



**MIDDLE EAST
AND CENTRAL ASIA
DEPARTMENT**

Economic Integration and Shared Growth in CAREC Countries

CAREC Development Partners Meeting

September 28, 2026

Subir Lall, Deputy Director

Economic Integration Is Becoming More Important in a Changing Global Environment

Conflict and geopolitical tensions are disrupting established economic relationships and reshaping trade routes and financial flows

Challenges

- Disruptions to established trade and financial links
- Greater uncertainty around traditional routes and partners
- More fragmented markets and economic relationships

Opportunities

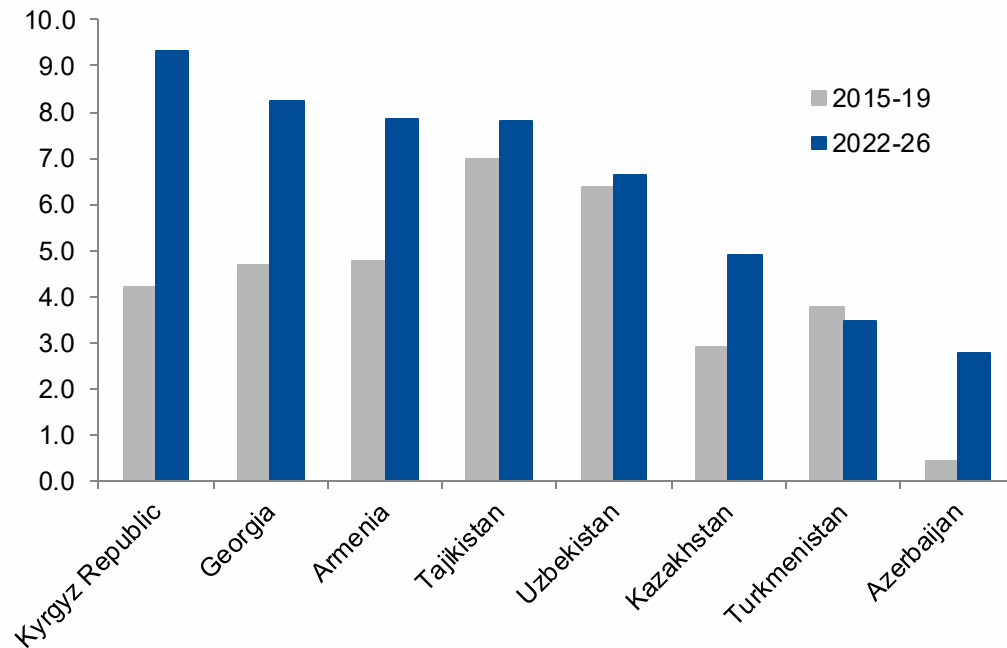
- New trade and investment partnerships
- Greater use of routes through the CCA
- Stronger regional cooperation
- New opportunities in energy, critical minerals, and digital connectivity

CCA Growth Has Been Strong, but Uneven Across Countries

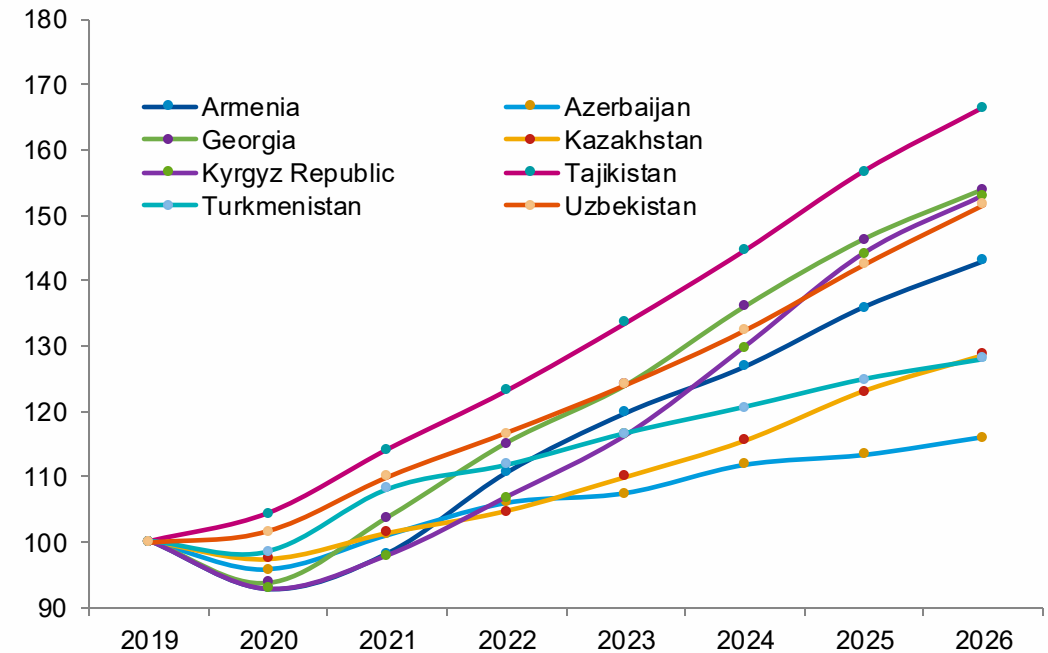
Most CCA economies have grown strongly following the pandemic

Growth paths have differed widely across countries

Real GDP Growth
(Percent)



Real GDP
(Index, 2019=100)



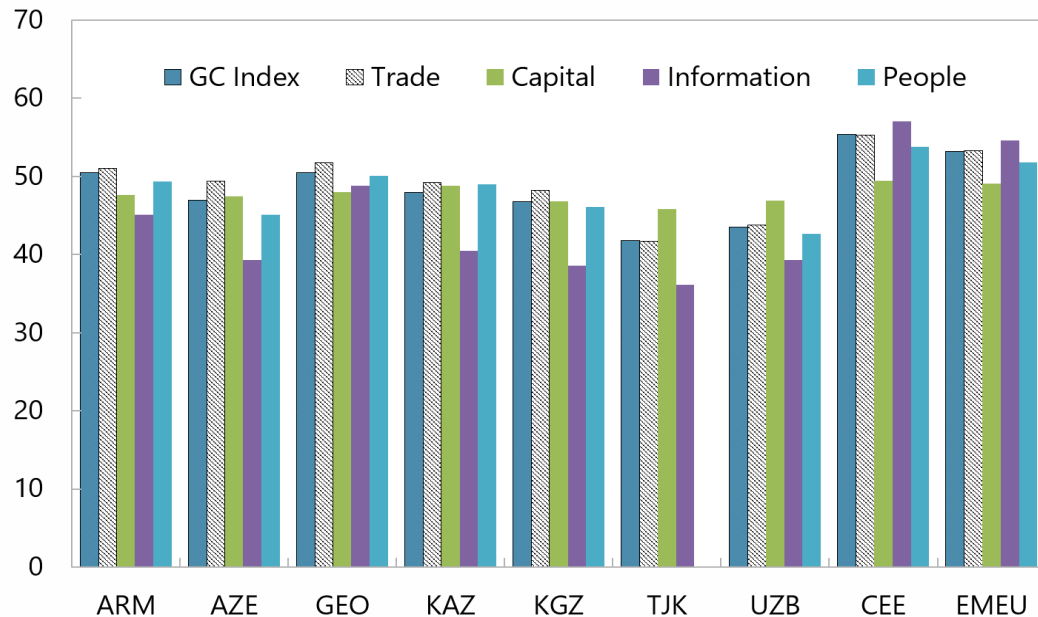
Sources: World Economic Outlook; and IMF staff estimates.

The CCA Remains Less Connected than Comparator Regions

International connectedness generally trails European benchmarks

Trade within the CCA remains modest

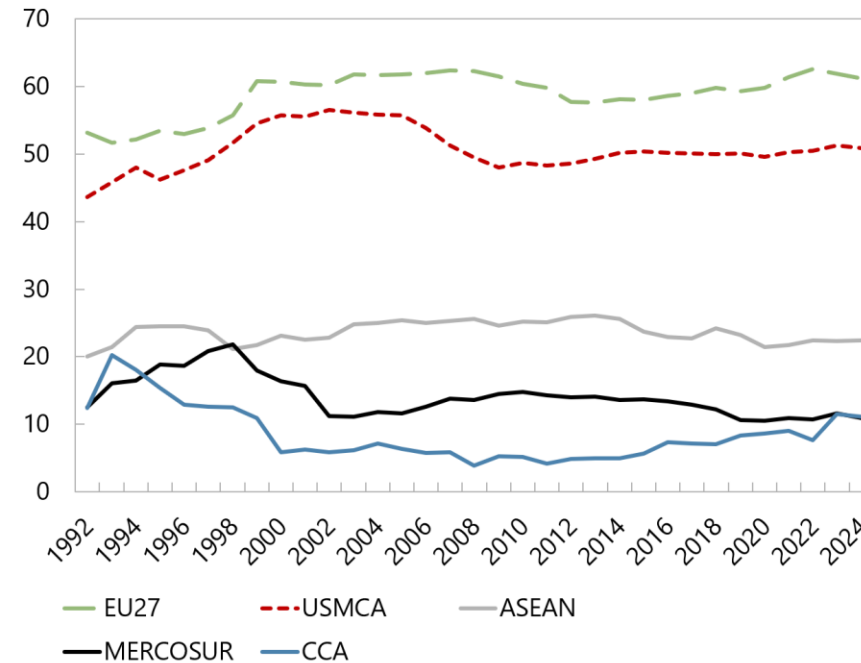
Global Connectedness, 2024
(Index Score)



Sources: DHL Global Connectedness Tracker.

Notes: The DHL Global Connectedness Index assesses countries based on their international trade, capital, information, and people flows (Altman and Bastian, 2024). It assesses these flows along two dimensions: depth (size of international flows relative to domestic activity) and breadth (distribution of flows across origin/destination countries).

Intra-Regional Trade in Goods
(Percent of total trade)



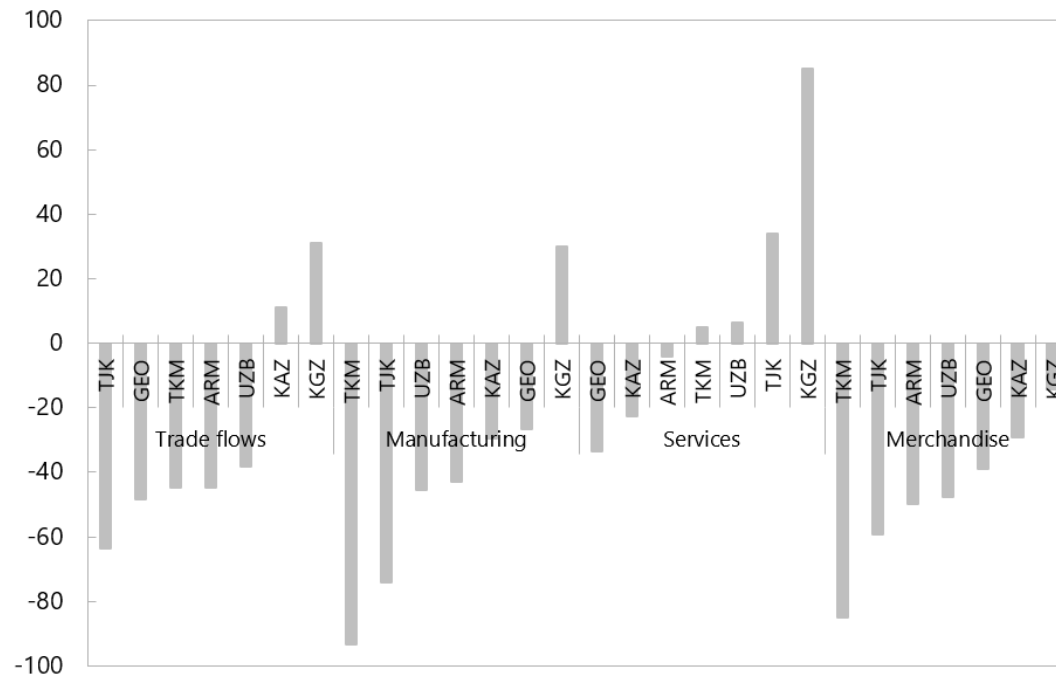
Sources: U.N. Comtrade; IMF staff estimates.

Important Trade Gaps Remain Across Countries and Sectors

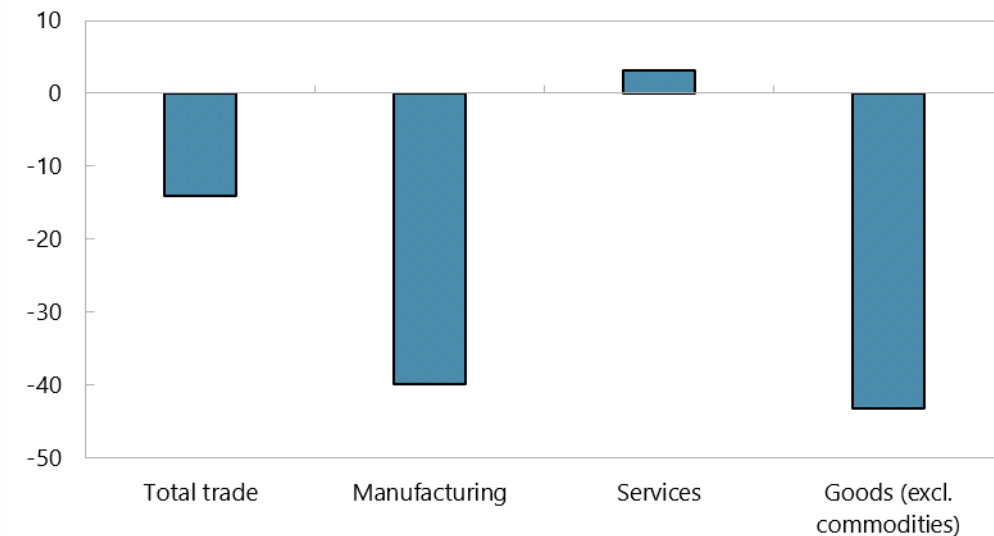
Trade gaps vary considerably across countries and sectors

The largest intra-regional shortfalls are in manufacturing and non-commodity goods

Trade Gaps by Country
(In percent)



Intra-regional Trade Gaps for the whole CCA
(In percent)



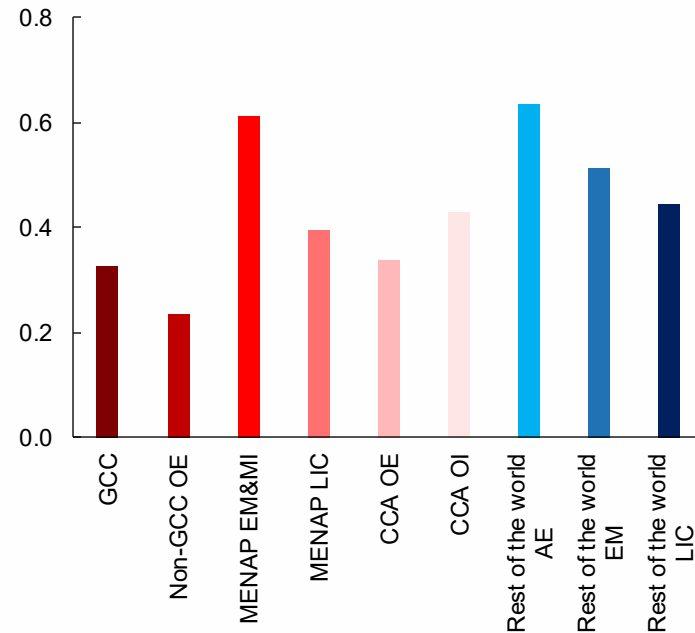
Sources: CEPII, BACI database; CEPII, Gravity database (Conte, Cotterlaz, and Mayer 2022); UNCTAD-WTO ITPD-E; and IMF staff estimates.

Export Diversification Can Strengthen Economic Resilience

CCA exports are less diversified than those of many peers

Greater diversification is associated with smaller output losses after external demand shocks

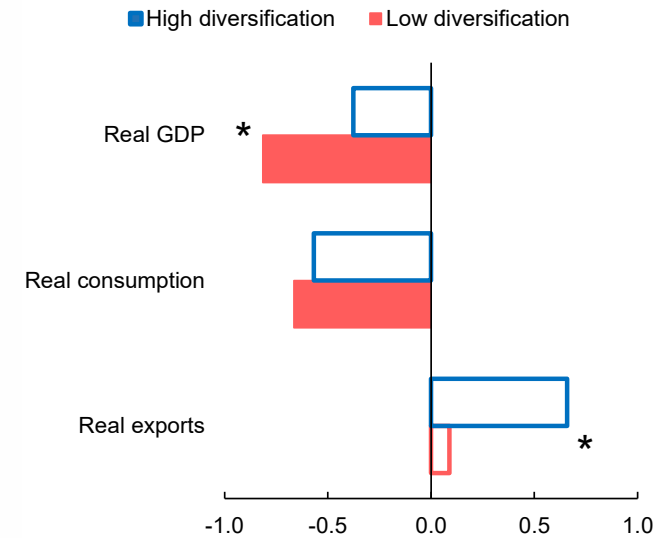
Export Product Diversification
(Index)



Sources: CEPII BACI database; and IMF staff estimates.

Note: Diversification = 1 – normalized Theil index, such that it ranges from 0 to 1, with higher values signifying greater diversification along the indicated dimensions.

External Demand Shock
(Percentage points at two-year horizon)



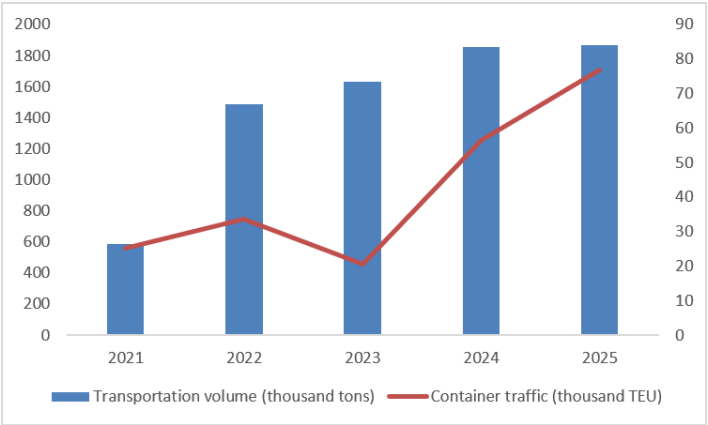
Sources: CEPII, BACI database; IMF, GEE and WEO databases; and IMF staff estimates.

Note: High diversification refers to economies in the top quartile of the Export Product Diversification Index, while low diversification refers to all other economies. The external demand shock refers to the weighted growth of an economy's trading partners, with weights based on exports and scaled by the share of exports to GDP. Analysis based on local projections.

Connectivity Needs to Translate into Broader Economic Value

Use of regional corridors has increased rapidly, although from a low base

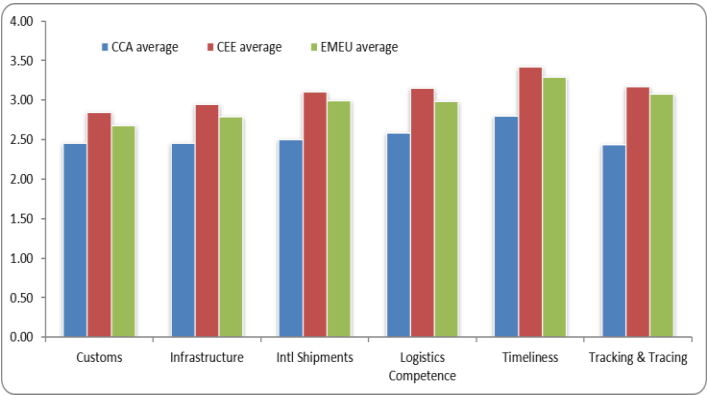
Middle Corridor Freight, 2021-25
(Tonnage and containers)



Sources: Trans-Caspian International Transport Route (TITR) Association; and IMF staff estimates.

Weaknesses in logistics raise trade costs and hinder supply-chain participation

Logistics Performance Index, 2023
(Sub-scores, 1–5; higher = better)

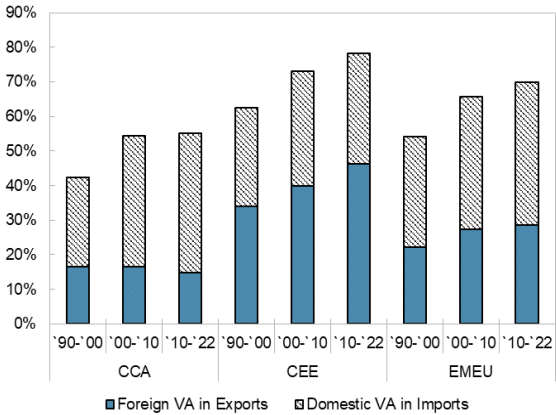


Note: CCA = unweighted average of Armenia, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan and Uzbekistan. Turkmenistan is not covered in the 2023 LPI. CEE = Central & Eastern Europe; EMEU = Emerging & Middle-income Europe. LPI 2023 is the latest survey-based edition; the World Bank has since introduced a separate big-data methodology.

Sources: World Bank, Logistics Performance Indicators.

Participation in global value chains remains comparatively low

GVC Participation: CCA vs. Peers
(Percent of gross exports, period averages)



Note: GVC participation = foreign value added in exports plus domestic value added in partners' exports, in percent of gross exports; higher = deeper integration. CEE = Central and Eastern Europe; EMEU = Emerging Europe and Emerging EU.

Sources: Eora MRIO database; and IMF staff estimates.

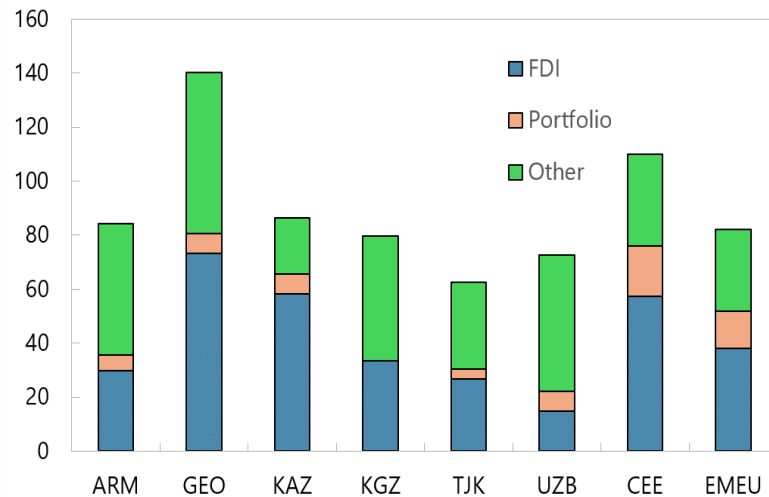
Deeper Financial Integration Could Support Productive Investment

Cross-border financial links remain limited and concentrated

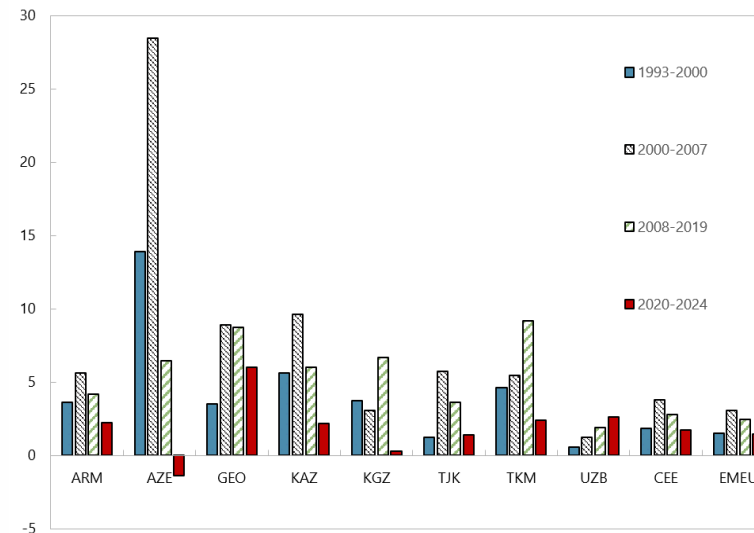
FDI inflows have declined from earlier peaks

The region's productive capital base is relatively low

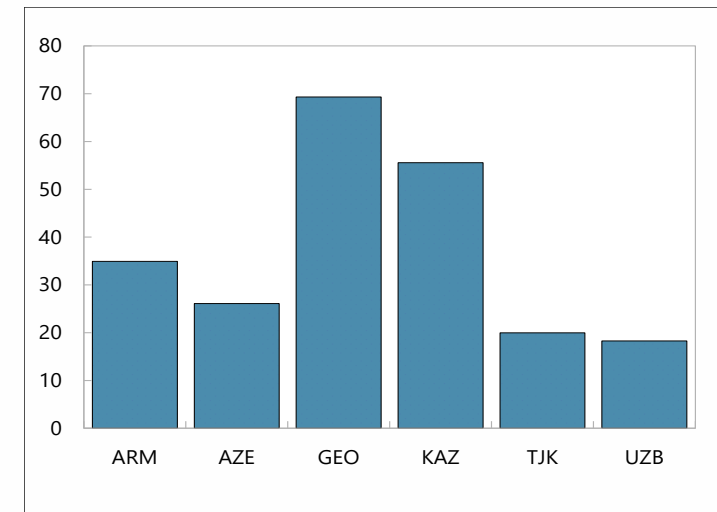
External Liabilities by Instrument, 2024
(Percent of GDP)



FDI Inflows by Period
(Percent of GDP)



Capital Stock per Worker, 2019
(Percent of Level in the CEE)

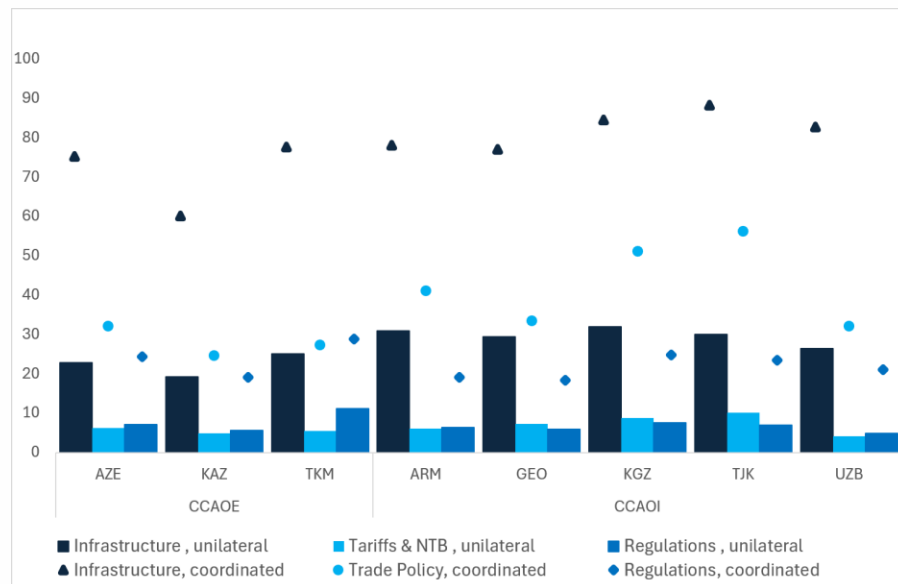


Sources: IMF, International Investment Position Database; IMF, Investment and Capital Stock Dataset; Haver; and IMF staff estimates.

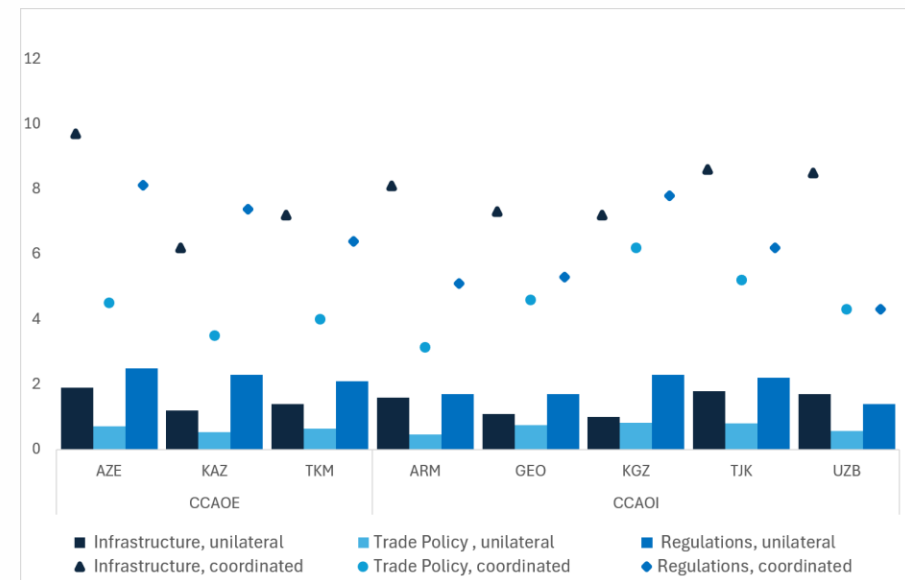
Coordination Can Amplify the Gains from Domestic Reforms

Coordinated reforms deliver larger gains than countries acting alone

Export Impact of Closing 20 percent of Gap with AE
(Percent change relative to baseline)



Output Impact of Closing 20 percent of Gap with AE
(Percent change relative to baseline)



Note: Simulations close 20 percent of the gap with advanced economies in infrastructure, tariffs and NTBs, and regulations. Effects are illustrative, represent medium-term level changes, and are not additive across reform areas.

Source: IMF staff estimates.

Realizing Gains from Integration Requires Sound Policies and Regional Coordination

Sound domestic foundations

- Preserve macroeconomic stability and policy predictability
- Strengthen the business environment and competition
- Develop skills and improve access to finance

Priority areas for coordination

- Coordinate investment planning and sequencing
 - *Poor coordination amplifies corridor bottlenecks*
- Simplify and align border procedures
 - *Border delays add significantly to trade costs*
- Align standards and mutual recognition
 - *Non-tariff barriers weigh on non-commodity trade*
- Advance cross-border payment interoperability
 - *National systems modernized, but not yet linked*



THANK YOU!