



Some comments on Paper
by Marek Dabrowski (CASE)

“Policy Challenges faced by Low-Income CIS Economies”

Presented at the UNDESA-UNECE Conference on Strengthening
Integration of the Economies in Transition in the World Economy
through Economic Diversification

Max Spoor
Institute of Social Studies, The Hague
The Netherlands



- Impressive overview of macro-economic and trade indicators of the group of poorest CIS countries (including resource poor countries: Armenia, Georgia, Kyrgyzstan, Moldova, and Tajikistan; and resource rich one Azerbaijan and Uzbekistan (to a lesser extend))
- Strong recovery of growth, trade, all across the board of this group of countries, since the late 1990s, and high growth rates since 2001
- Detailed indicators of reform, in the economic sphere, but also in governance, anti-corruption measures and business or investment climate
- Policy recommendations on desired institutional reforms, trade openness and economic structure

Additional Policy Challenges

- Sectoral analysis shows that a number of these countries (Ge/Mol/Kyr/Taj/Uzb) have large rural sectors [Table 2]
- Agricultural production is crucial, in a particular in Kyrgyzstan, Tajikistan and Uzbekistan, even more than the share of GDP reveals [agro-employment very high]
- Serious rural-urban-capital city income (and non-income) inequalities have emerged, in part because of *non pro-poor growth* patterns [see graph 1]
- Poverty issues are very important to tackle, in particular rural poverty (and even child poverty) [see graph 2 & 5]
- Human capital is overestimated (brain drain, brain waste and low investment in E, R & D), and needs much more attention

Rural Societies?

Table 2: Agrarian Profile of CEA Countries (2004)

	Share of Rural Population	Share of Agriculture in Total Employment	Share of Agriculture in Overall GDP
Azerbaijan	48.5	40.0	11.3
Kazakhstan	42.9	33.2	7.9
Kyrgyzstan	65.1	51.8	32.9
Tajikistan	73.6	67.6	24.2
Turkmenistan	56.4	..	20.2
Uzbekistan	62.6	..	28.2

Source: Lerman (2007);

Spatial difference in Poverty rates [Graph 1]

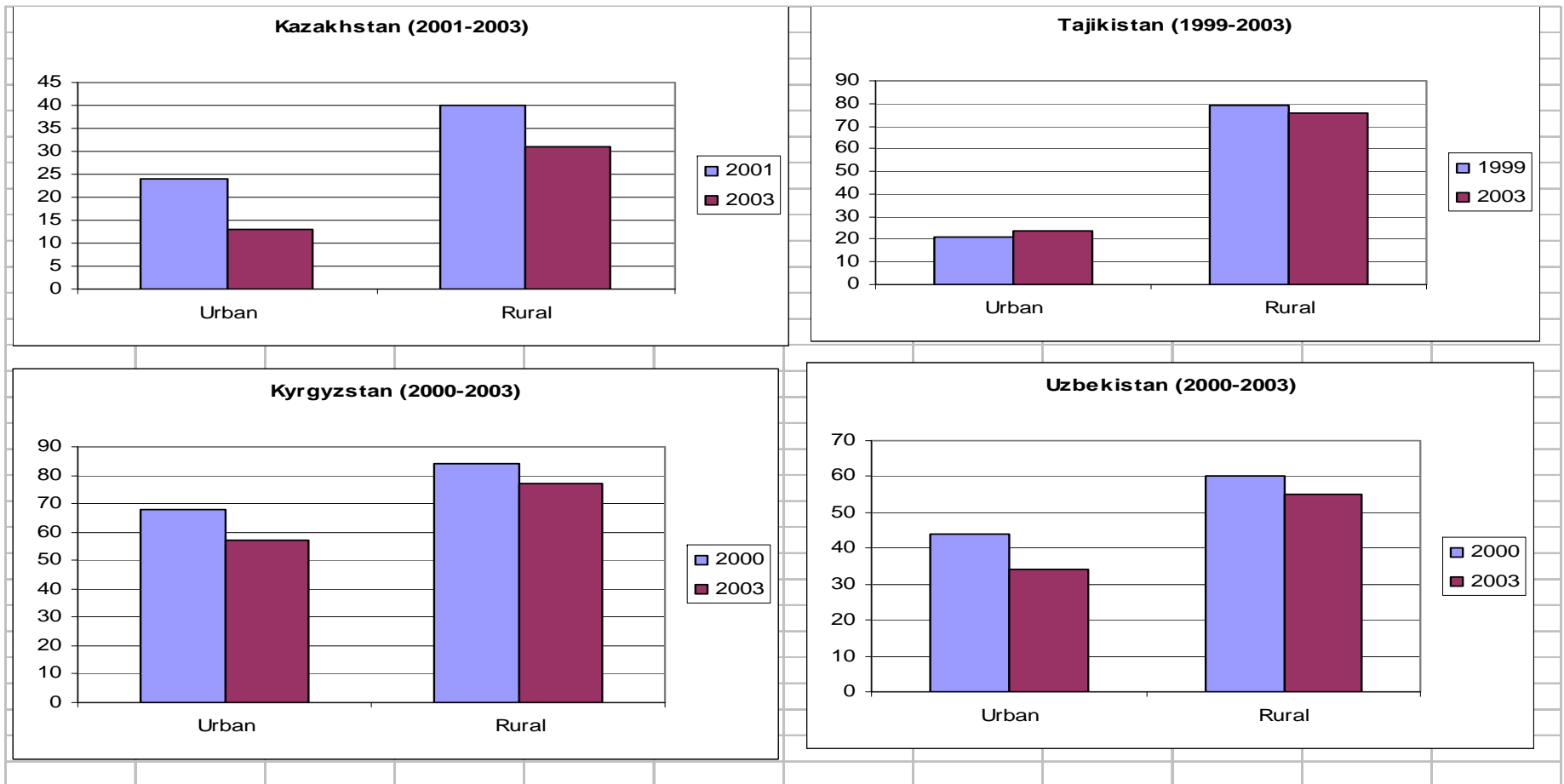
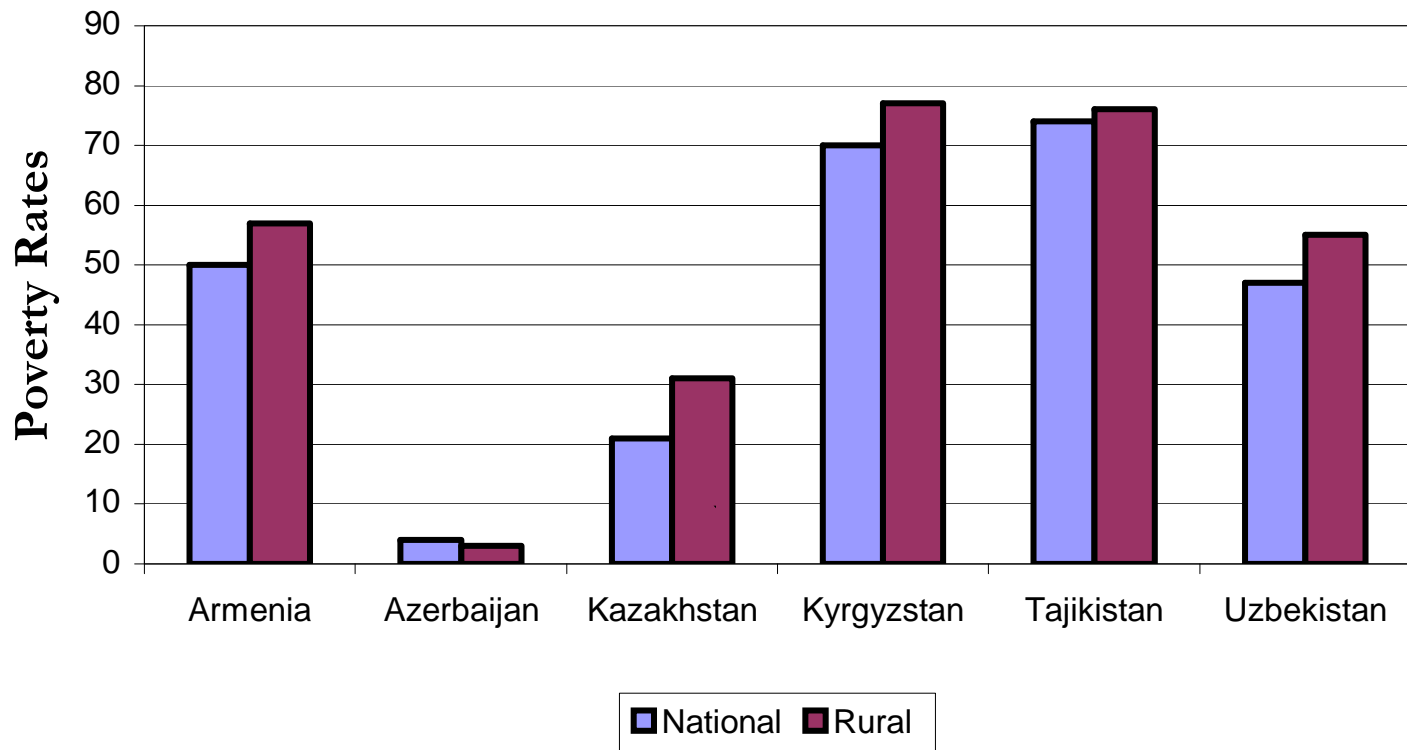
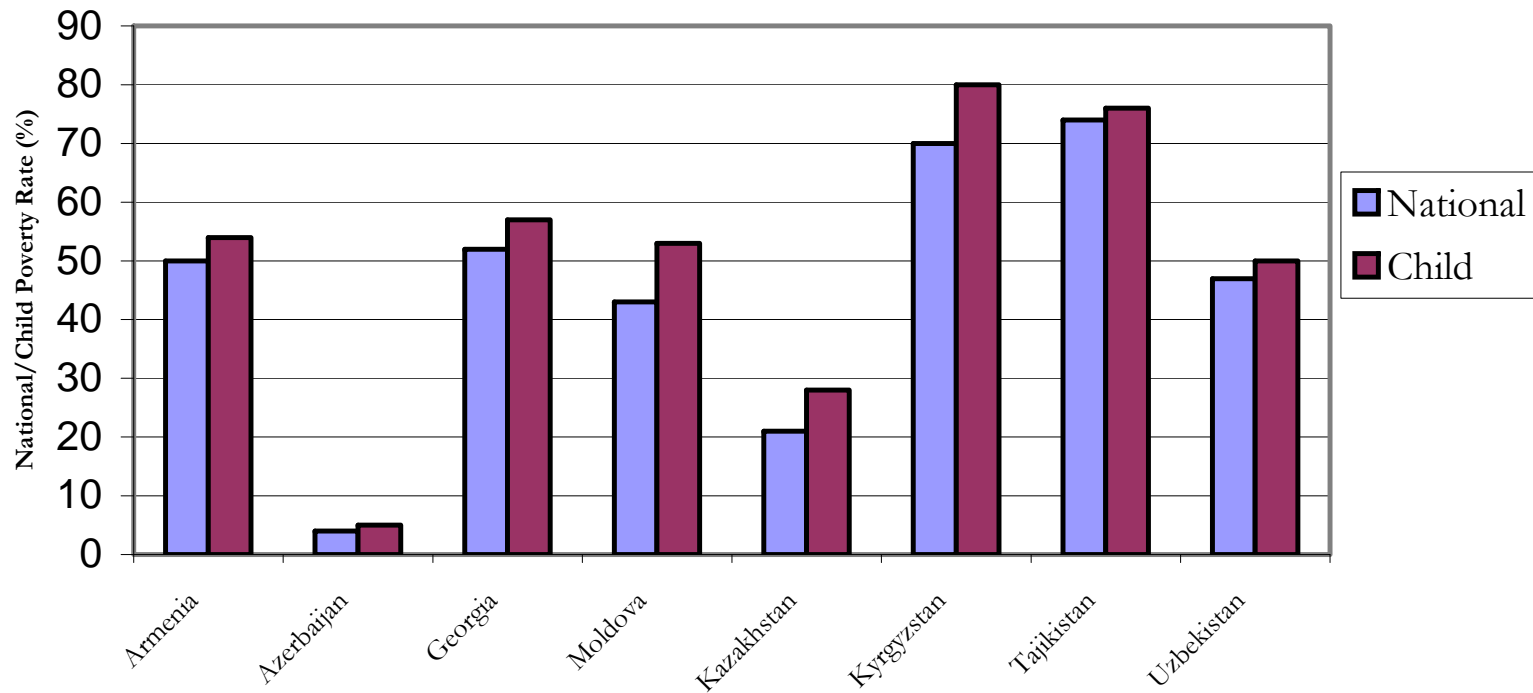


Figure 2: Rural & National Poverty (2003)



Child Poverty

Figure 5: Child Poverty (<2.15 USD)



Institutional Reforms

- The emphasis in the paper is on institutional reforms, rule of law, anti-corruption, improved governance and institutional effectiveness, doing business climate.
- Indicators used are from World Bank, Heritage Foundation, Freedom house, Transparency
- The suggestion is made; the better the indicators the higher economic growth.
- These indicators they seem to correlate perfectly with the degree of reform (as we measure or observe this). Armenia, Kyrgyzstan, Moldova, and Kyrgyzstan score high, Uzbekistan, Tajikistan (and Turkmenistan) low
- However, even these high scores represent still high levels of corruption, weak governance and lack of credible institutions
- What happens if we include high performers such as Vietnam and China in these tables? [Tables 8,9,10]

Table 8: Heritage Foundation Index of Economic Freedom, 2008

Ranking	Country	Score	Business Freedom	Trade Freed.	Fiscal Freed.	Gov't Size	Monetary Freedom	Invest. Freed.	Financ. Freed.	Property Rights	Freedom from Corrupt.	Labor Freed.
28	Armenia	70.3	81.3	85.0	89.0	86.4	84.6	70	70	35	29	73.1
107	Azerbaijan	55.3	61.6	78.4	80.4	82.9	76.5	30	30	30	24	59.2
32	Georgia	69.2	85.0	71.0	90.7	81.3	71.4	70	60	35	28	99.9
70	Kyrgyzstan	61.1	60.4	81.4	93.9	76.1	75.6	50	50	30	22	72.0
89	Moldova	58.4	68.5	79.2	83.0	56.9	67.6	30	50	50	32	66.6
114	Tajikistan	54.5	43.4	77.8	89.3	84.1	65.8	30	40	30	22	62.1
130	Uzbekistan	52.3	67.8	68.4	88.0	68.3	57.5	30	20	30	21	72.1
126	Vietnam	52.8	50.0	70.2	66.9	89.7	76.5	30	30	20	33	62.4
130	China	49.8	60.0	62.8	79.3	78.0	67.4	30	30	10	26	59.5

Source: <http://www.heritage.org/research/features/index/downloads/2008PastScores.xls>

Table 9: Transparency International Corruption Perception Index, 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
72	China	3.5
123	Vietnam	2.6

Note: The scale from 1 to 10 with higher scores indicating less corruption

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

Table 10: 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
China	-1.66	-0.37	-0.01	-0.19	-0.40	-0.53
Vietnam	-1.45	+0.42	-0.37	-0.71	-0.43	-0.66

Source: http://info.worldbank.org/governance/wgi2007/sc_country.asp

Old Policy Advise in New Bottles?

- In the early 1990s the IFIs gave the policy advise to the transition countries: liberalize, deregulate and privatize, “get your prices right” and markets will emerge
- In the 2000s the emphasis shifted to institutions, rule of law, anti-corruption and good governance [Rodrik calls this “institutional fundamentalism”, comparable with the previous “market fundamentalism”]
- The current policy recommendations have been also given in many documents during the 1990s, but with relatively little influence, in particular in Central Asia
- Hence, we need to understand much better the specific political economy of these countries, and not repeat “panacea”, a general medicine against all cures-kind of policy advise

Conclusion

- In Dabrowski's paper is a very important section on the European Neighbourhood Policy (ENP). Moldova and the Caucasus are covered by the ENP, and can benefit from Association Agreements
- Central Asia was deliberately left outside. Economically understandable (although with Turkmenistan and Kazakhstan as energy producers, the vision towards CA regarding European energy security has changed)
- Politically, and strategically Central Asia is very important for Europe, and therefore should be included, this will also bring more economic diversification, and institutional transformations
- To which model the non-oil producing poor CIS countries might evolve? Probably model B (Landesmann), which will also have a positive effect on the income distribution.