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Advancing Economic Diversification in CAREC Countries by Developing the Services Sector

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Outline

- Growing importance of services in economic development
- Economic structure of CAREC countries
- Key service industries for economic diversification in CAREC countries
- Creating an enabling environment for the development of the services sector in CAREC countries
- Policy recommendations



Growing Importance of Services in Economic Development

- Services are increasingly recognized as a mainstay of successful economic diversification and development
- Certain services sectors have reaped enormous advantages from recent technological advances and digitalization in particular
- Average productivity growth in services in many developing economies has recently exceeded that of manufacturing
- Manufacturing is increasingly reliant on services (servicification of manufacturing)



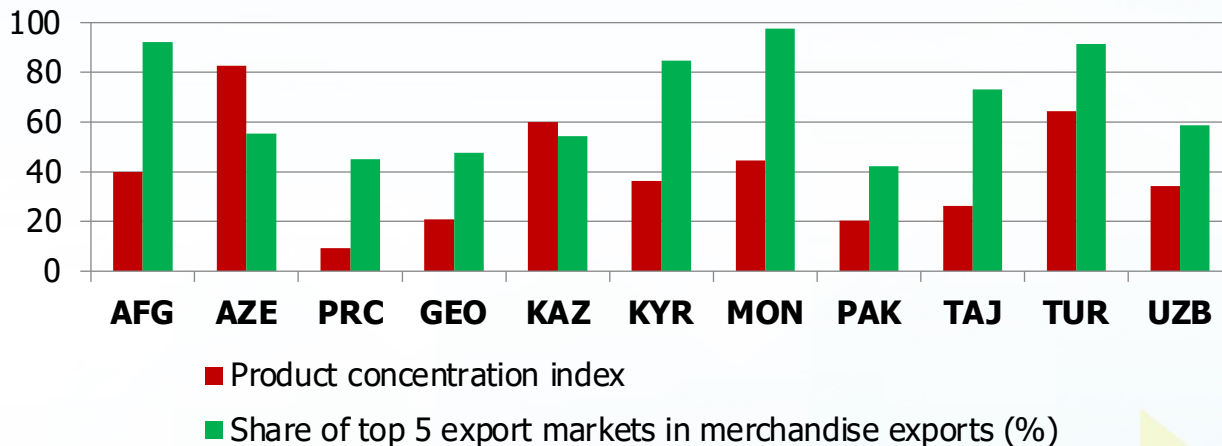
CAREC and OECD Countries—Share of Selected Sectors in GDP at Current Prices, 2018 (%)

	AFG	AZE	PRC	GEO	KAZ	KGZ	MON	PAK	TAJ	TKM	UZB	OECD countries
Agriculture ^a	20.3	5.2	7.0	6.8	4.4	11.7	10.8	22.9	19.2	9.3 ^d	28.0	1.5 ^e
Manufacturing ^b	11.1 ^e	4.6	27.8	8.8	11.4	14.3	9.5	12.2	10.5	n.a.	17.0	14.1 ^e
Services ^c	52.6	35.3	53.3	60.3	55.5	49.8	39.3	52.8	42.1	n.a.	31.8	69.7 ^e

^a Includes forestry and fishing. ^b Includes manufacture of basic metals, which makes up substantial proportions of gross value added created by manufacturing in Georgia, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan. ^c Corresponds to Sections G-Q of the ISIC, Revision 3. ^d The number is for 2015. ^e The number is for 2017.

Source: World Development Indicators database.

CAREC Countries—Product Concentration Index for Exports and Share of Top 5 Markets in Merchandise Exports, 2018



Note: The product concentration index ranges from 0 to 100, with a greater number corresponding to a higher level of product concentration.

Source: IMF, UNCTAD and authors' computations.



CAREC Countries—Composition of Merchandise Exports by Product Groups, 2018 (%)

	AFG	AZE	PRC	GEO	KAZ	KGZ	MON	PAK	TAJ	TKM	UZB
Primary commodities ^a	92.7	97.0	6.6	50.9	87.7	72.8	98.2	25.8	81.4	89.7	69.9
Labor- and resource-intensive manufactured goods	2.2	0.5	21.5	4.5	0.5	10.7	0.9	63.2	8.5	4.3	15.2
Low-skill- and technology-intensive manufactured goods	0.4	0.6	10.3	13.8	7.1	1.7	0.4	1.3	2.3	0.2	1.1
Medium-skill- and technology-intensive manufactured goods	1.3	0.4	25.3	18.8	0.8	8.7	0.3	3.0	2.2	0.1	2.0
High-skill- and technology-intensive manufactured goods	1.5	1.3	36.4	11.7	3.9	3.9	0.2	6.7	5.4	5.1	11.2

^a Includes precious stones and non-monetary gold.

Note: The sum of the shares of the product groups included in the table may not add up to 100% because some goods are not included in any of these groups.

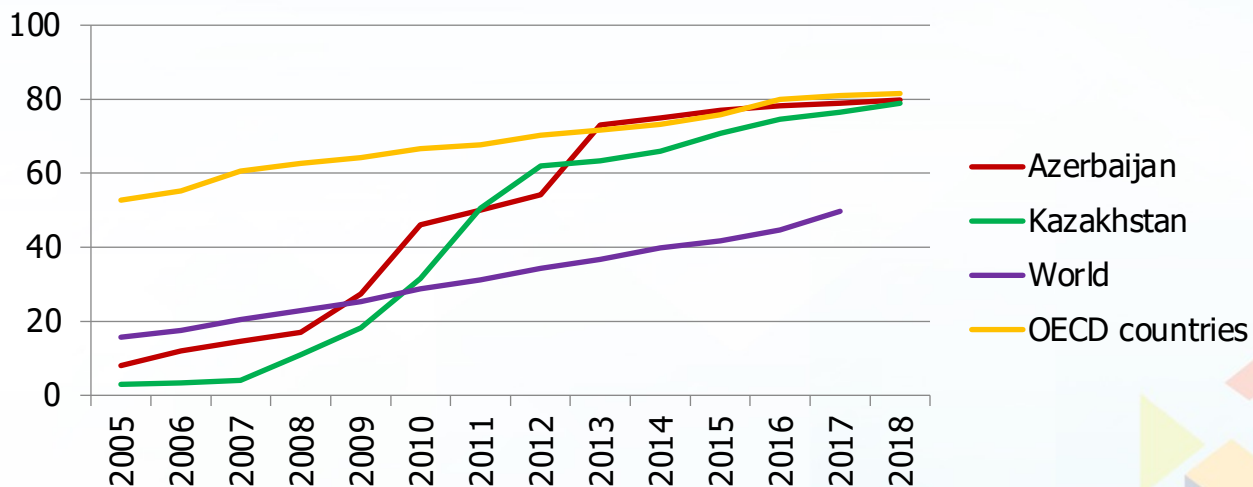
Source: UNCTAD and authors' computations.



Key Service Industries for Economic Diversification in CAREC Countries

- Telecommunication and information services
- Financial services
- Education, research and development services
- Tourism-related services
- Freight transport and storage services
- Quality testing and certification services
- Other agriculture-related services

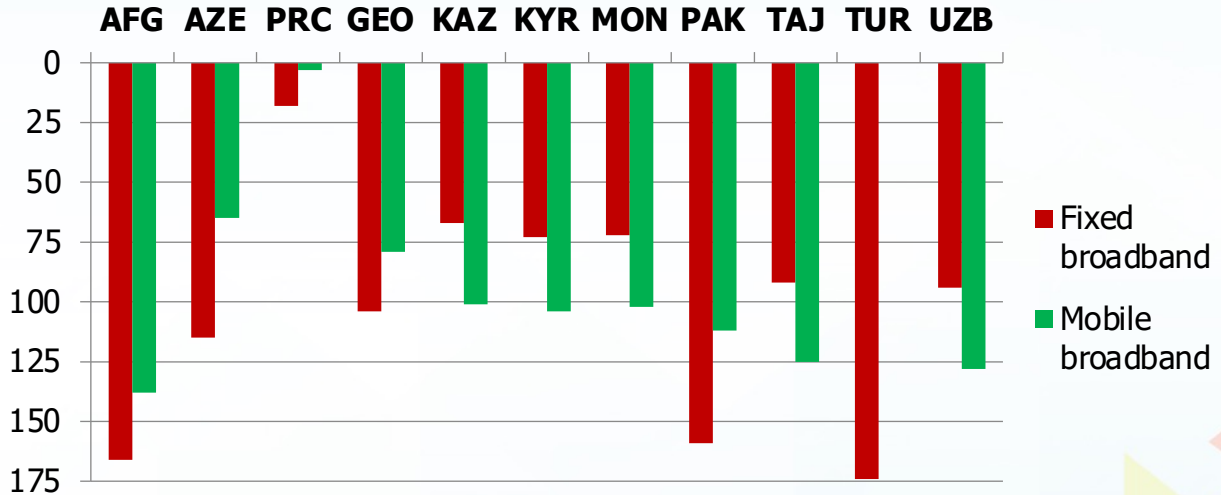
Azerbaijan, Kazakhstan, OECD Countries and World—Individuals Using Internet, 2005-2018 (% of population)



Source: World Development Indicators database.



CAREC Countries—Ranking in Speedtest Global Index , July 2020



Note: The Speedtest Global Index ranking for July 2020 covers 174 countries for fixed broadband and 138 countries for mobile broadband.

Source: www.speedtest.net.



Astana International Financial Center (AIFC)

- Established in Nur-Sultan, Kazakhstan in 2018 as a special economic zone
- Aims to become a regional financial hub
- Offers tax incentives and easier procedures for foreigners to acquire work permits
- Regulated by a court and international arbitration center based on English law
- Hosts the Astana International Exchange, which has entered into partnerships with NASDAQ and the Shanghai Stock Exchange



CAREC and OECD Countries—Selected Indicators of Financial Sector Development, 2018 (% of GDP)

	AFG	AZE	PRC	GEO	KAZ	KGZ	MON	PAK	TAJ	UZB	OECD countries
Bank deposits ^a	17.4	21.9	54.7	38.8	32.3	19.6	48.0	32.6	n.a.	n.a.	86.2
Banks' domestic credit to private sector	3.2	19.9	157.8	59.5	22.6	23.3	53.7	18.8	11.4	23.8	79.2
Nonbank financial institutions' domestic credit to private sector ^a	0.1	1.0	0.0	3.7	3.4	0.1	2.3	0.1	1.2	n.a.	67.4
Insurance premium volume ^a	n.a.	1.2	3.9	0.6	0.6	0.2	0.5	0.8	n.a.	n.a.	4.5

^a The data are for 2017.

Source: Global Financial Development database, World Development Indicators database, and authors' computations.

CAREC and OECD Countries—Selected Indicators of School Enrollment, 2018 (%)

	AFG	AZE	PRC	GEO	KAZ	KGZ	MON	PAK	TAJ	TKM	UZB	OECD countries
Total gross primary school enrollment	104	99.7	100.2	98.6	105.8	107.6	104	94.1	100.9 ^a	88.4 ^b	104.2	102.3
Total gross secondary school enrollment	55.4	94.5	88.2 ^c	106	114.2	95.1	91.5 ^c	42.8	88.5 ^d	85.8 ^b	93.3 ^a	105.5
Total gross tertiary school enrollment	9.7	27.7	50.6	60.3	54	41.3	65.6	9.1	31.3 ^d	10.0 ^b	10.1	74.2

^a The number is for 2017. ^b The number is for 2014. ^c The number is for 2010. ^d The number is for 2013.

Source: World Development Indicators database.



CAREC Countries—Ranking in Selected Global Competitiveness Index 2019 Components Relating to Workforce Skills

	AZE	PRC	GEO	KAZ	KGZ	MON	PAK	TAJ
Skillset of graduates	45	35	125	95	130	119	49	60
Quality of vocational training	43	41	135	90	125	100	85	52
Digital skills among active population	19	45	107	43	91	96	73	57
Ease of finding skilled employees	29	41	120	81	119	140	58	70

Note: The Global Competitiveness Index 2019 covers 141 countries. It does not cover Afghanistan, Turkmenistan and Uzbekistan.

Source: World Economic Forum .



CAREC and OECD Countries—Number of Resident Patent, Trademark and Industrial Design Applications, 2017 (per million people)

	AZE	PRC	GEO	KAZ	KGZ	MON	PAK	TAJ	UZB	OECD countries
Patent applications	14.8 ^a	898.5	20.1	58.5	22.1	39.8	0.9	0.2 ^b	11.0	646.7
Industrial design applications	2.3 ^a	440.6	126.6	5.8	1.8	228.3	1.9	0.1 ^b	9.9	217.7
Trademark applications	288.7 ^a	3995.3	735.5	477.2 ^a	83.7	2922.8	147.3	18.5 ^a	208.4	5302.9

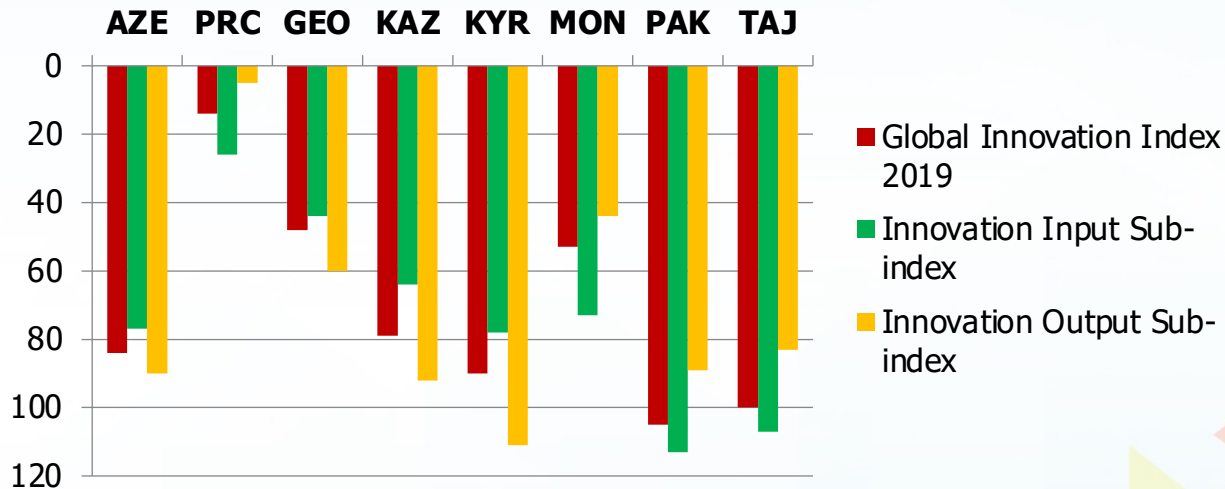
^a The number is for 2016.

^b The number is for 2013.

Source: World Development Indicators database and authors' computations.



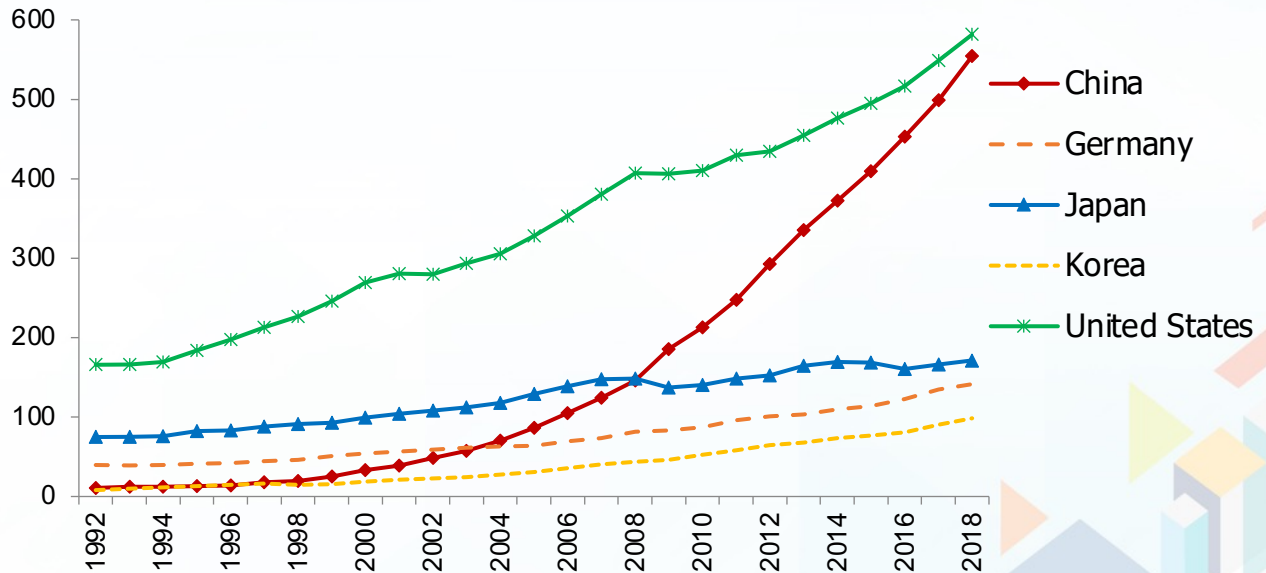
CAREC Countries—Ranking in Global Innovation Index 2019 and Its Sub-Indexes



Note: The Global Innovation Index 2019 covers 129 countries. It does not cover Afghanistan, Turkmenistan and Uzbekistan.

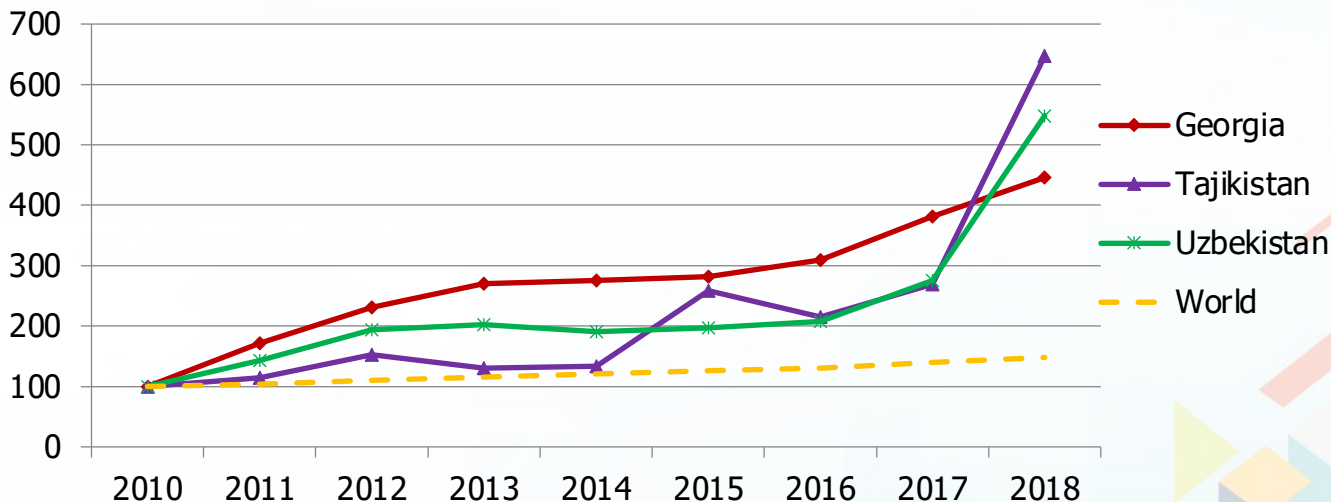
Source: Cornell University, INSEAD and World Intellectual Property Organization .

Selected Countries—Gross Expenditure on Research and Development, 1992-2018 (Billion US\$ at purchasing power parity)





Georgia, Tajikistan, Uzbekistan and World— Index of Number of International Visitor Arrivals, 2010-2018 (2010=100)



Source: World Development Indicators database.



Covid-19 Pandemic and Tourism Industry in CAREC Region

- Covid-19 pandemic has had a drastic adverse impact on the tourism industry
- Medium- to long-term prospects for the industry remain good
- Development of tourism and related services can make a significant contribution to economic diversification and development in the CAREC region in the medium to long term
- CAREC countries will need to implement enhanced safety standards and protocols in the tourism industry and set up robust systems for testing arriving international travelers



CAREC Countries—Ranking in Selected Components of Logistics Performance Index 2018

	AFG	PRC	GEO	KAZ	KGZ	MON	PAK	TAJ	TKM	UZB
International shipments ^a	152	18	124	84	138	117	97	133	136	120
Logistics competence ^b	158	27	132	90	114	140	89	116	120	88
Tracking & tracing ^c	159	27	139	83	99	152	136	131	107	90
Timeliness ^d	153	27	105	50	106	93	136	104	130	91

Note: The Logistics Performance Index 2018 covers 160 countries. It does not cover Azerbaijan.

^a Refers to the ease of arranging competitively priced shipments. ^b Refers to the competence and quality of logistics services (trucking, forwarding, and customs brokerage). ^c Refers to the ability to track and trace consignments. ^d Refers to the frequency with which shipments reach consignees within scheduled or expected delivery times.

Source: Logistics Performance Index database.

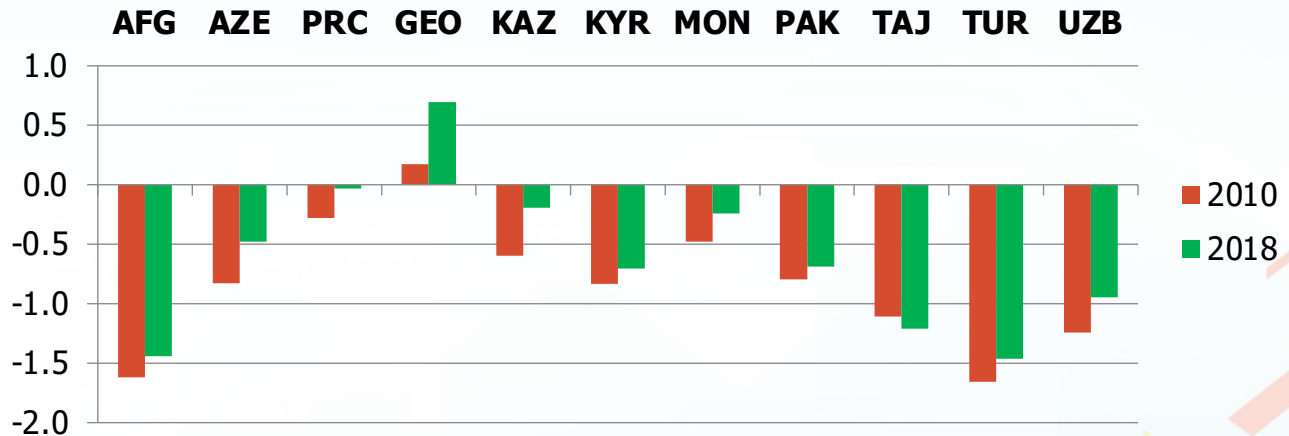


Creating Enabling Environment for Development of Services Sector

- Improving governance
- Enhancing market competition
- Raising the efficiency of the labor market
- Developing physical and digital infrastructure
- Increasing regional cooperation and integration



CAREC Countries—Average Worldwide Governance Indicator Scores,^a 2010 and 2018

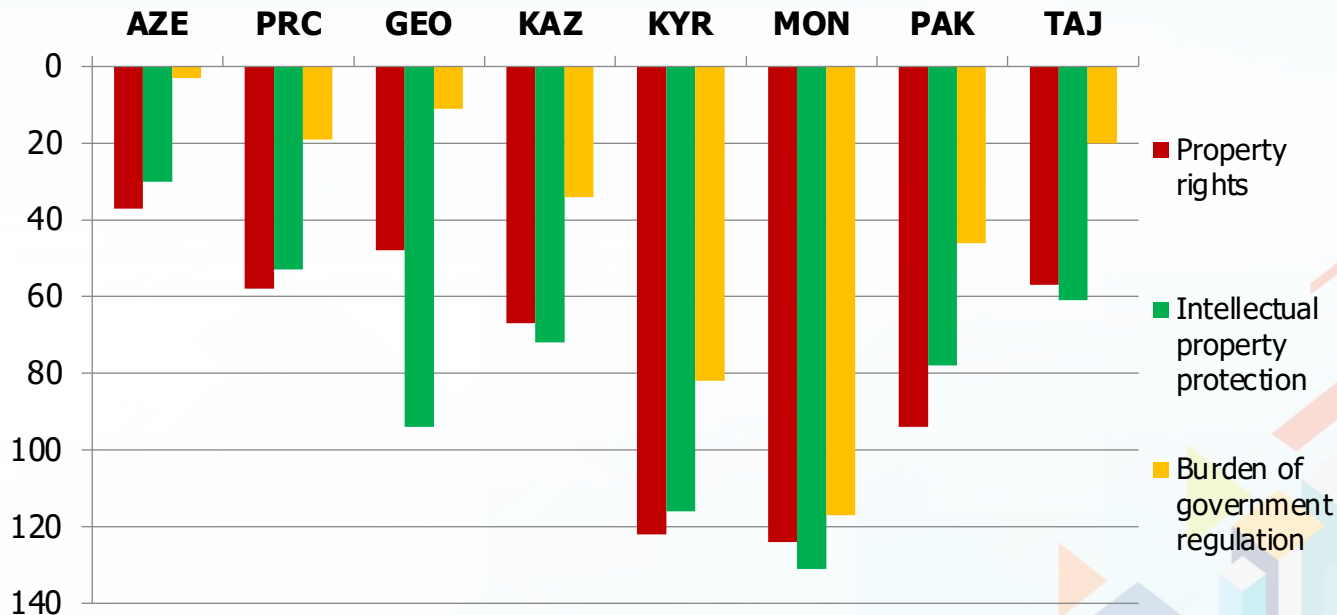


^a The average scores are the arithmetic means of the Worldwide Governance Indicator scores for government effectiveness, regulatory quality, rule of law and control of corruption. The scores range from -2.5 to 2.5, with a greater score corresponding to better governance. The median performer has a score of 0.

Source: World Bank's Worldwide Government Indicators database and authors' computations.



CAREC Countries—Selected Global Competitiveness Index 2019 Components Relating to Quality of Institutions

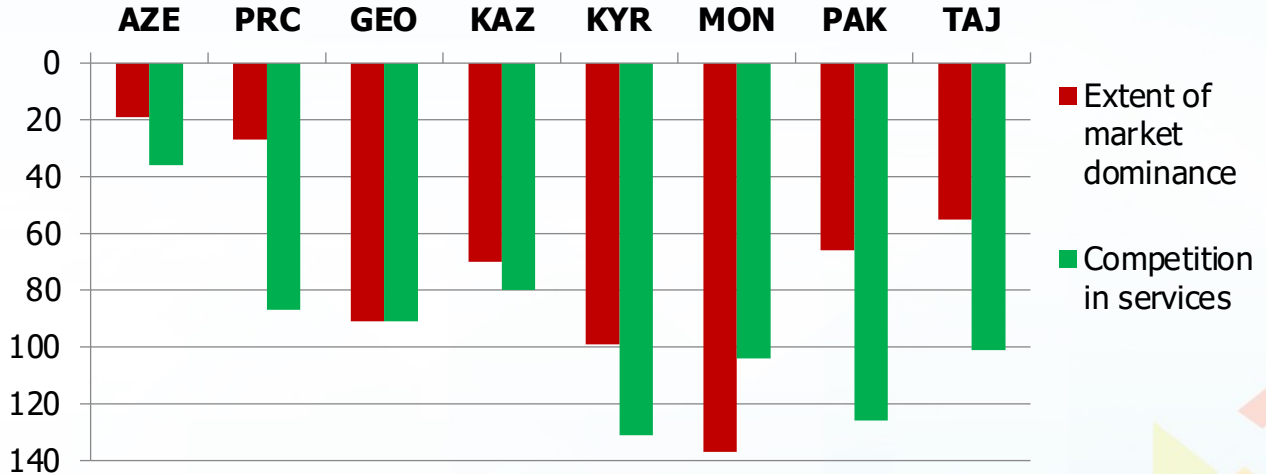


Note: The Global Competitiveness Index 2019 covers 141 countries. It does not cover Afghanistan, Turkmenistan and Uzbekistan.

Source: World Economic Forum.



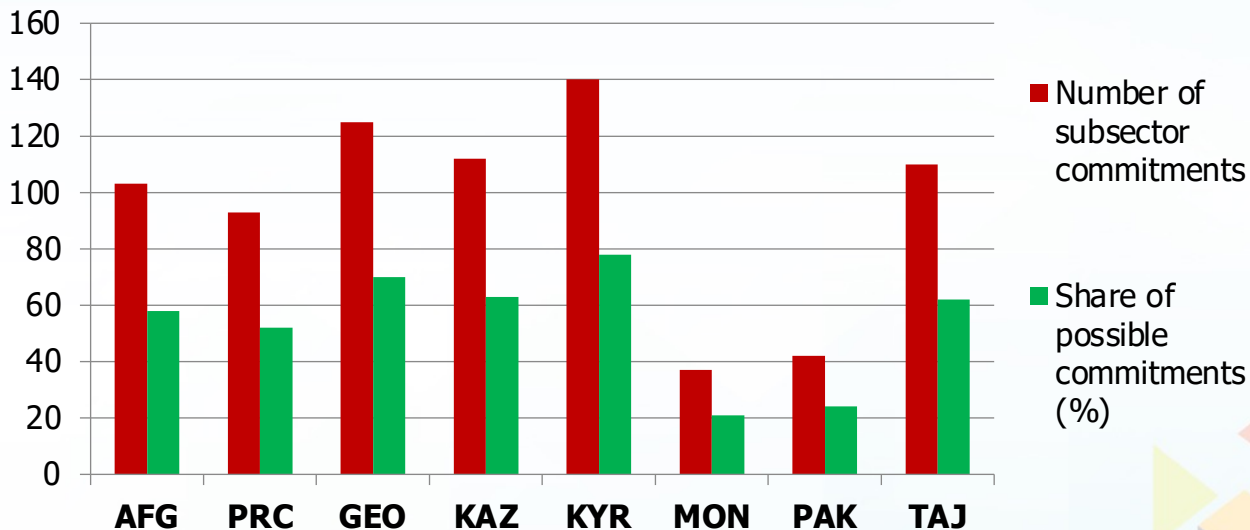
CAREC Countries—Selected Global Competitiveness Index 2019 Components Relating to Domestic Competition



Note: The Global Competitiveness Index 2019 covers 141 countries. It does not cover Afghanistan, Turkmenistan and Uzbekistan.

Source: World Economic Forum.

CAREC Countries—Number of Sector-Specific Commitments under GATS



Note: The theoretical maximum number of sector-specific commitments under the GATS is 179.
Source: WTO and the authors' computations.



CAREC Countries—Ranking in Global Competitiveness Index 2019 Components Relating to Labor Market

	AZE	PRC	GEO	KAZ	KYR	MON	PAK	TAJ
Internal labor mobility	58	73	123	61	65	95	66	119
Ease of hiring foreign labor	3	39	9	41	92	126	78	102
Labor tax rate	107	139	1	36	88	43	64	119
Redundancy costs	57	116	17	17	78	17	64	47
Hiring and firing practices	4	26	25	41	94	79	39	37

Note: The Global Competitiveness Index 2019 covers 141 countries. It does not cover Afghanistan, Turkmenistan and Uzbekistan.

Source: World Economic Forum.



CAREC Countries—Ranking in Selected Global Competitiveness Index 2019 and Travel & Tourism Competitiveness Index 2019 Components Relating to Infrastructure

	AZE	PRC	GEO	KAZ	KGZ	MON	PAK	TAJ
Road connectivity ^a	88	10	65	56	110	112	52	137
Quality of road infrastructure ^a	27	45	81	93	113	112	67	50
Railroad density ^a	34	61	44	66	86	96	54	72
Airport connectivity ^a	79	2	81	72	104	97	41	121
Electricity supply quality ^a	59	18	36	19	115	73	99	107
Tourist service infrastructure ^b	96	86	41	90	128	105	112	131

^a Out of 141 countries covered in the Global Competitiveness Index 2019. ^b Out of 140 countries covered in the Travel & Tourism Competitiveness Index 2019.

Source: World Economic Forum.



Preferential Trade Agreements Involving CAREC Country (Countries) and Covering Services

Parties	Year
PRC and Pakistan	2009
European Union and Georgia	2014
Armenia, Belarus, Kazakhstan, Kyrgyz Republic and Russian Federation (Eurasian Economic Union)	2015
Japan and Mongolia	2016
European Free Trade Association and Georgia	2017
PRC and Georgia	2018
Georgia and Hong Kong, SAR	2019

Source: WTO.



Policy Recommendations

- Adopt a more **coherent and comprehensive approach** to promoting the development of the services sector.
- Undertake a diagnostic assessment of the protection of **intellectual property rights** (IPRs). Based on the findings of the assessment, prepare and implement a road map for strengthening IPR protection.
- Undertake a diagnostic assessment of the **legal, regulatory, and institutional framework** for each of the service industries that are critical to economic diversification (if such an assessment has not recently been undertaken). Based on the findings of these or any other recent assessments, take steps to reduce regulatory burdens and facilitate innovation.



Policy Recommendations (continued)

- Enable the **private sector** to play a greater role in the development of the service industries, particularly by creating a level playing field for competition by state-owned and private entities
- **Lower barriers to FDI inflows** to the service sector, while taking measures to minimize adjustment costs and manage the attendant risks of disruption
- **Review the GATS obligations** of the CAREC countries that are WTO members and consider whether additional GATS commitments would be a desirable mechanism by which to lock in the future adoption of policy reforms



Main Policy Recommendations (continued)

- Enhance the **efficiency of the labor** market.
- Address the deficiencies of **physical and digital infrastructure** that impede the development of the service sector.
- Increase **regional cooperation**, especially in the areas related to services.
- Pursue **reciprocal liberalization of trade in services** as part of regional economic integration.



Thank You