has also been identified as a specific priority.

- CAREC countries have an unprecedented opportunity to emerge as a center for trade and commerce, to achieve higher levels of economic growth, and to reduce poverty. These prospects are closely linked to the wider global megatrends, not least the reintegration of the Eurasian continent that is part of a real and growing demand for improved connections between Europe and Asia.

- The novel coronavirus disease (COVID-19) outbreak has presented acute local, regional and global economic challenges. However, the crisis provides unprecedented incentives for CAREC states to improve co-ordination, reduce costs for producers and consumers, and boost taxable revenues. While it is important not to underestimate the difficulties that COVID-19 presents, it is also worth stressing that the crisis also offers unique opportunities.

- The purpose of this session is to consider how best to draw lessons from the past about the benefits of co-operation in order to better understand current global trends, to create synergies, and to further deepen co-operation between CAREC countries.

II. Examples and lessons from history

- Investing in the acceleration of exchange has a long precedent across Asia, and in CAREC countries individually and collectively. In the past, roads, lanes and by-ways thronged with traders, merchants and travelers, engaged in short, medium and long-distance trade. The networks have come to be known as the Silk Roads. These connections were not only influential locally and regionally, but globally too.
Many goods were traded along the Silk Roads, including luxury items (textiles, spices, precious metals), foodstuffs (wheat, rice, fruit and vegetables). Exchange patterns were not only east-west, as is commonly assumed, but west-east, and also north-south. Interactions between cities and the rural environment, between settled and nomadic peoples and between inhabitants of and newcomers to these networks have a deep history spanning millennia.

There are myriad examples of the benefits that the combination of high volumes of trade and administrative sophistication brought across the CAREC countries. Many of these are listed as UNESCO World Heritage sites.\(^5\) It is important to underline too, however, that the magnificent buildings and monuments across CAREC countries that dominate guidebooks and draw the attention of tourists are only part of the story. The maintenance and construction of roads, development of irrigation channels to expand agriculture and building of caravanserais were not only essential elements to the past success of the Silk Roads.

In some cases, new cities were founded in response to intensifications of commercial activities and to the establishment of new trade routes. These not only include cities in CAREC countries but beyond as well: Kiev, Baghdad and Jaipur were all created as staging posts to enable greater connections into existing trade networks. The emergence of new cities reflected the opening up of new routes and reflect new/changing demands, and in the modern period, the demand for crops and energy sources.

Investment into security was also a key part of the success of integrated trade networks. Travelers like Marco Polo, Ibn Battuta and others, marveled that it was possible to move about at all times without fear of being robbed or harassed by thieves, or of being required to pay bribes. Security, justice and protection of property and goods go hand in hand with successful and sustainable commercial exchange.

During periods where regional and inter-continental trade volumes were at their highest, taxes were kept deliberately low in order to encourage and stimulate higher flows. Just as higher trade levels galvanized societies, so too did reductions produce negative results, including civil unrest and in some cases, regime change.

Although there are many factors in the ways by which Europe surged ahead of Asia from c.1500 and was able to dominate entire continents, central to initial success of Europeans was the development of and monopoly over global maritime trade routes. Shipping by sea dramatically reduced the cost of goods in Europe, especially following improvements to shipbuilding and seamanship. Goods transported over-land had higher transportation costs and became more expensive as import taxes were applied at multiple border crossings.

The acceleration of Europe in relation to Asia is known as the ‘Great Divergence’ – a period where the West became dominant economically, more competitive globally and significantly more integrated. Conversely, the realities of colonialism, combined with the failure and/or inability to adapt led to significant declines across the countries that now make up CAREC. The reinvigoration of the contemporary period reflects a return to past integration and connections that were dismantled or allowed to fade over previous centuries.

Trade and transport networks across played a key role in the spread of infectious disease in

the past. Emerging infectious diseases are closely linked to jumps from animals to humans (zoonosis). The spread of such diseases is in turn closely correlated to population densities in the first instance and to trade and transport networks in the second.

- In the 1340s, the Black Death (1340s) spread along the Silk Roads from a likely origin on the Tibetan-Qinghai plateau. Carried overland by traders and travelers, it spread through Central Asia, reaching the Black Sea in 1346 and entering the Mediterranean the following year. Mortality levels in many parts of Asia were significantly lower than in Europe and North Africa during this plague outbreak. This is likely the result of greater knowledge, recognition and awareness of the threat of plague as a result of previous outcomes – as well as because of rapid containment strategies to prevent the spread of infection.

- COVID-19 is the latest in a long line of pandemics that have brought economic dislocation, strained health care systems, and brought about high levels of mortality. In the last century alone, pandemics known as the ‘Spanish flu’ (1918-20), the ‘Asian flu pandemic’ (1957-8), the Hong Kong flu (1968-9) and the SARS crisis (2002-4) resulted in hundreds of millions of infections and many tens of millions of deaths

- Infectious diseases spread along trade and transport routes. In the case of COVID-19, airline routes, subways and other modes of transport resulted in the spread the disease around the world in a matter of weeks.

- Neighboring countries in the past have learned valuable lessons about disease prevention, containment and information sharing – one reason why the outcomes of states in South East Asia during COVID-19 have been so much better than in many other parts of the world. Building on these experiences is vital for the future, as emerging infectious diseases are not just a problem for today but for tomorrow.

- There are many lessons to learn from the past. These include the primary observation that countries and groups of countries succeed and fail in unison: the golden age of the Silk Roads ran from the Caucasus to the Pacific coast of China. As well as unlocking economic rewards, close co-operation and collaboration resulted in improvements in governance, healthcare outcomes, bureaucratic competence and the reinforcements of the rule of law. Large-scale dislocations were rare, and even when these did happen (for example, the expansion of Islam 630-751, Mongol expansion from 1206), they resulted in a strengthening of connections, rather than their collapse or dismantling.

III. Pandemics, disasters and climate stress

- The outbreak of COVID-19 has had a very significant impact on the global, regional and local economies. Some estimated the global impact could read $5.8 trillion (6.4% of global GDP) under a 3-month scenario, and $8.8 trillion (9.7% of global GDP). It has also been suggested that policy interventions could reduce the impact by 30-40%.

- The socioeconomic impact of the pandemic is being felt strongly across developing Asia, with a sharply reduced growth forecast of 0.1% for the region in 2020. In Central Asia, the number of COVID-19 cases is still on a rising trend, and economic activity is expected to contract by 0.5% due to trade and travel disruptions, low oil prices and loss of remittances.

---

The pandemic has led to sharp declines in service activities that rely on connectivity and human interaction, such as transport, tourism, and retail trade. In CAREC countries, the services sector is expected to lose on average as much as 4% of GDP, against around 1.6% of GDP in the manufacturing sector and 1.3% in agriculture.

- The lack of a currently viable vaccine means that it is not easy to evaluate the full extent of the impact of the pandemic. There are signs that in some countries, business is getting back to normal. Nevertheless, there are still significant variations between the experiences of CAREC states and important domestic regional variations too, with clusters of infections not distributed evenly between towns and cities or between urban and rural populations.

- The uneven impact of COVID-19 on CAREC countries can be shown by figures for the first six months of 2020 released by the Chinese customs authorities. Where total trade between the People's Republic of China (PRC) and Kazakhstan fell by just 1.5% compared to the same period the previous year, trade between PRC and the Kyrgyz Republic fell by more than 50%. The vast majority of CAREC countries experienced drops in trade volumes of at least 10% and in many cases, considerably more.\(^7\)

- This challenging environment means that focusing on improving the efficiency of the six CAREC transport corridors, on the speed of the border-crossings and on domestic monitoring and reporting capabilities is vitally important. Finding a way to accelerate exchange is crucial to galvanizing domestic and regional economies, and mitigating the effects of healthcare, economic and social problems.

- Closer regional ties are invaluable during such moments of crisis and need. This is one reason why a financing mechanism to enhance countries' resilience to natural hazards through regional endeavors is currently being explored.\(^8\) Apart from pandemics, CAREC countries have long experience of earthquakes, and extreme weather events (floods and droughts). Earthquakes in Tashkent (1966), Tangshan (1976), and Pakistan (2005) resulted in hundreds of thousands of fatalities, many times more left homeless and very significant infrastructure damage. Closer co-ordination can assist in quicker and more effective response to such disasters.

- Widening of ways to work together is also essential for addressing, responding and managing climate change. Climate stress pays no attention to national boundaries. Nevertheless, latitudinal similarity between CAREC states mean that common problems are not just possible but highly likely. Water availability specifically is a major concern and may play a role in rising geopolitical tension and perhaps even conflict scenarios in the future.\(^9\)

- Macro-economic policy, national security, data standards, pharmaceutical norms, ad immigration are just some of the areas where better communication, higher levels of co-operation and more co-ordination between decision-makers, strategists and stakeholders can lead to better outcomes at domestic and regional level.

IV. **Myths and Realities about Globalization**

---


• New research demonstrates that closer economic ties significantly improve political relationships, enjoy improved diplomatic collaboration and work more effectively together within multilateral organizations, such as the United Nations.\textsuperscript{10} The benefits are typified by CAREC 2030 which serves to underline the fact that deepening regional links not only results in positive outcomes, but creates, extends and reinforces additional mutually beneficial outcomes. CAREC 2030 projects are not just positive in themselves; they also provide real opportunities for further co-operation and sustainable growth as well.

• Over the course of recent months, there has been much comment by scholars, analysts and policy makers that the rapid globalization since c.1990 is coming to an end. For some, the catalyst to this viewpoint has been COVID-19.\textsuperscript{11} Even before the outbreak, however, some were calling for drastic action to de-couple global economies, re-shore jobs and create trade barriers. Rising tension between the US and PRC in particular – but also between the US and its neighbors and with the EU – and the demand to reset trade relations have dominated geopolitical discussion and debate in recent years.\textsuperscript{12}

• Despite the apparent disdain for globalization and talk of isolationism, collapsing supply chains and disengagement, the reality is that the world is becoming more, rather than less globalized. In 2018, for example, 44 countries in Africa agreed to establish the African Continental Free Trade Area, committing to cut tariffs on 90% of goods to bolster inter-African trade. The proposed Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) connecting countries across South East Asia, Oceania, Mexico and Canada that came into effect at the very end of 2018 has created – and may expand – one of the largest free-trade areas in history. The new United States-Mexico Canada Agreement (USMCA – which replaced the North American Free Trade Agreement (NAFTA)) and the European Single Market are testimony to the realities of continued and deepening integrations.

• The success of these regional trading blocs has spurred interests around the world. The UK government, for example, has formally stated that it intends to pursue accession to the CPTPP as a key part of its trade negotiations program.\textsuperscript{13} Since 2017, the European Union has made trade agreements with Vietnam, New Zealand, Australia, Singapore, Mexico, Argentina, Brazil and Paraguay, as well as with Japan and Canada.\textsuperscript{14} CAREC countries should be aware that despite appearances to the contrary, this is a time of expanding co-operation at regional, continental and inter-continental level.

• The fact that regional and global trade is intensifying, not weakening is also evidenced by the continued success of the Association of Southeast Asian Nations (ASEAN). The Belt and Road Initiative (BRI) and CAREC also have strong potential synergies. This shows that

\begin{thebibliography}{9}
\bibitem{11} For example, Glassman, ‘The coronavirus has sounded the death knell for liberal globalisation.’ \textit{New Statesman}, April 2020; Farrell and Newman, ‘Will the Coronavirus End Globalization as We Know It?’ \textit{Foreign Affairs}, March 2020.
\bibitem{13} UK Government, Department for International Trade, Update on the UK’s position on accession to the Comprehensive Agreement for Trans-Pacific Partnership (CPTPP) \url{https://www.gov.uk/government/publications/uk-approach-to-joining-the-cptpp-trade-agreement/an-update-on-the-uk-s-position-on-accession-to-the-comprehensive-and-progressive-agreement-for-trans-pacific-partnership-cptpp}
\bibitem{14} European Commission, Negotiations and Agreements, \url{https://ec.europa.eu/trade/policy/countries-and-regions/negotiations-and-agreements/index_en.htm}
\end{thebibliography}
there remain substantive opportunities for states in Asia, including many CAREC members, to deepen relations and to invest in projects that deepen collaborations. These aim to produce mutually beneficial outcomes that boost GDP, increase prosperity and reduce poverty.

V. The Way Forward: Challenges and Opportunities

• The Annual Report of CAREC’s Corridor Measurement and Monitoring (CPMM) for 2019 notes progress across multiple metrics, including improvements in the overall speed of rail transport and average road transport costs. There were also market improvements compared to the prior year in total freight rates and in average border crossing times.15

• However, challenges remain. They involve complex logistical problems that offer no quick fix or simple solution. These include different railway gauges that not only result in delays and costs for good being transported, but also limit wagon pooling as well as gains from collective purchasing opportunities.

• Nevertheless, there are multiple and significant areas where major improvements could result in greater efficiencies and smoother transit of goods. Many of these resonate with steps put in place in previous centuries by states keen to boost levels of trade: across the CAREC region, considerable attention was paid to the selection and training of officials involved in all elements of the state’s functioning in order to ensure optimal levels of accountability, performance and optimization.

• Current opportunities include harmonization and/or simplification of documents requirements for international and trans-regional trade; the adoption of more efficient border-crossing procedures; greater uses of data gathering and analytics for imports/exports; investment into bottlenecks identified by CPMM; and smoothing processes where two transport modes meet. Each and all of these would result in measurable gains that will include the reduction of costs for producers, suppliers and consumers; an increase in the speed of international trade, as well as in the volume of goods being transported; an end to rent-seeking; and concurrent improvements in the standards and quality of administrative officials.

• In the light of COVID-19, there is clear need for greater co-operation around disease prevention and mitigation, information sharing and cross-border collaboration, as well as for harmonization across pharmaceutical standards. Focusing on current capacities and needs in the health sector will be important in helping produce a framework that pays dividends – not only during future outbreaks of infectious disease but to improve more general healthcare provision across CAREC countries.

• There are additional avenues to explore where developing and implementing policy will be helpful, including around environmental regulations, new technologies and issues connected to climate change. Understanding the hierarchy of these issues and the best way to address them is important for CAREC countries individually and collectively.