



# **CAREC REGIONAL INTEGRATION INDEX: MEASURING EXTENT OF REGIONAL COOPERATION**

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# **SCHEME OF THE PRESENTATION**

- **CAREC PROGRAM AND SECOND THINK TANK FORUM**
- **STOCKTAKING:**
  - **STATE AND EXTENT OF REGIONAL COOPERATION**
  - **SOME COMPARISONS – ASEAN @ 50**
  - **CAREC & WTO TRADE FACILITATION AGREEMENT**
- **MEASURING THE EXTENT OF REGIONAL INTEGRATION**
  - **ASIA PACIFIC REGIONAL INTEGRATION INDEX (AP RII)**
- **CUSTOMIZING THE REGIONAL INTEGRATION INDEX FOR CAREC**
  - **SIX DIMENSIONS OF CRII**
  - **STEPS IN CONSTRUCTING CRII**
- **POLICY TAKEAWAYS: CRII- Adding Value to Policy Analysis**
- **WAY FORWARD AND RECOMMENDATION**

# CAREC PROGRAM: STOCKTAKING

- CAREC Program, now in its 16<sup>th</sup> year of operation, aims to strengthen the regional connectivity and cooperation based upon the strategic objectives of trade expansion and improved competitiveness
- The proposed Draft Strategy Paper\* on CAREC 2030 envisages CAREC as  
**“A REGIONAL PLATFORM TO CONNECT PEOPLE, POLICIES AND PROJECTS FOR SHARED AND SUSTAINABLE DEVELOPMENT”**
- CAREC 2030 entails **FIVE OPERATIONAL CLUSTERS** with emphasis on Sustainable Development Goals and Climate Change
  - Economic and Financial Stability
  - Trade, Tourism and Economic Corridors
  - Infrastructure and Economic Connectivity
  - Agriculture and Water
  - Human Development

# CAREC TRADE AND INVESTMENT: STOCKTAKING

- Intra-CAREC regional trade is less than 2.87% (\$112 billion only out of 3.9 trillions)
- Intra-CAREC exports and imports constitute \$61.65 bn. (2.81% ) and \$50.2 bn. 2.95%
- “Factory Asia” still helps explain GVC-FDI in Asia and the Pacific. Empirical findings suggest product specialization near the final stage of production processes helps attract GVC-FDI in the region.
- Intra sub-regional trade shares remain the highest in East Asia and Southeast Asia
- Global FDI Inflows to Central Asia is lowest @ 3% vis-à-vis Asia’s other Sub-regions (East Asia = 59.9% and Southeast Asia = 23.8 in year 2015)\*
- Share of investments (FDI) in the global value chain in the CAREC region is lowest in the Asia (excluding PRC). More than 50% of FDI is in the natural resources sector. There is little evidence of investment projects linking into regional or global value chains\*.

# STOCKTAKING: WHERE ARE WE?\*

## QUALITY OF TRADE POLICY: INTERNATIONAL RANKINGS

	Overall Ranking		Trade Facilitation <sup>1/</sup>		Trade Policy <sup>2/</sup>	
	Level in 2016	Change since 2011	Level in 2016	Change since 2011	Level in 2016	Change since 2011
<b>China, PRC</b>	<b>28</b>	<b>-2</b>	<b>55</b>	<b>1</b>	<b>78</b>	<b>-15</b>
<b>Azerbaijan</b>	<b>37</b>	<b>18</b>	<b>85</b>	<b>20</b>	<b>71</b>	<b>57</b>
<b>Kazakhstan</b>	<b>53</b>	<b>19</b>	<b>59</b>	<b>43</b>	<b>67</b>	<b>45</b>
<b>Georgia</b>	<b>59</b>	<b>29</b>	<b>12</b>	<b>15</b>	<b>14</b>	<b>23</b>
<b>Tajikistan</b>	<b>77</b>	<b>28</b>	<b>64</b>	<b>35</b>	<b>96</b>	<b>26</b>
<b>Mongolia</b>	<b>102</b>	<b>-6</b>	<b>98</b>	<b>24</b>	<b>93</b>	<b>-1</b>
<b>Kyrgyz Rep.</b>	<b>111</b>	<b>15</b>	<b>93</b>	<b>41</b>	<b>107</b>	<b>23</b>
<b>Pakistan</b>	<b>122</b>	<b>-4</b>	<b>113</b>	<b>-15</b>	<b>112</b>	<b>3</b>
<b>CAREC Ave</b>	<b>73.63</b>	<b>12.13</b>	<b>72.38</b>	<b>20.5</b>	<b>79.75</b>	<b>20.13</b>
<b>CAREC Ave Excl PRC</b>	<b>80.14</b>	<b>14.14</b>	<b>74.86</b>	<b>23.29</b>	<b>80.00</b>	<b>25.14</b>

**No rankings available for AFG, TKM, and UZB, Lower rank signifies better trade enabling environment.**

**1/ Refers to burden of customs procedures. 2016 rank out of 140 economies.**

**2/ Refers to prevalence of non-tariff trade barriers.**

Source: Author's calculations based on data from Trade Policy Strategic Action Plan Where Are We? CAREC Trade Policy Coordinating Committee Tbilisi, Georgia, 19 June 2017 @[http://www.carecprogram.org/uploads/events/2017/24-TPCC-Jun/Presentations/Session2A\\_Achievements\\_TPSAP2013-2017.pdf](http://www.carecprogram.org/uploads/events/2017/24-TPCC-Jun/Presentations/Session2A_Achievements_TPSAP2013-2017.pdf) and [http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017\\_FINAL.pdf](http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf)

# STOCKTAKING: WHERE ARE WE?\*

## TRADE AND FACILITATION : CAREC MEMBER RANKINGS

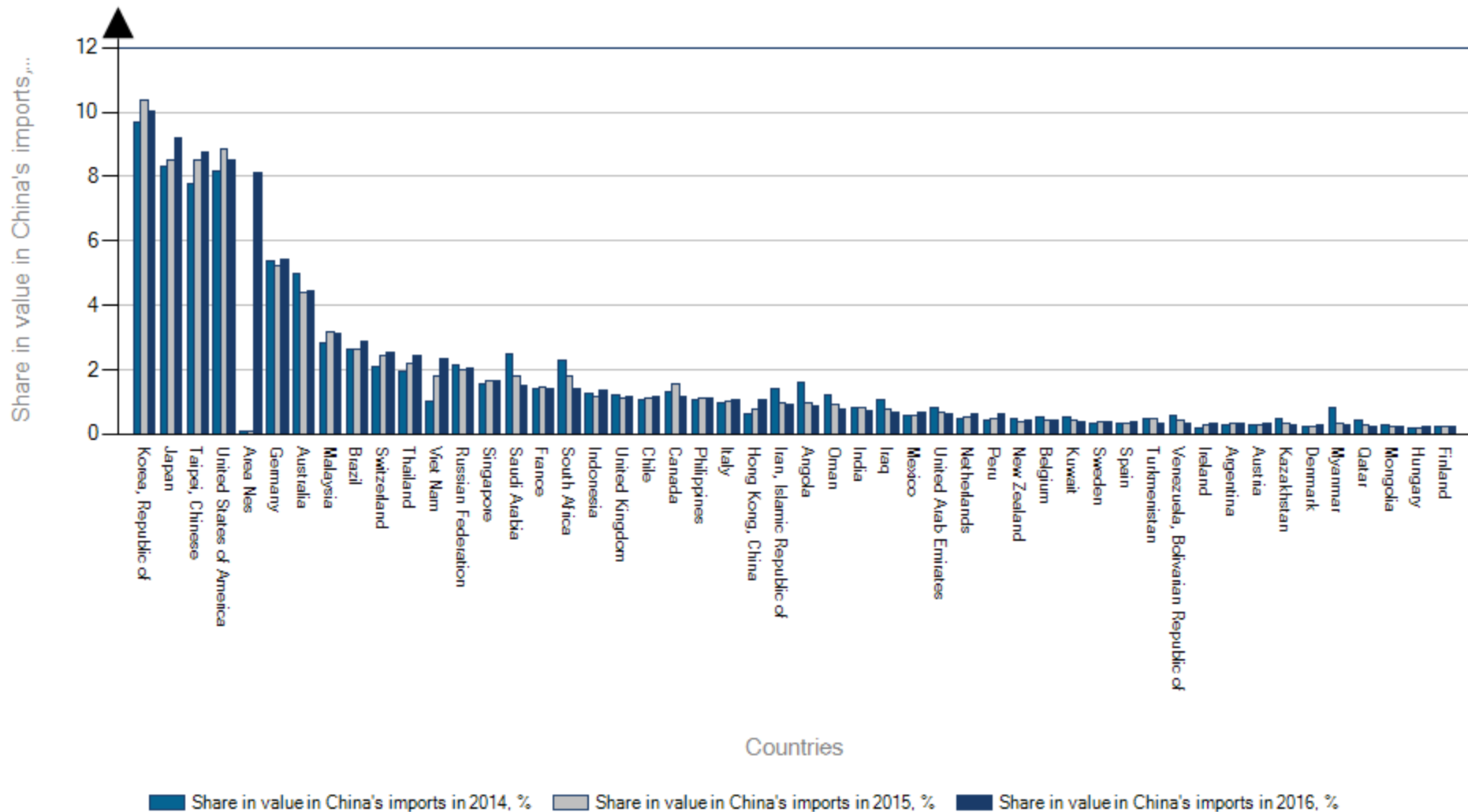
	Trade Tariffs (% duty) Rank	Non-tariff Barriers	Value Chain Breadth	Infrastructure	Burden of Customs Procedures
GEO	4	14	75	65	12
TJK	77	28	64	35	96
CHN	118	78	29	42	55
AZE	89	71	56	55	85
KAZ	75	67	114	63	59
MNG	59	93	123	110	98
KGZ	72	107	126	113	93
PAK	134	112	77	116	113
CAREC Ave	78.5	71.25	83	74.875	76.375
CAREC Ave Excl PRC	89.14	79.43	84.14	76.29	85.57

Source: Global Competitiveness Rankings 2016 @ <https://www.weforum.org/reports/the-global-competitiveness-report-2016-2017-1>

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# STOCKTAKING: TRADE PARTNERS

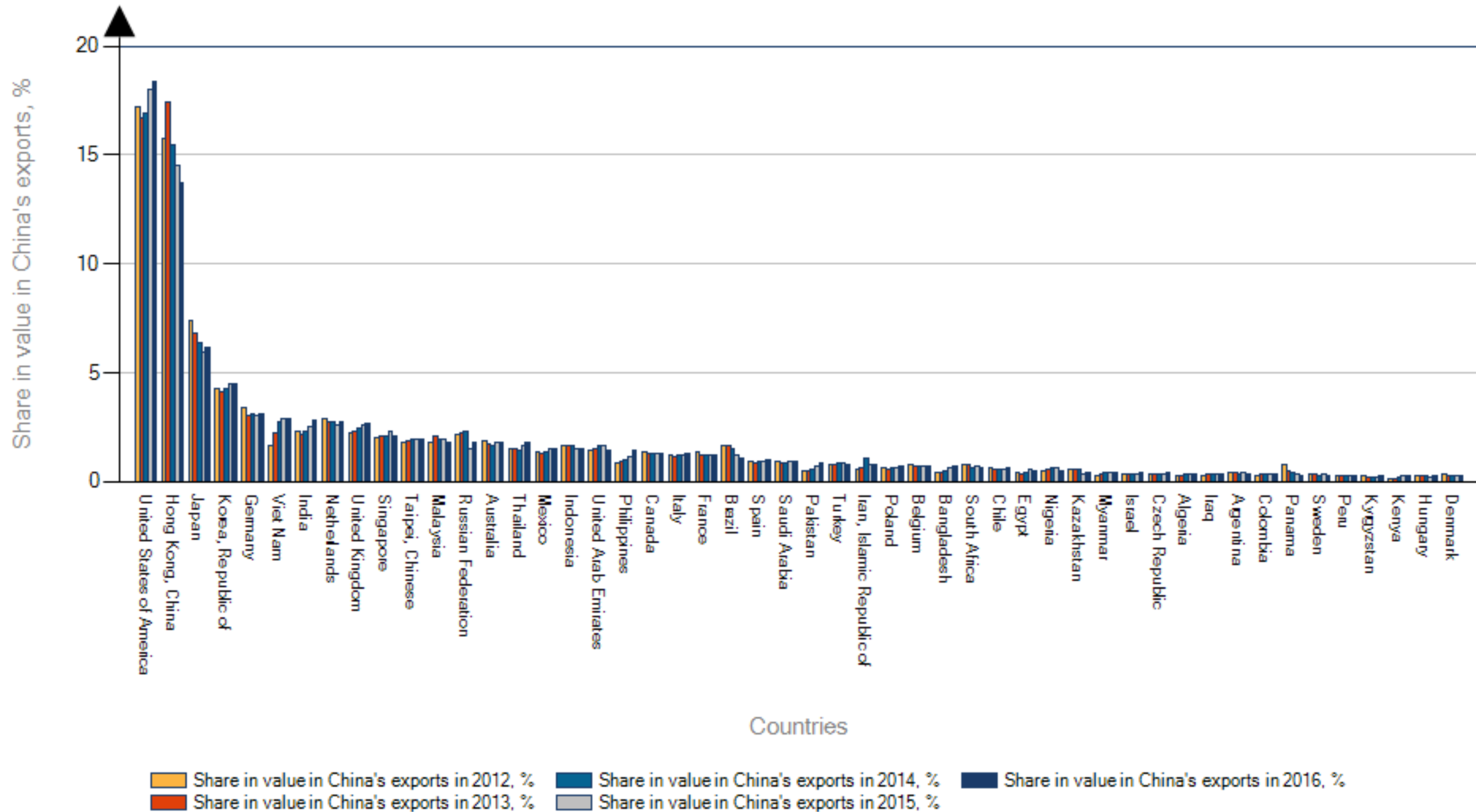
List of supplying markets for a product imported by China  
Product: TOTAL All products



CAREC countries share in PRC imports is less than 1.7% and less than 1% in top 50 import partners Sources: ITC calculations based on [UN COMTRADE](#) statistics.

# STOCKTAKING: TRADE PARTNERS

List of importing markets for a product exported by China  
Product: TOTAL All products

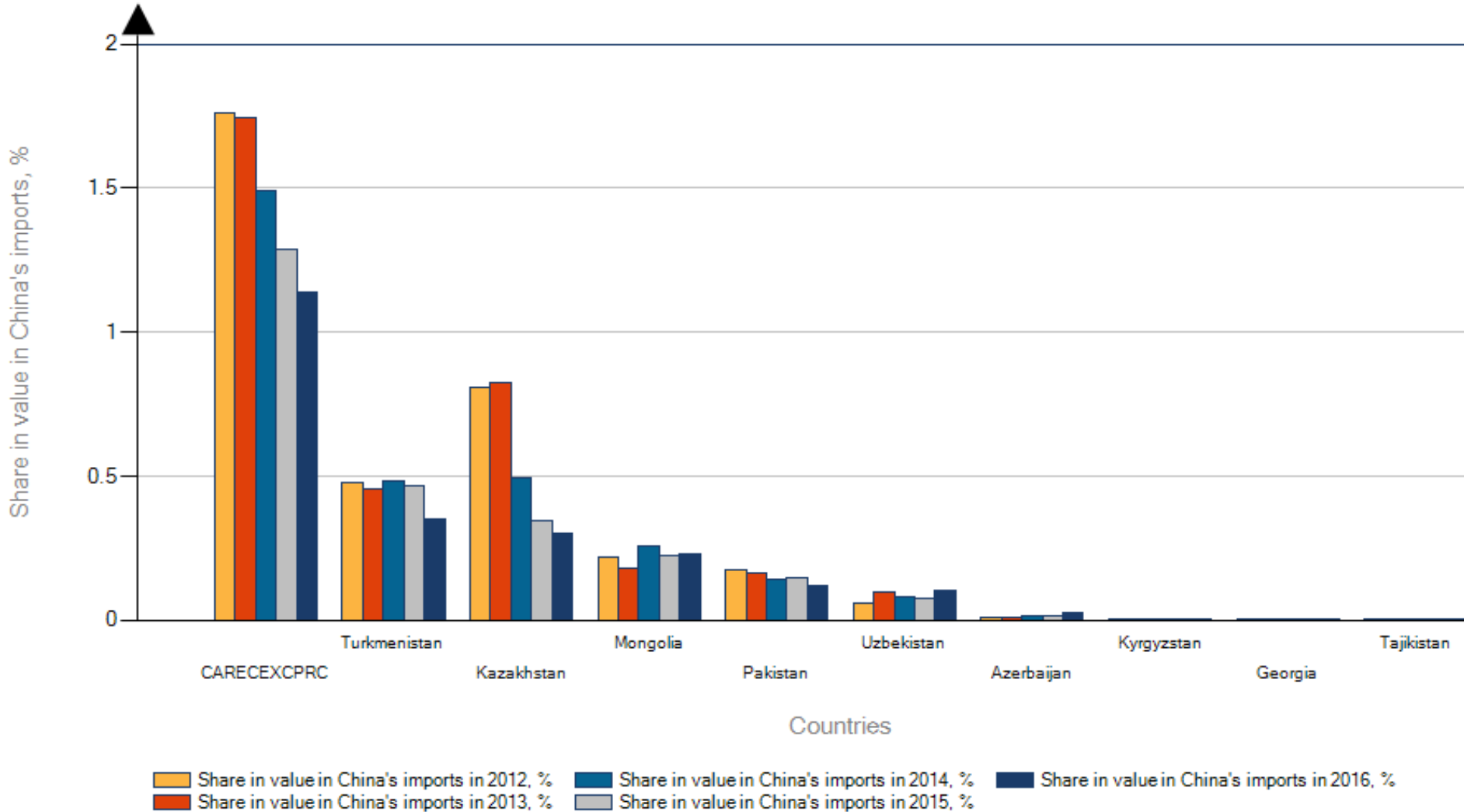


CAREC countries share in PRC Exports is less than 2% and less than 1.5% in top 50 export partners Sources: ITC calculations based on [UN COMTRADE](#) statistics.



# STOCKTAKING: TRADE PARTNERS

List of supplying markets from CARECEXCPRC for a product imported by China  
Product: TOTAL All products

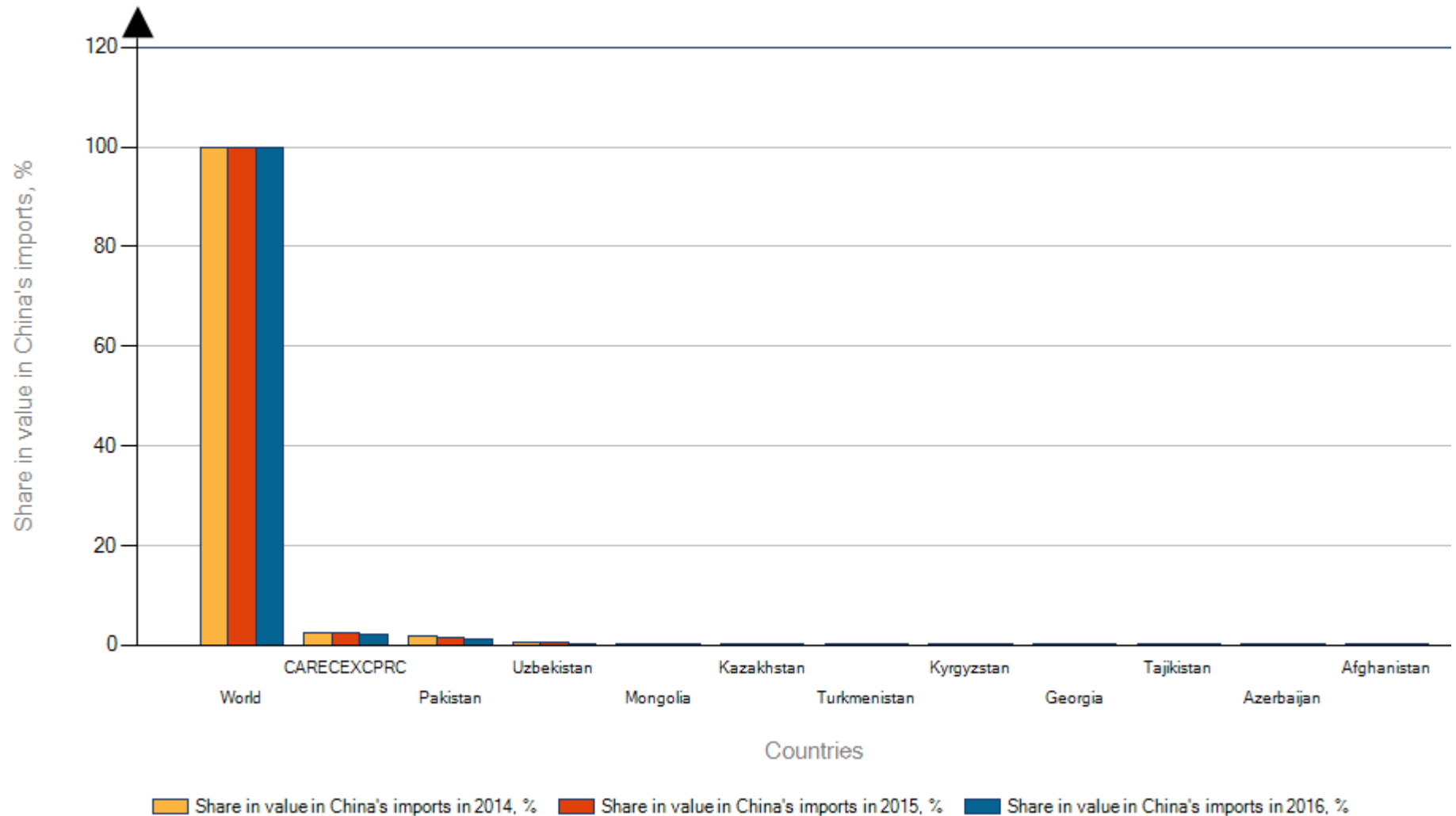


CAREC countries share in PRC imports is less than 1.7%

Sources: ITC calculations based on [UN COMTRADE](#) statistics.

# STOCKTAKING: TRADE PARTNERS

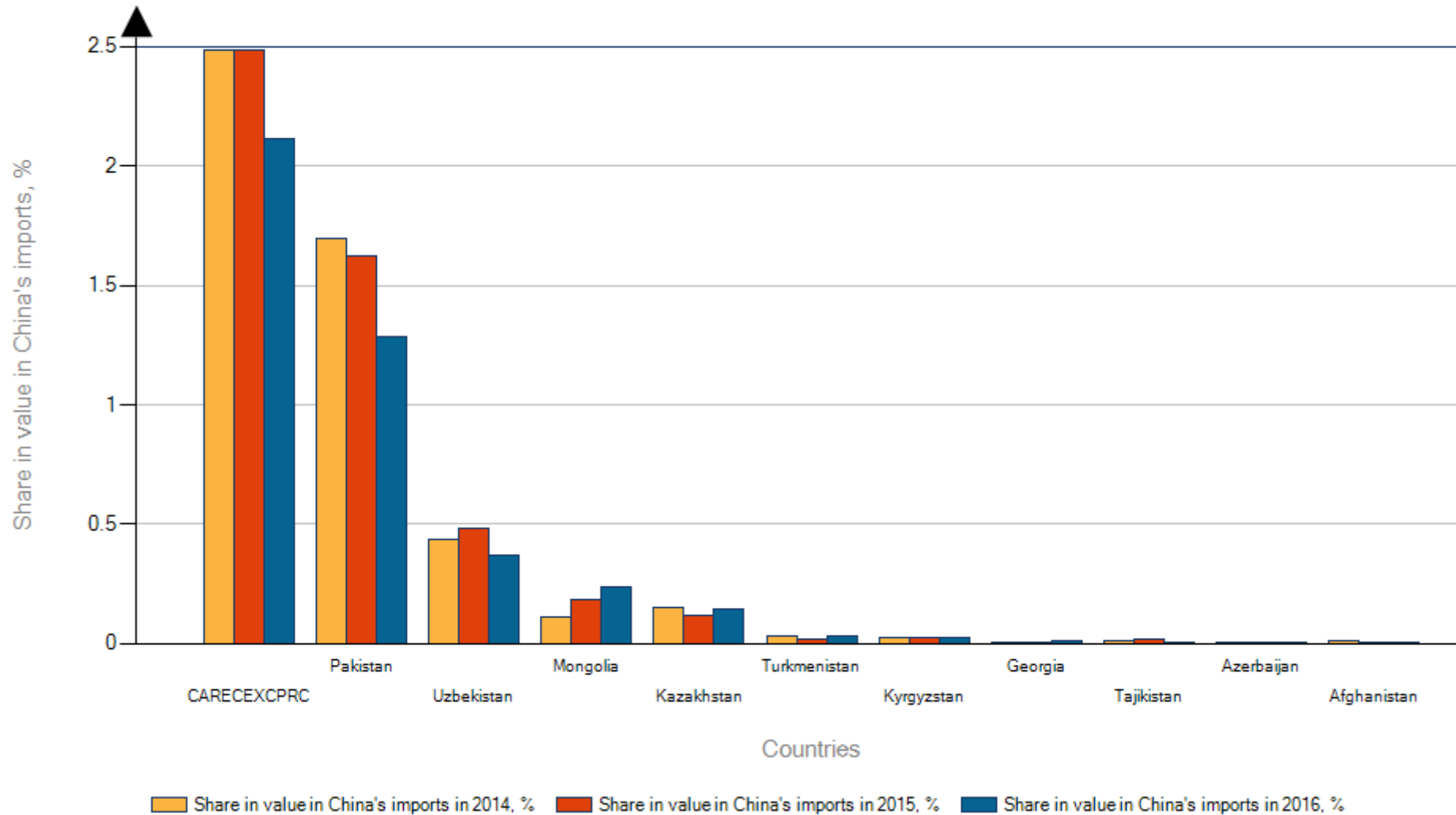
List of supplying markets from CARECEXCPRC for a product group imported by China  
Product group: Agriculture



PRC Imports US\$ 117 billion Agricultural products from World. Share of CAREC is less than US\$ 2.5 b (less than 3% market share in PRC Agriculture import market share) ITC calculations based on [UN COMTRADE](#) statistics.

# STOCKTAKING: TRADE PARTNERS

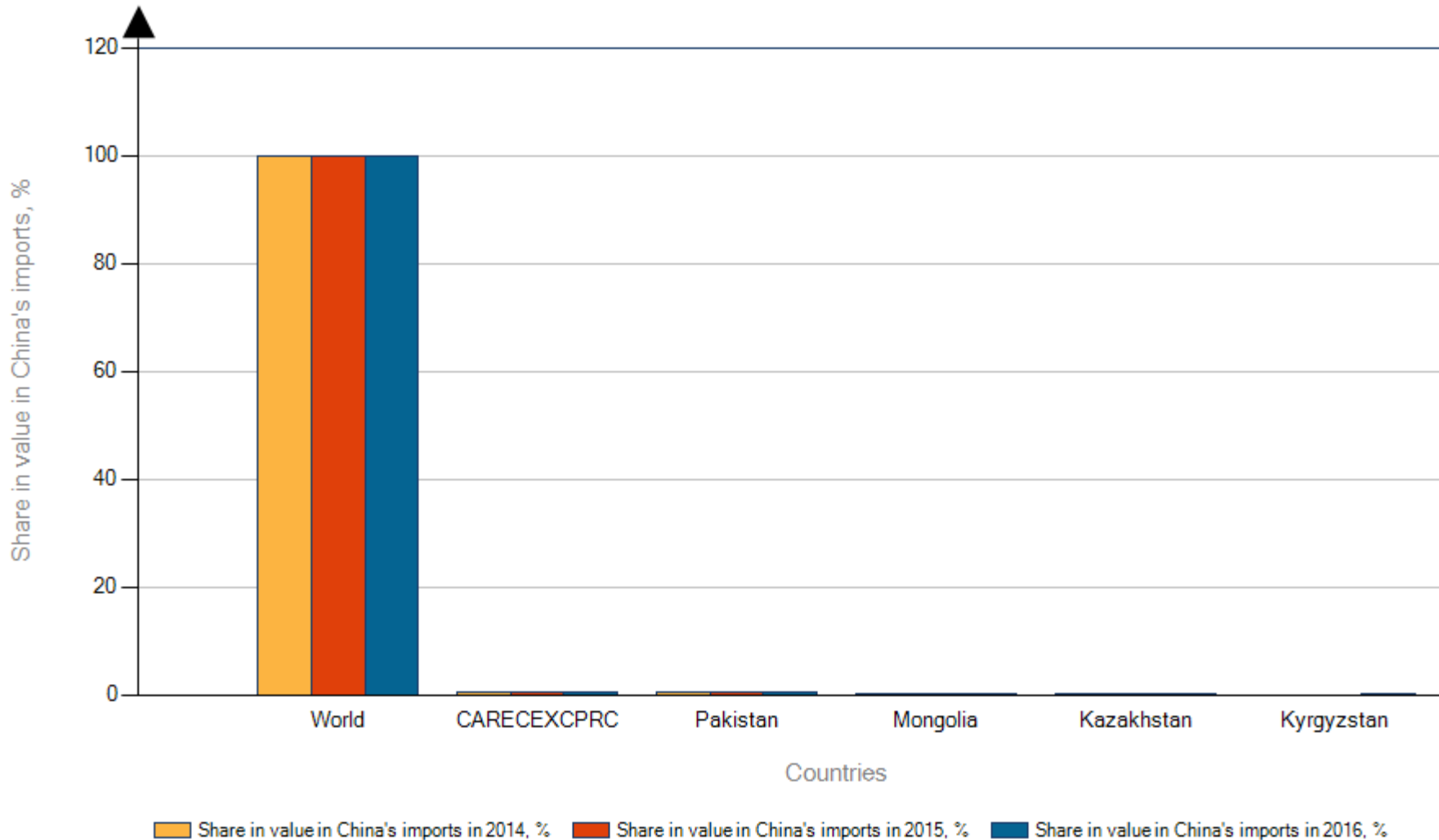
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# STOCKTAKING: TRADE PARTNERS

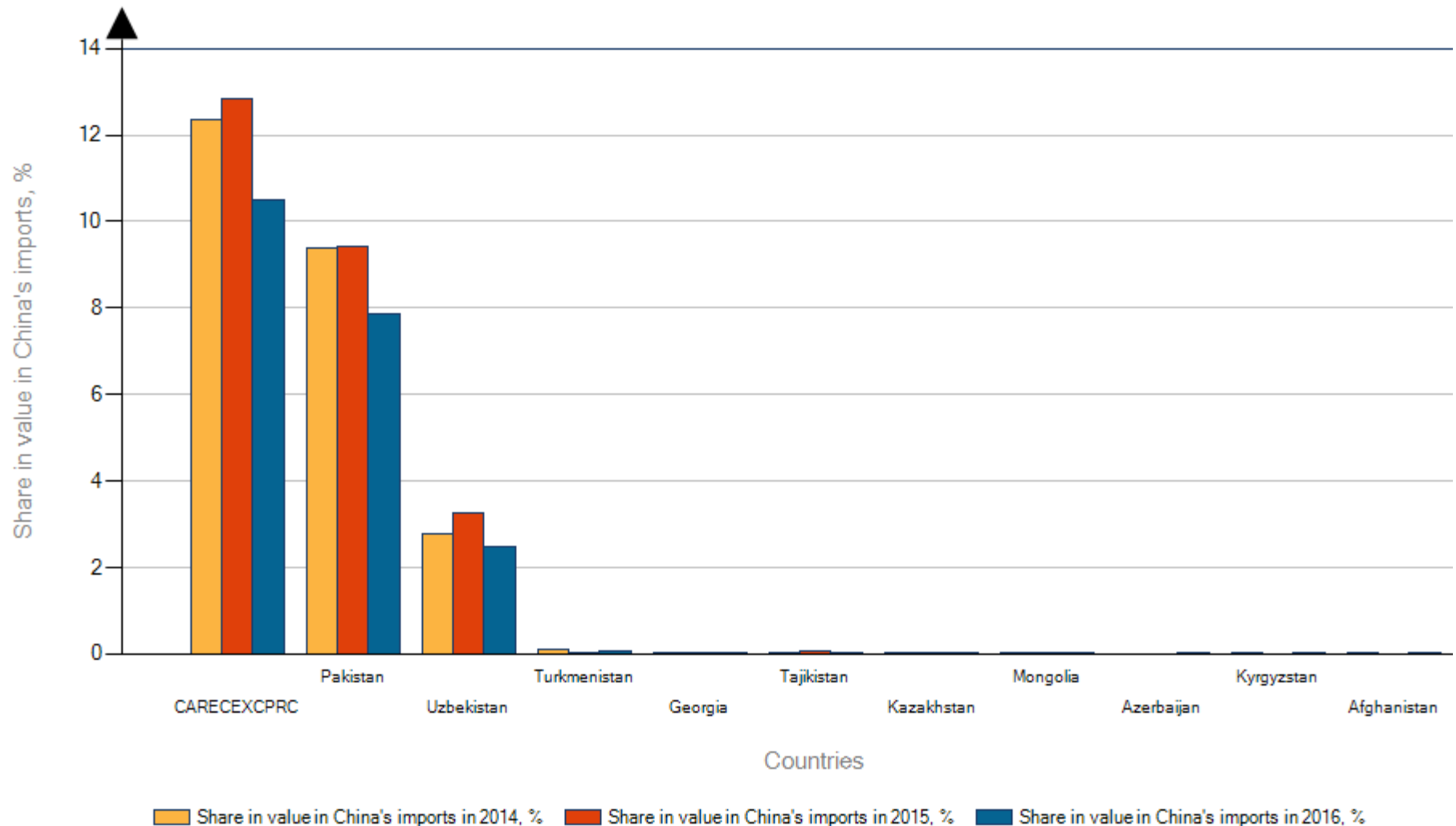
List of supplying markets from CARECEXCPRC for a product group imported by China  
Product group: Meat and Its processed products



PRC Imports US\$ 14.5 billion meat and its processed products from World. Share of CAREC is less than US\$ 70 million (less than 0.5 % market share in PRC meat and its processed products) ITC calculations based on [UN COMTRADE](#) statistics.

# STOCKTAKING: TRADE PARTNERS

List of supplying markets from CARECEXCPRC for a product group imported by China  
Product group: Home textile & Clothing



PRC Imports US\$ 14.14 billion Home Textile and Clothing products from World.  
Share of CAREC is less than US\$ 1.48 b (less than 10.5 % market share in PRC) ITC calculations based on [UN COMTRADE](#) statistics.

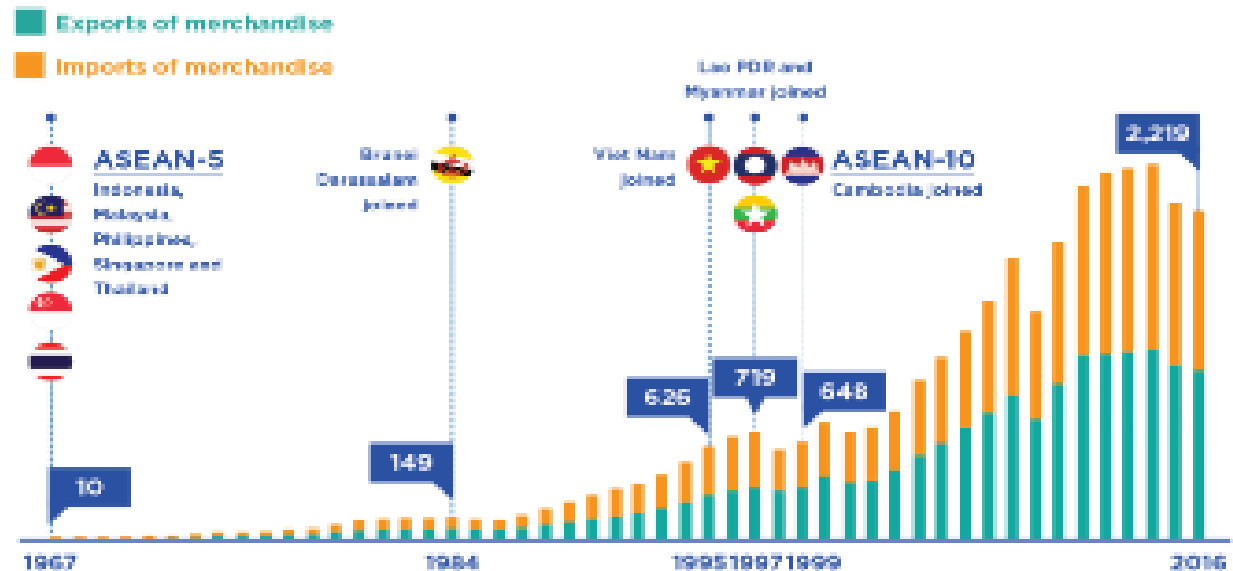
# CAREC COMPARISON VIS-VIS ASEAN @ 50 : STORY OF PROGRESS

- ASEAN exports and imports valuing over US\$1 trillion each in 2016 and US\$ 96 billion of FDI
- ASEAN now represents almost 7% of total world trade, and is collectively the world's 4th largest trade powerhouse after the major world economies of the European Union, the USA and China.

ASEAN total merchandise **US\$2.2 trillion**, with intra-ASEAN trade comprising trade in 2016 stood at **US\$2.2** the largest share at almost **24%**.



Evolution of ASEAN total merchandise trade (US\$ billion)



# CAREC PROGRAM: LOW EXTENT OF COOPERATION

## SOME THOUGHTS AND ANALYSIS

	Movement in Trade and Investment				Movement in Capital				People Movement					
	Trade (%)		FDI (%)		Equity Holdings (%)		Bond Holdings (%)		Migration (%)		Tourism (%)		Remittances (%)	
	2015		2015		2015		2015		2015		2014		2015	
Within Subregions														
ASEAN+3 (including HKG) <sup>1</sup>	47.1	▲	48.4	▼	14.6	▼	12.1	▼	40.0	▲	72.2	▼	33.7	▲
Central Asia	8.9	▲	3.8	▲	0.0	▼	-		9.3	▼	36.3	▼	7.2	▲
East Asia	36.8	▲	47.1	▼	11.7	▼	8.3	▼	34.6	▼	60.5	▼	35.5	▼
South Asia	5.5	▲	0.6	▼	0.9	▲	2.1	▲	26.2	▼	12.2	▲	15.2	▲
Southeast Asia	23.7	▼	17.6	▼	7.2	▼	8.9	▼	34.1	▲	68.2	▼	14.7	▲
The Pacific and Oceania	6.7	▼	17.7	▲	5.3	▲	1.0	▼	56.3	▲	19.7	▲	30.4	▼

- Central Asia as a Sub-Regional Group fare lowest amongst all the regional trading blocs in terms of Intra-Regional Movement in Trade & Finance; Capital, And People vis-à-vis other Trading Blocs in Asia Except South Asia.

Source: Asian Economic Integration Report 2016 (page 180)

# HIGHER COST OF DOING BUSINESS

## -LOGISTIC PERFORMANCE INDEX RANKINGS

- CAR region takes 203 days to export in 2016 and LPI score of 66, on average
- The time costs are highest from any standard and needs immediate attention to bring down the time to export the goods from Central Asian Republics

**Table Time to Export or Import—Asia (hours)**

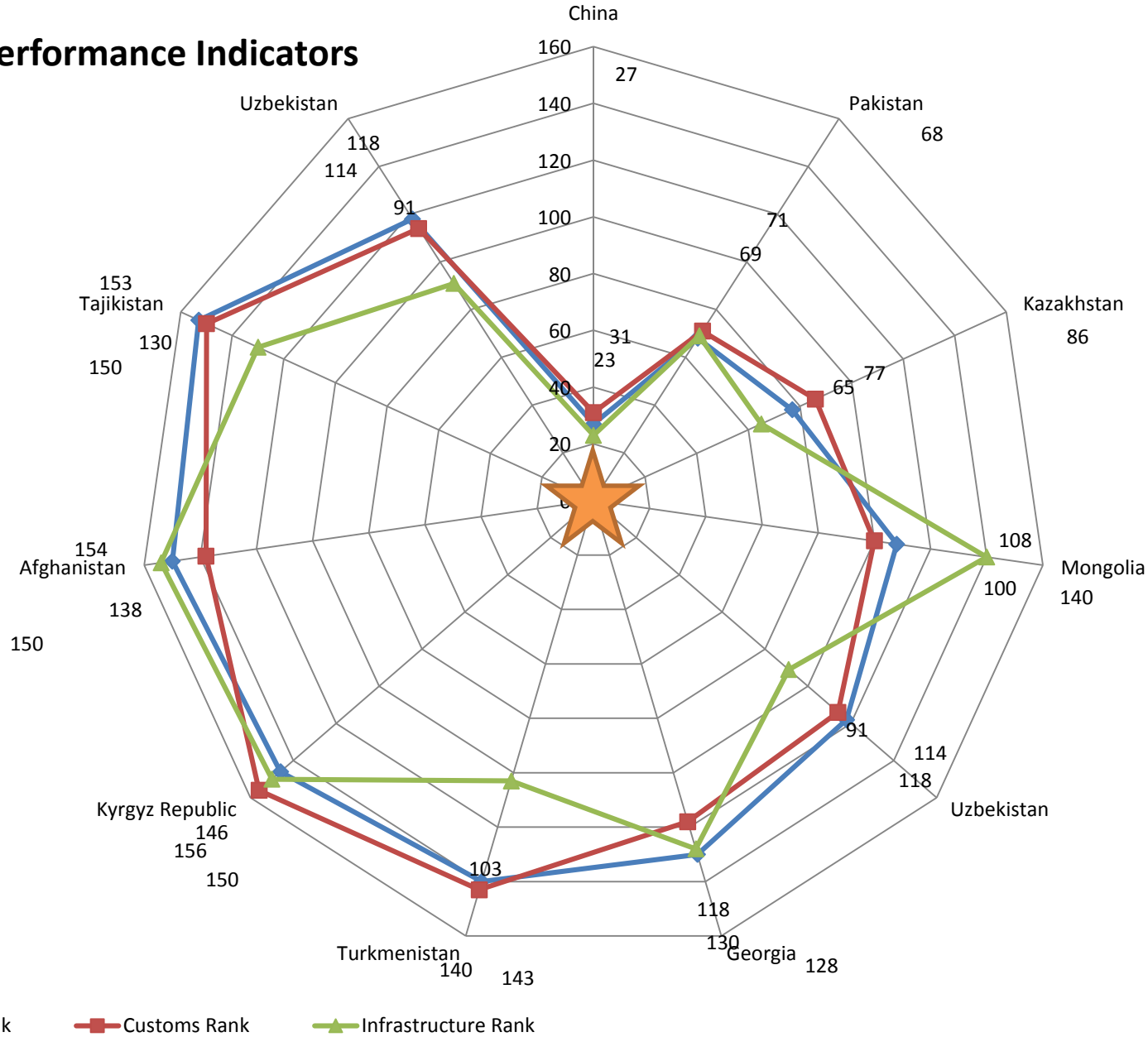
	Time to Export		Time to Import	
	2015	2016	2015	2016
<b>Central Asia</b>	<b>209</b>	<b>203</b>	<b>80</b>	<b>77</b>
Azerbaijan	69	62	73	68
Kazakhstan	265	261	8	8
Kyrgyz Republic	51	41	73	73
Tajikistan	141	141	234	234
Turkmenistan	–	–	–	–
Uzbekistan	286	286	285	285

**Logistics Performance Index (LPI) Scores—**

	2012	2014	2016
<b>Central Asia</b>	<b>68.5</b>	<b>68.3</b>	<b>66.4</b>
Azerbaijan	65.2	65.3	63.3
Kazakhstan	70.8	70.9	69.8
Kyrgyz Republic	61.8	61.9	57.1
Tajikistan	60.0	60.1	65.4
Turkmenistan	–	–	59.6
Uzbekistan	64.8	64.9	61.9



# Logistic Performance Indicators



Lower LPI refers to seamless trade infrastructure and facilities. PRC ranks no. 1 in CAREC and 27<sup>th</sup> Globally

# TRADE FACILITATION (LPI) AND TRADE GROWTH-EMPIRICAL EVIDENCE

- The impact of LPI for trade growth analyzed: the “overall trade in the Central Asian countries increases by 44% from improvements in LPI and such increase in intra-Central Asia trade doubles\*.
- Trade Facilitation has a positive and significant impact on bilateral trade flows. On the exporter side, infrastructure has the greatest impact on trade flows; and on the importer side, customs efficiency has the greatest impact on trade flows.” (Felipe & Kumar, 2010)
- The above analysis reveals that intra-regional trade facilitation and beyond is the key for the Central Asian Economies to develop and sustain economic growth over the long term.

## TRADE COSTS MATTER-WTO TRADE FACILITATION AGREEMENT

- Trade costs (like tax) inflate prices and delay the delivery time
- TC adds up to 219% tariff equivalent burden in developing countries\*
- Reductions in time and costs to trade can enhance competitiveness and aid in integration with global value chain
- WTO TFA, entered into force on February 22, 2017 contains provisions on transit trade facilitation and expediting the movement, release and clearance of goods
- Full implementation of WTO Agreement on Trade Facilitation (TFA) will reduce trade costs of manufactured goods by 18 per cent and of agricultural goods by 10.4 per cent

# CAREC & WTO TRADE FACILITATION AGREEMENT

- 8 out of 11 CAREC member countries are landlocked
- All CAREC WTO Member countries (PRC, Georgia, Kazakhstan, Kyrgyz Republic, Mongolia, Pakistan and Tajikistan except Afghanistan) have notified their Category A Commitments
- CAREC can also help implement TFA commitments
  - Transport and Trade Facilitation Committees
  - Implement Category A designations
  - Assist in preparing Category B and C designations
  - Technical Assistance and Capacity Building Need Assessments requirements and implementation support
  - Special assistance for landlocked least developed countries (Afghanistan and Tajikistan)
  - Digitizing of Customs and soft infrastructure development by upgrading CAREC initiatives like CPMM, TRS, Advance Transit System (CATS); Single Window etc.

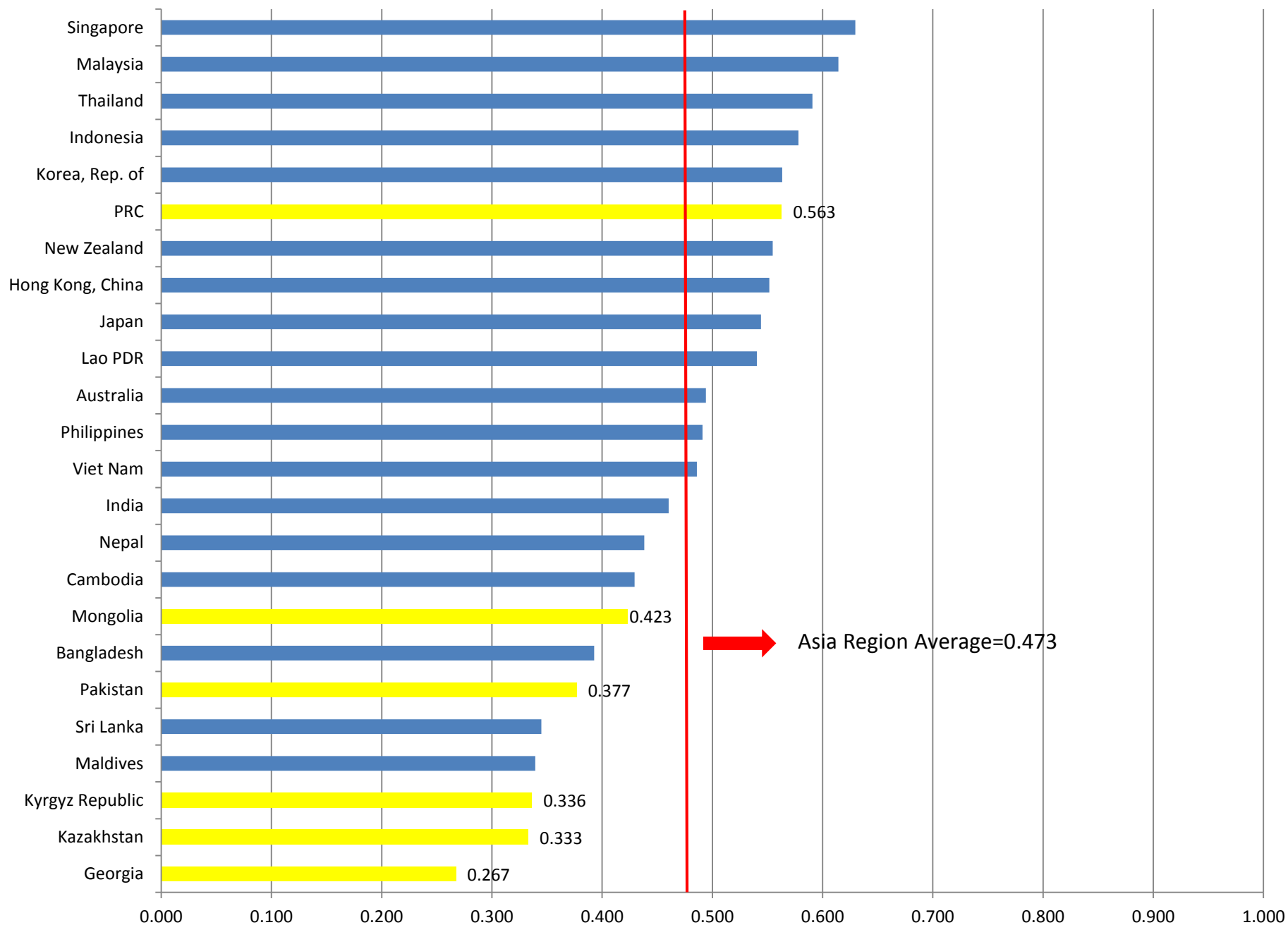
# TRADE COMPLEMENTARITIES

- CAREC countries have competitive and locational edge (per unit costs are low, availability of raw-materials, and market access and proximity with global markets)
- East Asia, Southeast Asia and PRC together represents huge trade block for CAREC countries
- China has excess capital and technological advantages
- CAREC integration will spur competitive Complementarities for all members
- CAREC Program as a regional platform (unlike a formal Free Trade Agreement or Customs Union) offers flexibility to member countries to pursue economic integration agenda while safeguarding their national developmental objectives
- Framework for connecting People, Policies and Projects requires minimum cooperation for trade and investment liberalization.

# **MEASURING THE EXTENT OF CAREC REGIONAL ECONOMIC INTEGRATION**

# ASIA PACIFIC REGIONAL INTEGRATION INDEX (APRII)

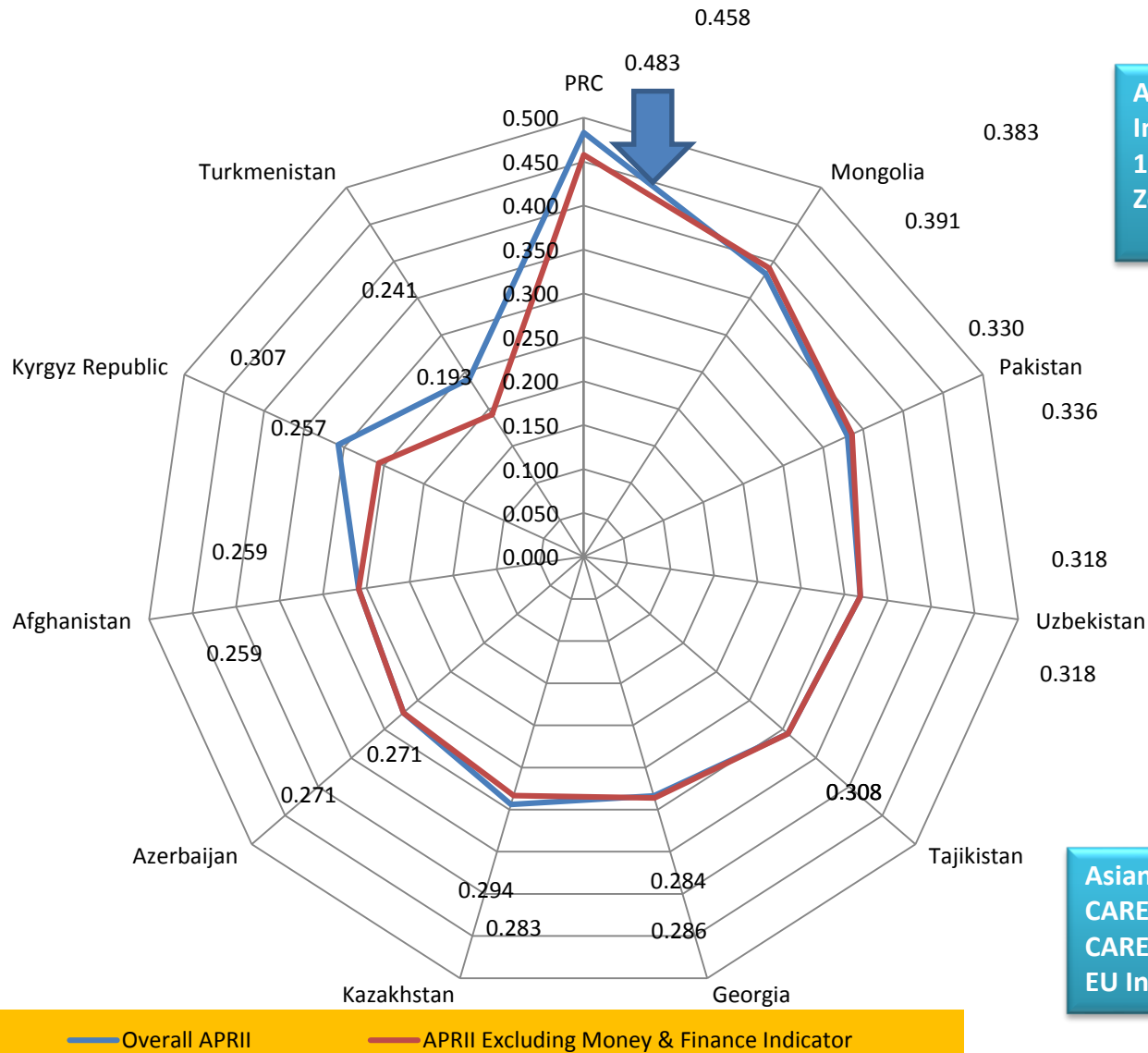
- measure the degree of regional integration in Asia and the Pacific.
- comprises of 26 indicators in six dimensions of regional integration, i.e., trade and investment, money and finance, regional value chains, infrastructure and connectivity, free movement of people, and institutional and social integration
- assess the state of regional integration on diverse socioeconomic dimensions, evaluate progress against goals, identify strengths and weaknesses, and track progress

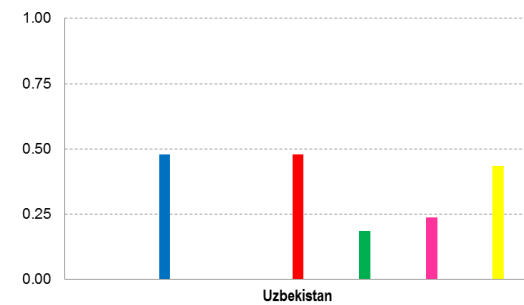
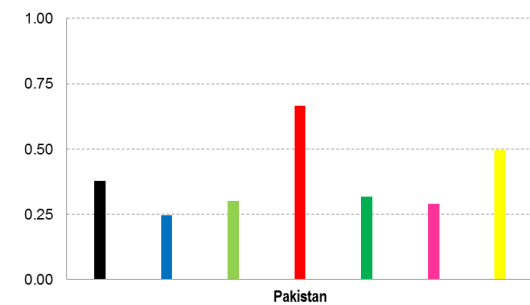
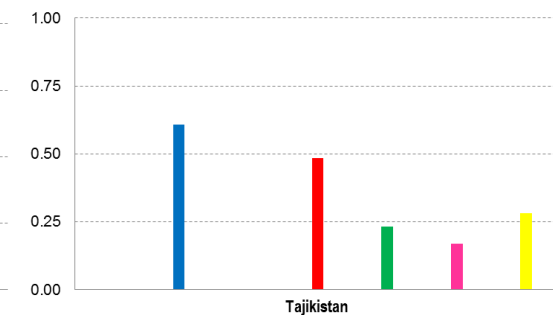
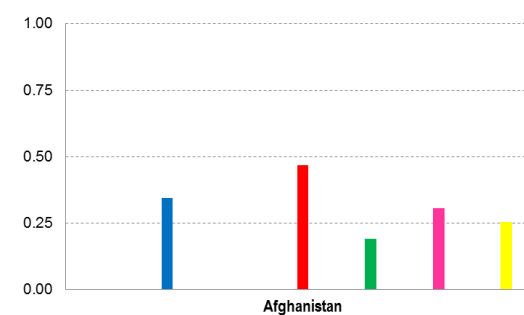
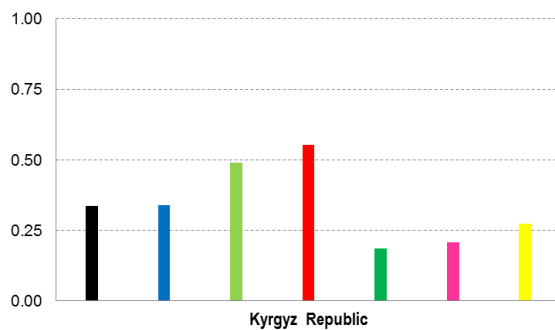
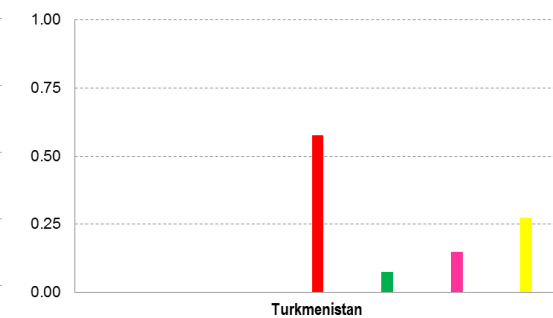
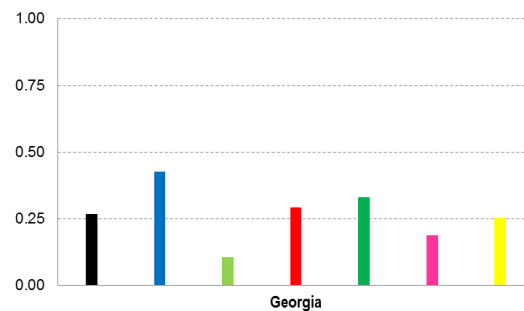
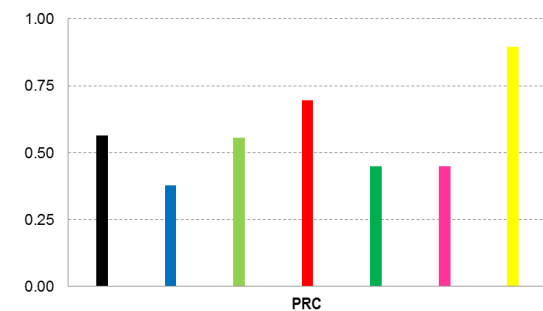
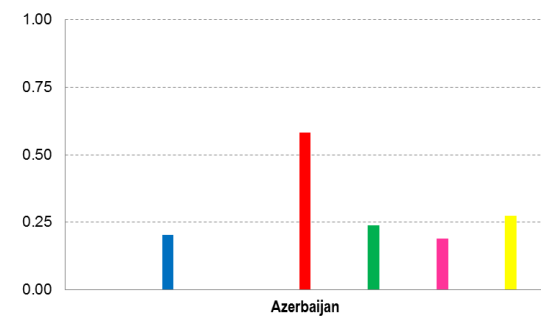
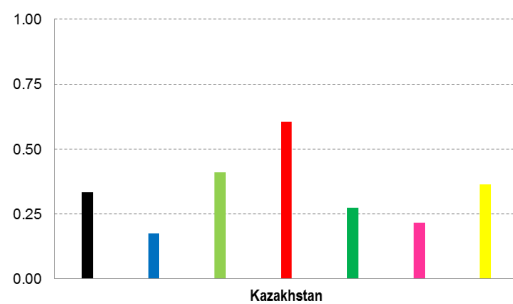
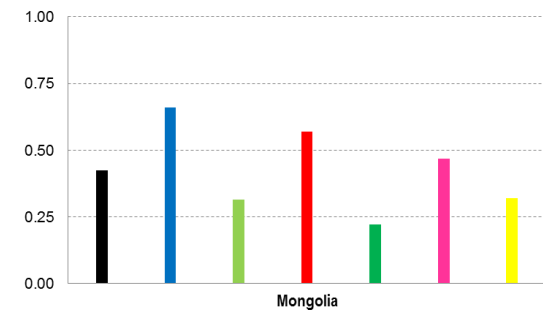


Source: Asia-Pacific Regional Integration Index: Construction, Interpretation, and Comparison by Hyeon-Seung Huh and Cyn-Young Park - ADB April 2017

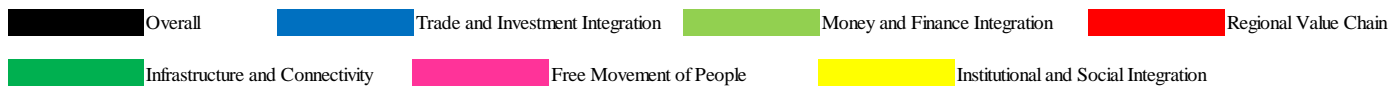


# CAREC COUNTRIES REGIONAL INTEGRATION INDEX- APRII



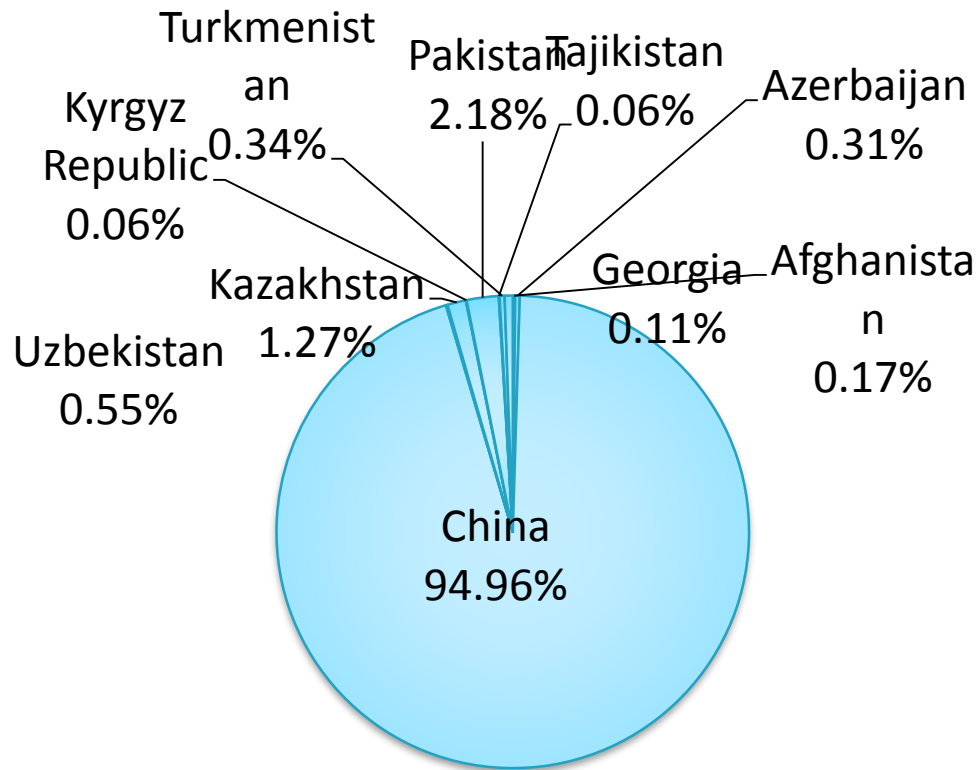


**Source: Asia-Pacific Regional Integration Index: Construction, Interpretation, and Comparison by Hyeon-Seung Huh and Cyn-Young Park - ADB April 2017**

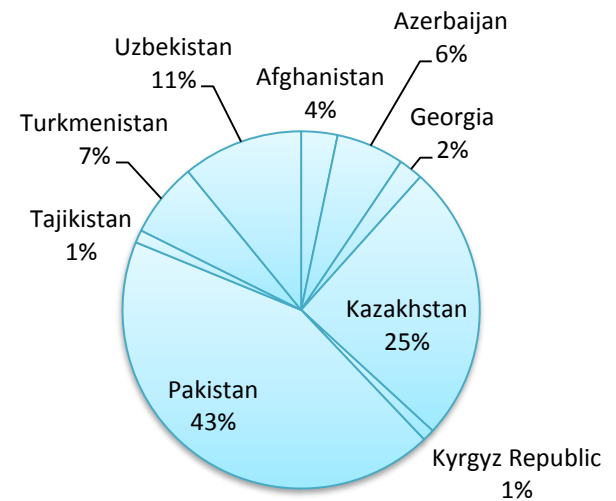


# WHY CAREC REGIONAL INTEGRATION INDEX

- **Size Asymmetry:** Economic analysis of the CAREC countries as a group poses a special challenge because of the wide range in the sizes of the economies: China accounts for 95% of region's GDP; 94% Foreign Trade as well as 81.7 percent of the region's population in 2006.
- Kyrgyz Rep., Mongolia and Tajikistan each account for about 0.1 percent of the region's GDP. Pakistan, Kazakhstan and Uzbekistan account for about 80 percent of GDP of the CAREC excluding the PRC" subgroup with 47.2 percent, 22.2 percent and 11.1 percent of subgroup's GDP respectively in 2016
- Because of large variation, indicators "CAREC Total" or "CAREC Average" need to be interpreted with care
- CRII will analyze for CAREC, CAREC Excl. PRC



## Size of GDP: Excluding PRC



## CAREC Countries GDP

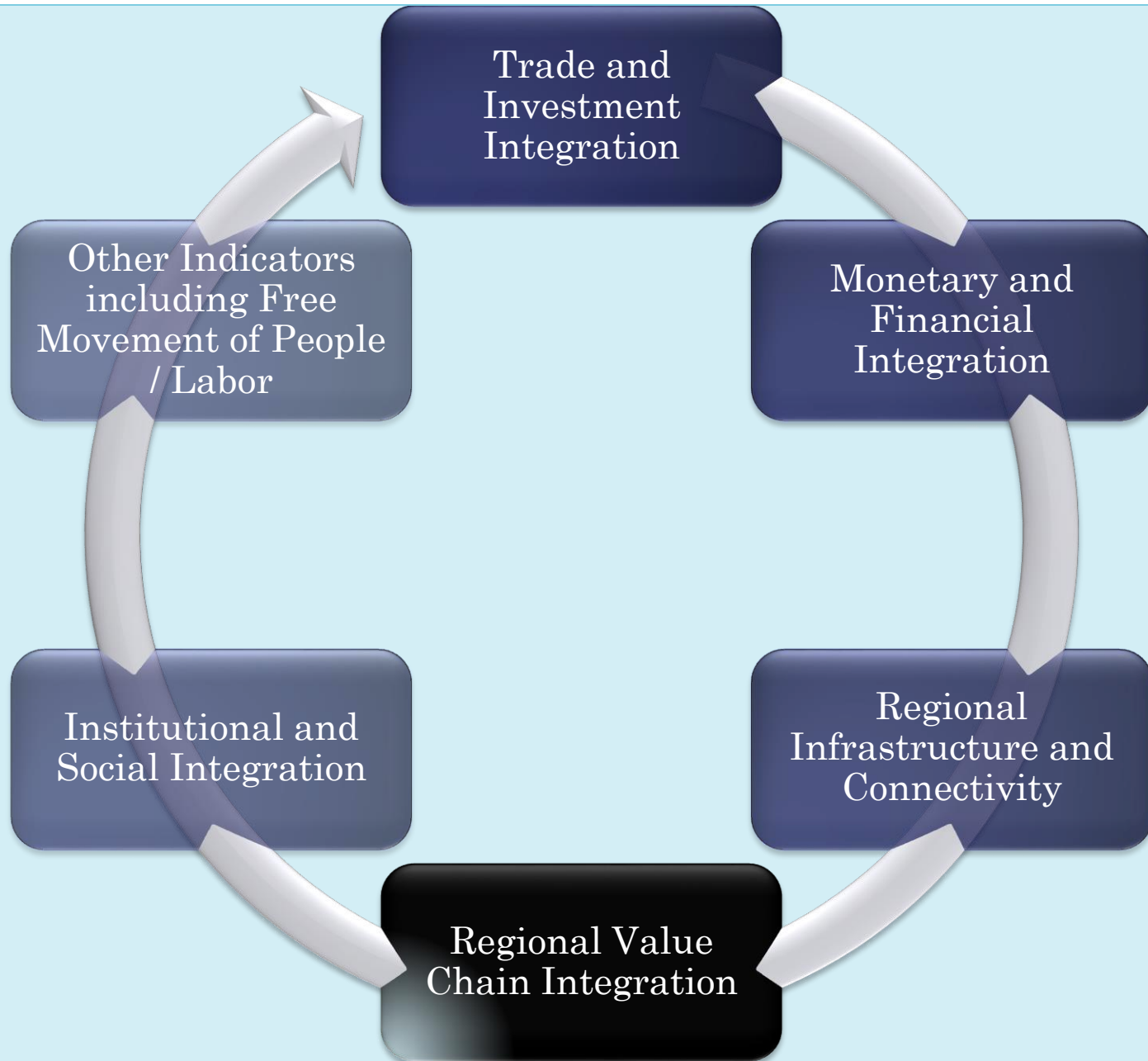
# CAREC REGIONAL INTEGRATION INDEX -CRII

- measures the depth and breadth of regional economic cooperation
- a weighted index comprising of six distinct spheres (dimensions)
- On scale of 0 (low) to 1 (Full) Economic Cooperation
- provides a user-friendly tool to assess the state of the integration in each of the dimensions and identify gaps.
- provides a menu of suggestive measures (policy coordination and harmonization) for a targeted strategy and action plan to boost the regional cooperation and economic integration process among the CAREC region and beyond.

# STEPS IN CONSTRUCTING CRII

- Calculate all 26 sub-indicators for six dimensions each for CAREC and CAREC Excl. PRC
- Data Normalization is carried-out to express indicators up to the same standards
- Assign weights to each dimension based on Principal Components Analysis (PCA) and Gap Analysis Techniques
- Aggregation of sub-indicators and combining the six dimensional composite index to develop CRII for CAREC member countries
- Gap Analysis and Targeted Policy Measures Matrix to provide policy recommendations

# SIX DIMENSIONS OF THE CRII



# STEPS IN CONSTRUCTING CRII

Dimension	Indicator		Data source
I. Trade and Investment Integration	I-a	Proportion of intra-regional goods exports to total goods exports	Direction of Trade, IMF
	I-b	Proportion of intra-regional goods imports to total goods imports	Direction of Trade, IMF
	I-c	Intra-regional trade intensity index	Direction of Trade, IMF
	I-d	Proportion of intra-regional FDI inflows to total FDI inflows	Greenfield FDI: FDI Markets,
	I-e	Proportion of intra-regional FDI inflows plus outflows to total FDI inflows plus outflows	M&A FDI: Zephyr
II. Money and Finance Integration	II-a	Proportion of intra-regional cross-border equity liabilities to total cross-border equity liabilities	Coordinated Portfolio Investment Survey, IMF
	II-b	Proportion of intra-regional cross-border bond liabilities to total cross-border bond liabilities	ADB using various sources
	II-c	Pair-wise dispersion of deposit rates averaged regionally relative to that averaged globally	ADB using various sources
	II-d	Pair-wise correlation of equity returns averaged regionally minus that averaged globally	ADB using various sources
III. Regional Value Chain	III-a	Ratio between the averaged trade complementarity index over regional trading partners and the averaged trade complementarity index over all trading partners	UNCTAD
	III-b	Ratio between the averaged trade concentration index over regional trading partners and the averaged trade concentration index over all trading partners	UNCTAD
	III-c	Proportion of intra-regional intermediate goods exports to total intra-regional goods exports	UNComtrade
	III-d	Proportion of intra-regional intermediate goods imports to total intra-regional goods imports	UNComtrade
IV. Infrastructure and Connectivity	IV-a	Ratio between the averaged trade cost over regional trading partners and the averaged trade cost over all trading partners	World Bank/UNESCAP
	IV-b	Ratio between the averaged liner shipping connectivity index over regional trading partners and the averaged liner shipping connectivity index over all trading partners	UNCTAD
	IV-c	Logistics performance index (overall)	World Bank
	IV-d	Doing Business Index (overall)	World Bank
V. Free Movement of People	V-a	Proportion of intra-regional outbound migration to total outbound migration	UN Population Division
	V-b	Proportion of intra-regional tourists to total tourists (inbound plus outbound)	WTO
	V-c	Proportion of intra-regional remittances to total remittances	World Bank
	V-d	Proportion of other Asian countries that do not require an entry visa	National sources
VI. Institutional and Social Integration	VI-a	Proportion of other Asian countries that have signed FTAs with	DESTA
	VI-b	Proportion of other Asian countries that have an embassy	Europa World Yearbook
	VI-c	Proportion of other Asian countries that have signed business investment treaties with	UNCTAD, DESTA
	VI-d	Proportion of other Asian countries that have signed double taxation treaties with	UNCTAD
	VI-e	Cultural proximity with other Asian countries relative to that with all other countries	CEPII



# CRII- ADDING VALUE TO POLICY ANALYSIS

- The CRI index will filter out the asymmetries that exist in the CAREC member economies' structure, size and scope.
- Weights to each of the six indicators would be assigned using both the Principal Component Analysis (PCA) Technique and gap and situational analysis – it will measure the variance of these indicators vis-a-vis actual level of regional integration.
- Proxy variables for missing data: Data availability constraints especially on CAREC Money & Finance and Infrastructure connectivity Indicators pose a challenge
- Identify policy gaps and provide perspectives and roadmap at national and regional level to attain the higher regional integration milestones as per following **Gap Analysis and Targeted Policy Measures Matrix**

CRII- Dimension	Gaps	Targeted Policy Measures
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# WAY FORWARD AND RECOMMENDATION

- Regional formal arrangements to open up market access opportunities by eliminating tariff, non-tariff and other barriers to trade (behind-the-border and at-the-border)
- Liberalization of Trade in Services (all four modes of Services)
- Harmonization of Regulatory regime
- Lower the Trade Costs to spur economic competitiveness
- Look **East & Focus on Regional Markets** - East Asia, Asian, Eurasian
- Trade Promotion and Trade Finance (Export-Import Bank, Insurance)
- Trade Adjustments – Support to vulnerable sectors and address developmental challenges
- Level Playing market rules for domestic Small and Medium entrepreneurs' and industrial sector
- Special and Differential Treatment for all 8 landlocked economies
- Open and inclusive Regionalism - non-discriminatory treatment to most competitive products, sectors and partners

thanks and Q & A

# WTO -TRADE FACILITATION AGREEMENT

## Section I

**Trade Facilitation and  
Customs Cooperation,**

**Art.1 Publication**

**Art.2 Consultation**

**Art.3 Advance ruling**

**Art.4 Appeal/Review**

**Art.5 transparency .**

**Art.6 Fee and Charges**

**Art.7 Clearance**

**Art.8 Border Agency  
Cooperation**

**Art.9 Movement of import  
goods**

**Art.10 Formalities**

**Art.11 Transit**

**Art.12 Customs cooperation**

## Section II

**Special and Differential  
Treatment for Developing  
Countries and LDCs**

Each developing and LDC country  
Member will categorize each  
measure into one of three

**Category A:** at time Agreement enters  
into force (one year later for LDCs);

**Category B:** Entry into force + (X) time  
to implement

**Category C:** After Technical  
Assistance & Capacity Building

## Section III

**Institutional  
arrangements**

**•Committee on  
Trade Facilitation**

**•National  
Committee on  
Trade Facilitation**