



**Center for Social and Economic Research**

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**Policy challenges faced by  
low-income CIS economies**

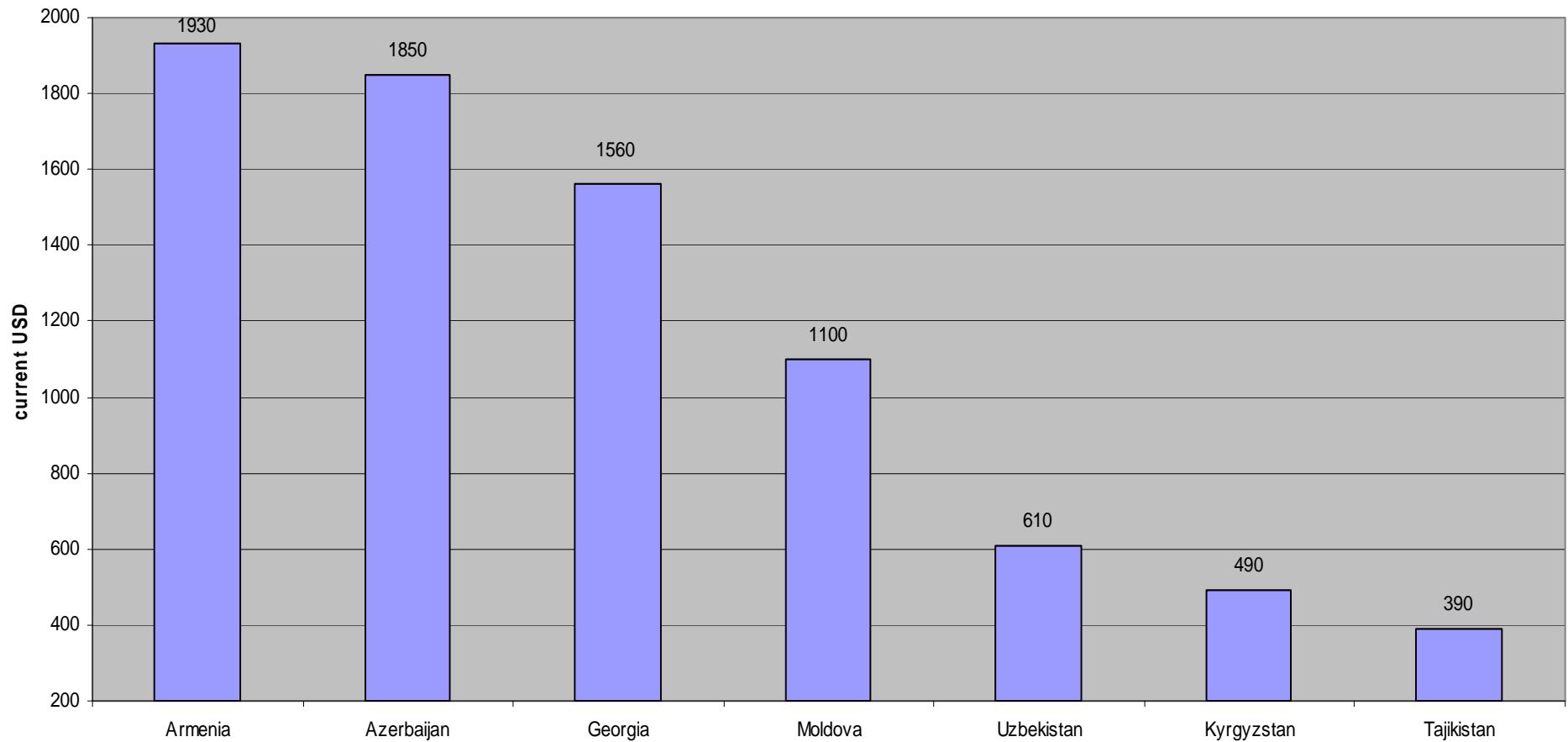
**Presentation for the Conference on ‘Strengthening Integration of the Economies in Transition into the World Economy through Economic Diversification’, UNDESA/UNECE, Geneva, April 2-4, 2008**

# Presentation outline

- Trade, investment and integration
- How to achieve greater diversification?
- Business climate
- Macroeconomic outlook
- Challenges for international community



# GNI per capita, Atlas method



## Commodity structure of exports, 2005, in % of total

Commodity groups	AM	AZ	GE	KG	MD	TJ	UZ
Primary commodities, including fuels (SITC 0 + 1 + 2 + 3 + 4 + 68)	<b>25.8</b>	<b>88.9</b>	<b>57.3</b>	<b>35.0</b>	<b>61.2</b>	<b>85.3</b>	<b>66.5</b>
- All food items (SITC 0 + 1 + 22 + 4)	<b>12.0</b>	<b>7.5</b>	<b>34.9</b>	<b>11.3</b>	<b>53.2</b>	<b>7.3</b>	<b>12.5</b>
- Agricultural raw materials (SITC 2 – 22 - 27 – 28)	<b>0.9</b>	<b>1.0</b>	<b>2.1</b>	<b>8.2</b>	<b>5.6</b>	<b>27.9</b>	<b>30.2</b>
- Ores and metal (SITC 27 + 28 + 68)	<b>10.9</b>	<b>3.7</b>	<b>17.1</b>	<b>3.8</b>	<b>2.3</b>	<b>49.8</b>	<b>11.5</b>
- Fuels (SITS 3)	<b>2.0</b>	<b>76.8</b>	<b>3.2</b>	<b>11.7</b>	<b>0.2</b>	<b>0.3</b>	<b>12.4</b>
- Non-ferrous metals (SITC 68)	<b>4.7</b>	<b>1.4</b>	<b>0.1</b>	<b>0.7</b>	<b>0.0</b>	<b>48.7</b>	<b>9.0</b>
Manufactured goods (SITC 5 to 8 less 68)	<b>70.3</b>	<b>11.0</b>	<b>38.7</b>	<b>27.5</b>	<b>38.8</b>	<b>14.2</b>	<b>28.4</b>
- Chemical products (SITC 5)	<b>0.4</b>	<b>2.3</b>	<b>6.7</b>	<b>1.0</b>	<b>1.7</b>	<b>1.0</b>	<b>6.2</b>
- Machinery and transport equipment (SITC 7)	<b>3.2</b>	<b>6.8</b>	<b>17.0</b>	<b>7.6</b>	<b>5.6</b>	<b>2.5</b>	<b>8.9</b>
- Other manufactured goods (SITC 6 + 8 less 68)	<b>66.7</b>	<b>1.9</b>	<b>15.0</b>	<b>18.9</b>	<b>31.4</b>	<b>10.8</b>	<b>13.3</b>
- Iron and steel (SITC 67)	<b>25.5</b>	<b>1.0</b>	<b>9.8</b>	<b>0.3</b>	<b>1.6</b>	<b>2.1</b>	<b>1.9</b>
Textile fibres, yarn, fabrics and clothing (SITC 26 + 65 + 84)	<b>3.9</b>	<b>1.3</b>	<b>1.0</b>	<b>11.5</b>	<b>17.8</b>	<b>34.8</b>	<b>39.7</b>

Source: <http://stats.unctad.org/Handbook/TableViewer/tableView.aspx>



# Workers remittances (receipts) in % of GDP

Country	2004	2005
Armenia	9.2	7.9
Azerbaijan	2.4	5.0
Georgia	5.8	5.3
Kyrgyzstan	8.1	..
Moldova	27.0	31.4
Tajikistan	12.2	19.9



Source: <http://stats.unctad.org/Handbook/TableViewer/tableView.aspx>

## Diversification and concentration of exports and imports, 2005

Country	Exports			Imports		
	No. of products	DI	CI	No. of products	DI	CI
Armenia	106	0.773	0.316	206	0.508	0.171
Azerbaijan	195	0.794	0.635	216	0.490	0.120
Georgia	117	0.773	0.216	215	0.450	0.111
Kyrgyzstan	129	0.737	0.384	200	0.543	0.184
Moldova	146	0.763	0.271	219	0.500	0.099
Tajikistan	79	0.811	0.533	193	0.511	0.161
Uzbekistan	140	0.759	0.300	215	0.433	0.099
Estonia	221	0.517	0.159	248	0.314	0.076
Latvia	248	0.565	0.145	255	0.349	0.072
Lithuania	250	0.553	0.197	255	0.328	0.128

Source: <http://stats.unctad.org/Handbook/TableViewer/tableView.aspx>



Note: Diversification index that ranges from 0 to 1, reveals the extremal of the difference between the structure of trade of the country and the world average. The index value closer to 1 indicates a bigger difference from the world average.

Concentration index is calculated using the shares of all three-digit products in a country's exports. It is based on Herfindahl-Hirschmann index normalized to obtain values ranking from 0 to 1 (maximum concentration)



## Geographical structure of exports, 2005, in % of total

Region	AM	AZ	GE	KG (e)	MD	TJ	UZ(e)
NAFTA	12	1	8	3	4	0	3
ASEAN + China, Japan and Korea	1	5	2	14	0	1	16
EU 25	47	47	19	3	27	55	17
CIS	19	21	48	40	52	20	47

Source: <http://stats.unctad.org/Handbook/TableViewer/tableView.aspx>

## Geographical structure of imports, 2005, in % of total

Region	AM	AZ	GE	KG(e)	MD	TJ	UZ(e)
NAFTA	7	4	6	2	2	1	2
ASEAN + China, Japan and Korea	7	17	3	47	5	8	24
EU 25	28	30	27	7	33	11	22
CIS	29	34	40	37	40	65	43

Source: <http://stats.unctad.org/Handbook/TableViewer/tableView.aspx>



# FDI: inward stocks, 2005

Country	per capita	% of GDP
Armenia	406.1	32.5
Azerbaijan	1689.9	110.5
Georgia	518.4	36.3
Moldova	268.4	37.9
Kyrgyzstan	101.2	21.4
Tajikistan	80.2	22.6
Uzbekistan	36.2	8.2

Source: <http://stats.unctad.org/fdi/>



# How dangerous export “monoculture” is?

- Exposure to trade shocks – depends on kind of export specialization
- Resource curse vs. resource blessing
- Difficulties of small low-income economies to find an optimal export profile (competition from other developing countries)
- Avoiding industrialist bias

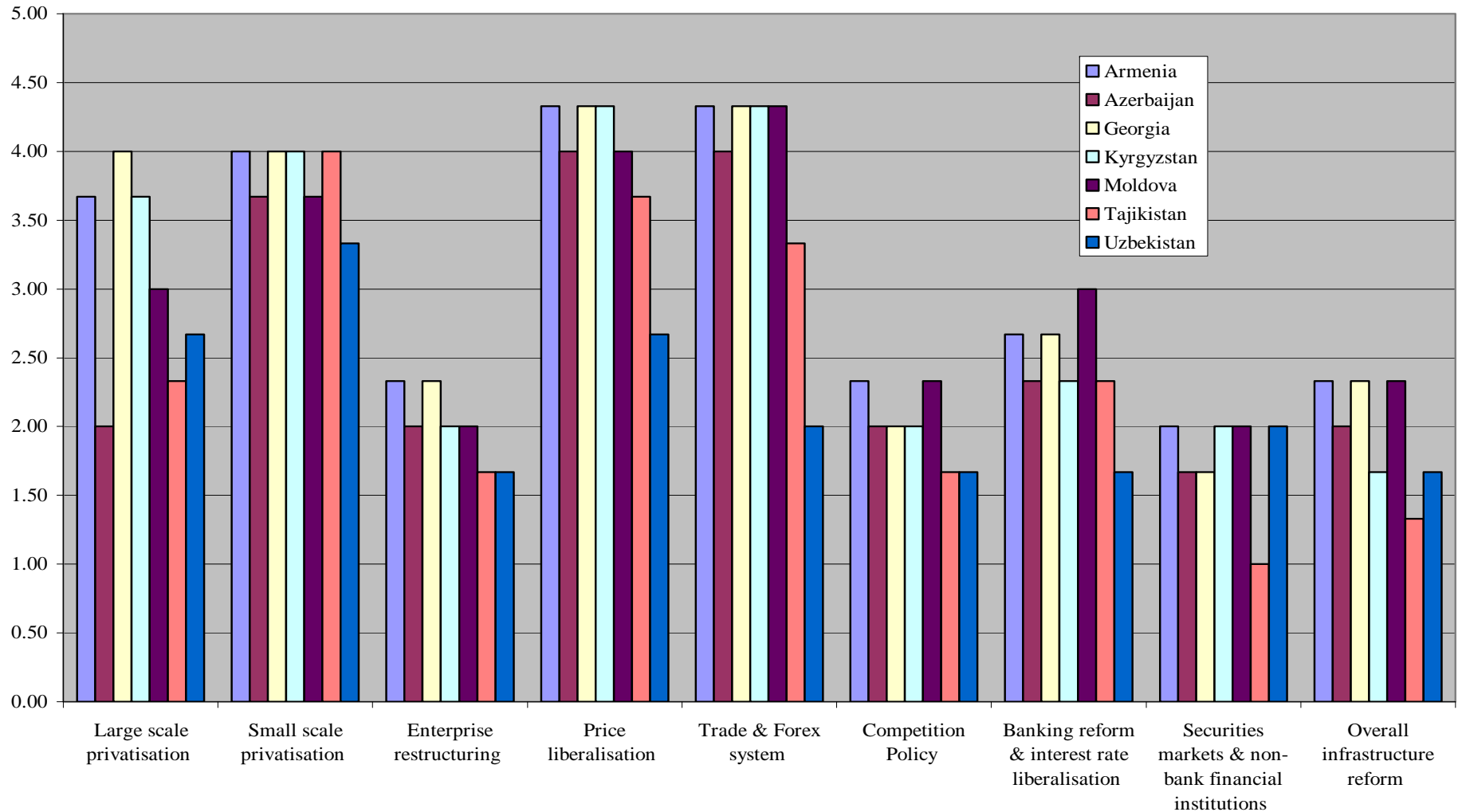


# Policies supporting economic diversification

- Etatist industrial policies, administrative picking up future winners, trade protectionism, tax and other preferences, uneven competition, etc. [WRONG]  $\Rightarrow$  damaging competitiveness, decreasing welfare, increasing fiscal and monetary tensions, structural distortions, state paternalism and corruption
- Continuation of market-oriented reforms [CORRECT]
  - Improving business and investment climate
  - A broad-based governance reform
  - Further trade liberalization on unilateral, bilateral and multilateral basis
  - Elimination of policy distortions: direct or indirect subsidization of dominant export monoculture, agriculture sector, domestic energy supply, etc.
  - Securing long-term macroeconomic stability
  - Developing transportation and other technical infrastructure, increasing competition in infrastructure services and closer regional/sub-regional cooperation in this sphere
  - Upgrading human capital through education reform
  - Solving regional conflicts



## Progress in structural reforms (EBRD indicators)



Source: <http://www.ebrd.org/country/sector/econo/stats/index.htm>

# Key determinants of unfavorable business climate

- Barriers of entry (registration and licensing regime)
- Legal system, its stability and transparency
- Law and contract enforcement, protection of property rights
- Quality of state institutions, including civil service and judiciary, role of law enforcement agencies
- Tax system and administration
- Underdevelopment of financial sector and low quality of financial services
- Underdevelopment and monopolization of infrastructure



## Ease of Doing Business Ranking, 2008

Country	Doing Business	Starting a Business	Licenses	Employing Workers	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Int. Trade	Enforcing Contracts	Closing a Business
Georgia	18	10	11	4	11	48	33	102	64	42	105
Armenia	39	47	73	48	2	36	83	143	118	64	42
Moldova	92	81	153	93	46	97	98	111	122	17	82
Kyrgyzstan	94	49	152	74	16	68	33	152	177	32	128
Azerbaijan	96	64	159	80	56	26	107	141	173	30	75
Uzbekistan	138	54	145	67	119	170	107	159	165	48	119
Tajikistan	153	161	166	125	43	135	176	155	176	23	99

Source: <http://www.doingbusiness.org/economyrankings/?excel=true>



# Deregulation – quick fix

- Simplifying business registration/licensing
- Streamlining administrative procedures
- More elements of e-government
- Unilateral recognition of EU/US/other developing countries technical and regulatory standards
- Elimination of some inspection agencies
- Periodical review of existing regulations
- Simplifying tax and custom tariffs system
- Overhaul of tax and custom administration



# Transparency International CPI, 2007

Global rank	Country	CPI Score
79	Georgia	3.4
99	Armenia	3.0
111	Moldova	2.8
150	Tajikistan	2.1
150	Azerbaijan	2.1
150	Kyrgyzstan	2.1
175	Uzbekistan	1.7

Source: <http://www.transparency.org/content/download/23976/358248>



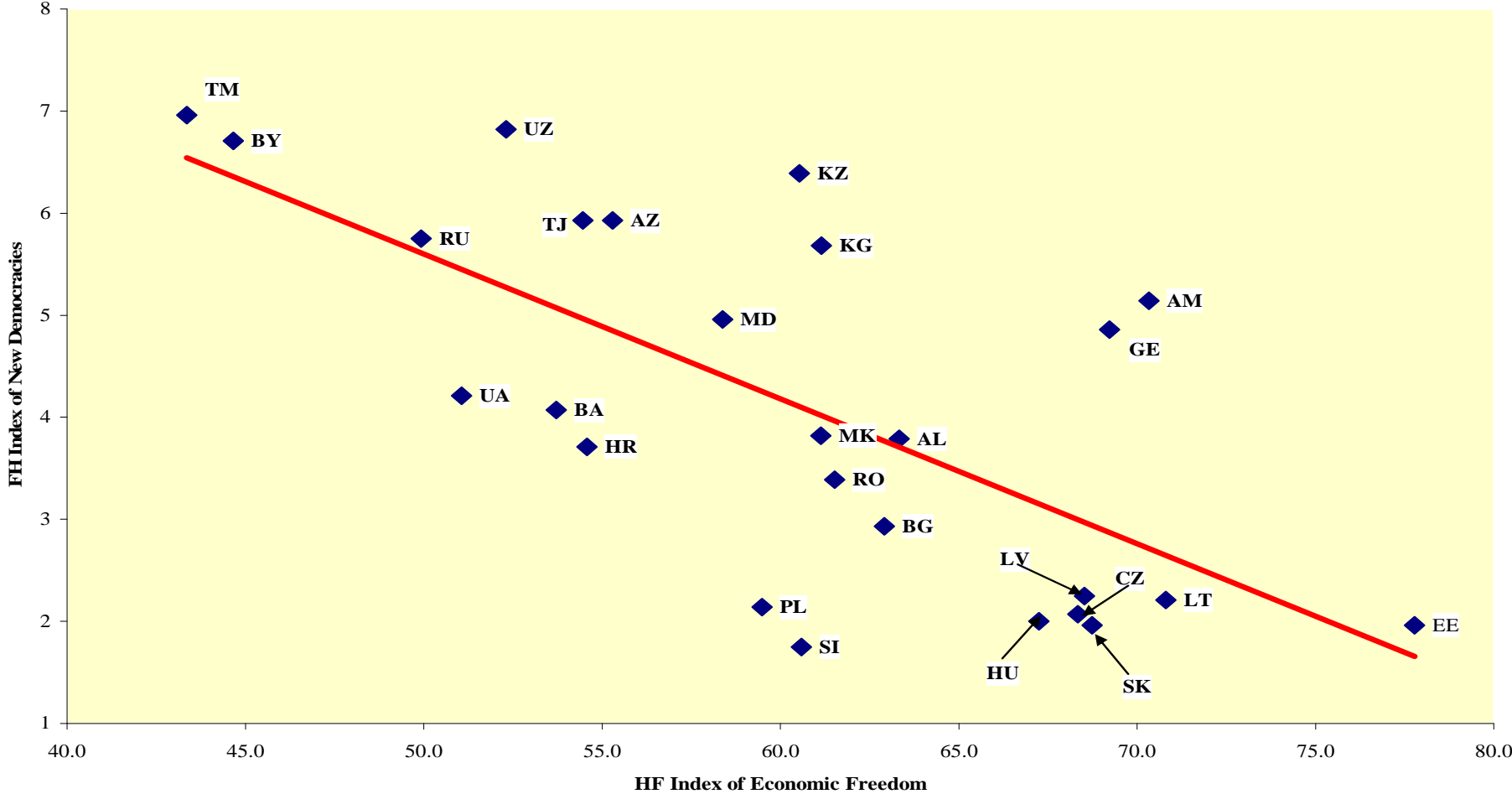
## Worldwide Governance Indicators, by Dimensions of Governance: 2006

Country	Voice and Accountability	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
Armenia	-0.72	-0.30	-0.16	+0.26	-0.52	-0.58
Azerbaijan	-1.14	-1.07	-0.70	-0.44	-0.86	-0.99
Georgia	-0.16	-0.86	-0.16	-0.22	-0.61	-0.36
Kyrgyzstan	-0.70	-1.20	-0.86	-0.57	-1.18	-1.09
Moldova	-0.48	-0.48	-0.85	-0.36	-0.61	-0.65
Tajikistan	-1.27	-1.30	-1.06	-0.98	-1.06	-0.91
Uzbekistan	-1.86	-1.94	-1.24	-1.66	-1.44	-1.02

Source: [http://info.worldbank.org/governance/wgi2007/sc\\_country.asp](http://info.worldbank.org/governance/wgi2007/sc_country.asp)



# Interrelation between economic and political freedoms in transition countries



Source: <http://www.heritage.org/research/features/index/downloads/2008PastScores.xls>;  
[http://www.freedomhouse.hu//images/fdh\\_galleries/NIT2007/rating%20and%20democracy%20score%20summary3.pdf](http://www.freedomhouse.hu//images/fdh_galleries/NIT2007/rating%20and%20democracy%20score%20summary3.pdf)



# Governance and regulatory reform

- Reform of judiciary
- Reform of law enforcement agencies
- Reform of public administration (incl. civil service)
- Reform of regional and local government
- Comprehensive anti-corruption policy
- Media freedom, more room for civil society
- Democratization



## Total primary energy supply per nominal GDP, toe per USD

	2001	2002	2003	2004	2005
Azerbaijan	3.10	2.25	1.73	1.65	1.40
Armenia	0.56	0.83	0.74	0.74	0.75
Belarus	1.64	1.19	1.73	1.61	1.46
Georgia	0.92	0.65	0.73	0.71	0.74
Kazakhstan	1.58	1.62	2.00	2.01	2.01
Kyrgyzstan	1.08	1.11	1.73	1.68	1.70
Moldova	1.08	1.70	2.09	2.01	1.97
Tajikistan	1.16	2.19	2.43	2.32	2.24
Turkmenistan	1.78	3.97	3.58	3.14	2.95
Ukraine	2.93	2.62	3.37	3.19	3.17
Russia	1.65	1.32	2.09	1.95	1.85
China	0.90	0.90	0.92	0.85	0.83
World	0.29	0.29	0.32	0.32	0.32
OECD	0.19	0.19	0.20	0.20	0.20

*Source: IEA, Key World Energy Statistics, 2003–  
2007.*



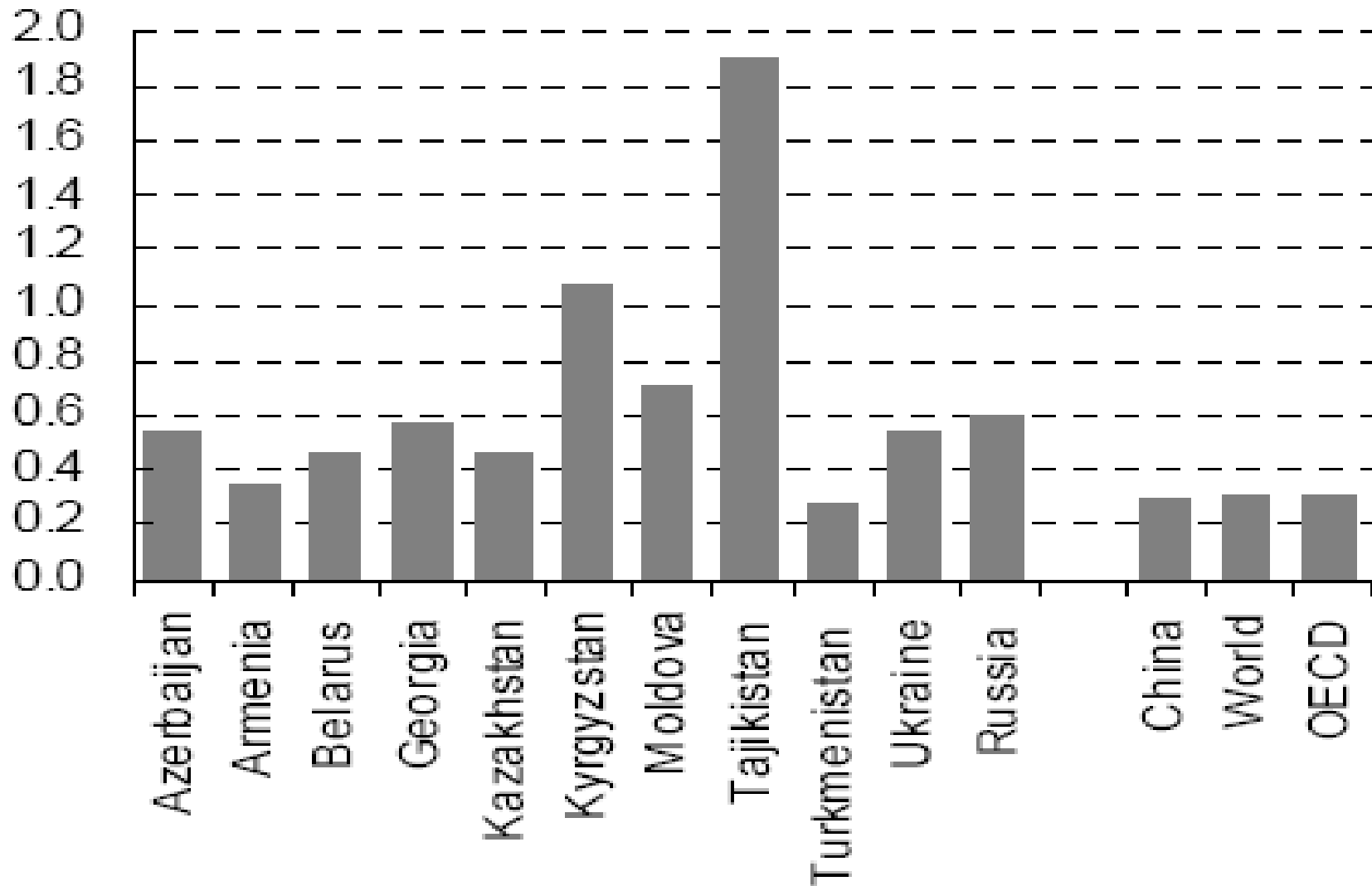
## Implicit subsidies in the electricity sector (% of GDP)

	2000	2001	2002	2003
Armenia	1.42	2.19	0.96	1.00
Azerbaijan	11.4	10.1	8.11	6.42
Belarus	2.51	2.22	0.75	negligible
Georgia	12.21	6.85	6.45	5.97
Kazakhstan	3.31	2.87	2.43	1.33
Kyrgyzstan	18.64	25.23	19.02	9.16
Moldova	10.84	7.66	3.20	2.71
Russia	5.36	3.36	3.4	1.01
Tajikistan	28.18	24.95	22.95	16.53
Ukraine	9.08	6.81	5.56	4.03
Uzbekistan	8.55	10.16	13.4	12.06

Source: World Bank (2006).



## Electricity consumption kWh/1 USD of GDP in 2000 prices, PPP, 2005



Source: IEA, Key World Energy Statistics, 2007.

[www.case-research.eu](http://www.case-research.eu)



**Table 4.5.10 Implicit subsidies in the gas sector (% of GDP)**

	2000	2001	2002	2003
Armenia	0.38	0.19	0.15	0.48
Azerbaijan	1.4	1.19	1.09	0.89
Belarus	1.92	1.99	1.26	0.46
Georgia	0.95	1.95	1.25	2.34
Kazakhstan	Na	na	Na	2.15
Moldova	0.77	0.63	0.76	0.92
Russia	1.18	0.92	0.74	0.98
Ukraine	3.72	5.09	1.06	1.03
Uzbekistan	2.95	3.36	5.95	8.45

Source: World Bank (2006).



# Progress between 2002 and 2006

- Armenia (+)
- Georgia (+)
- Kyrgyzstan
- Moldova



## Annual inflation, end of period, 1998-2007, in %

Country	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Armenia	-1.3	2.0	0.4	2.9	2.0	8.6	2.0	-0.2	5.2	4.4
Azerbaijan	-7.6	-0.5	2.2	1.3	3.3	3.6	10.4	5.5	11.4	16.7
Georgia	10.7	10.9	4.6	3.4	5.4	7.0	7.5	6.2	8.8	11.1
Kyrgyzstan	16.8	39.9	9.6	3.7	2.3	5.6	2.8	4.9	5.1	20.1
Moldova	18.2	43.8	18.5	6.4	4.4	15.7	12.6	10.1	14.1	13.1
Tajikistan	2.7	30.1	60.6	12.5	14.5	13.7	5.7	7.1	12.5	19.9
Uzbekistan	26.1	26.0	28.2	26.5	21.6	7.8	9.1	12.3	11.4	



Source: IMF

[www.case-research.eu](http://www.case-research.eu)

## Table 6: Public debt in % of GDP

Country	1999	2000	2001	2002	2003	2004	2005	2006
Armenia	44.4	46.8	45.3	46.6	40.9	51.5	39.7	34.2
Azerbaijan	24.2	20.3	20.9	20.5	20.0	18.6	13.3	na
Georgia	77.0	69.7	68.3	67.4	61.5	47.0	36.6	28.9
<b>Kyrgyzstan</b>	<b>134.3</b>	<b>113.3</b>	<b>107.3</b>	<b>107.3</b>	<b>104.9</b>	<b>93.8</b>	<b>85.1</b>	<b>76.3</b>
Moldova	103.3	91.7	78.4	73.1	58.9	46.0	34.7	34.7
Tajikistan	107.9	118.3	101.3	89.4	64.8	43.1	41.9	33.6
Uzbekistan	na	42.1	59.4	54.6	41.6	35.1	28.2	20.8

Source: <http://www.ebrd.org/country/sector/econo/stats/sei.xls>



# How international community can help?

- Completing WTO accession process in CIS
- Progress in global trade liberalization (especially agriculture)
- “Deep” FTA with EU
- “Deep” FTA within CIS based on WTO rules
- Help in solving regional conflicts
- Regional infrastructure projects
- Technical assistance in more sophisticated institutional reforms