

CAREC Chai: Keeping a hand on the economic pulse of the CAREC region (and beyond)

Webinar

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SUMMARY OF MAIN TAKEAWAYS AND QUESTIONS FOR FUTURE EXPLORATION

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Main points raised by the presenters:

1. Macroeconomic Outlook in Caucasus and Central Asia (CCA) [Selim Çakir, IMF REO]

Recovery is underway in CCA, but there are significant downside risks:

- COVID resurgence; more vaccination is critical; need to overcome vaccination hesitancy (issue of trust in government?)
- Supply-side constraints in supply chains after initial demand shock [S. Shakeel Shah]
- Countries that rely more on tourism and contact-intensive sectors continue to face headwinds due to COVID
- Inflation, debt – constrained fiscal/monetary space
- A sudden tightening of financial conditions could lead to capital flight
- Lagging employment recovery
- Climate change (water/hydro energy, agriculture, natural disasters as consequences)
- Social unrest

To bolster growth there is a need to pursue digitalization, adaptation to climate change, and transition to lower carbon dependence, investing in youth and women and reducing informality will be essential.

2. China – current economic situation and outlook [Dominik Peschel]

Deceleration in PRC economic growth in second half of 2021 and likely into 2022:

- Due mostly to steep drop in investment (and more recently also consumption)
- Moderate consumer price inflation despite higher producer prices, an unusual pattern

3. Euro-Asian connectivity [Richard Pomfret]

Euro-Asian connectivity improved due to major investments and commercial initiative, esp. in rail corridors, with growing traffic and improved speeds.

- There remain some physical bottlenecks in transport corridors that should be addressed.
- “Soft” infrastructure (border management, logistics, etc.) remains a significant constraint, esp. in Central Asia.
- Multiple corridors (E-W, N-S) enhance competition, lower prices and reduce scope for political interference.
- Recent price hikes and disruptions in ocean transport is a major competitive boon for land transport across Euro-Asia.
- Recent opening up of Uzbekistan and improvement in diplomatic relations among Central Asian countries at presidential level may result in improved policies and implementation for cross-border trade and transit facilitation.

4. Will CAREC’s post-COVID development return to normal or enter a “new normal”? [Hans Holzhaecker]

CAREC economic recovery is underway against the backdrop of an apparent overall slowdown in economic growth in the 2010s.

- Value added in services has been rising faster than GDP in most CAREC economies.
- CAREC countries are vulnerable to commodity price fluctuations and decarbonization.
- Digitalization offers new opportunities, but also could shrink employment in services sectors such as trade.
- This raises a number of difficult questions about what the post-COVID “new normal” will look like in Central Asia. (See below)

Questions arising from the discussion for future exploration

1. Macroeconomic Outlook

- What are the implications for connectivity and what should be the CAREC regional response at the regional level, if any?

2. China – current economic situation and outlook

- What are the implications from a potential COVID (Omicron variant) resurgence and resulting lockdowns etc. in PRC?
- What are the implication for other countries in CAREC region from PRC slowdown and possible decoupling of PRC from parts of the world market?
- What are the implications for CAREC region from the recent (and potentially protracted future) reduction in BRI investments?

3. Euro-Asian connectivity

- Will BRI and the EU’s new Global Gateway initiative provide significant opportunities to further strengthen CAREC’s connectivity through investments in hard infrastructure?
- What will it take to improve “soft” infrastructure significantly? Digitalization can help.
- How will climate change and decarbonization affect regional connectivity (including through facilitating new transport corridors, esp. the Og/Polar route, while possibly raising transport costs on the traditional land routes).
- Will Afghanistan remain a major (and potentially increased) barrier to N-S connectivity and how will it engage in CAREC?

4. Will CAREC's post-COVID development return to normal or enter a "new normal"?

- Will GDP growth, digitalization and other technological change induce a further shift towards services (and which) in the CAREC region? Or will the opposite take place thanks to new comparative advantages in agriculture and industry?
- To what extent will e-commerce and enhanced connectivity increase competition and to what extent cooperation between CAREC (excluding the PRC) companies with companies from outside the region? What will be the effect on employment in trade and logistics?
- What will be the net effect of accelerated technological change brought about by digitalization and decarbonization on GDP growth in the CAREC region?