

**UN-DESA and UN-ECE  
International Conference**

**“Strengthening Integration of the Economies in Transition into the  
World Economy through Economic Diversification”**

**Welcoming remarks by  
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Geneva, 2 April, 2008**

**Distinguished delegates, ladies and gentlemen,**

I would like to thank the UN’s Economic Commission for Europe (UN-ECE), and Dr. Marek Belka in particular, for co-hosting and organizing this conference with UN-DESA. I also want to thank UNCTAD for their collaboration.

It is my pleasure to welcome you all to this event. I am pleased to see we have been able to gather such a distinguished group of experts, including official delegates and experts from the ministries of the economies in transition; distinguished experts from a great variety of international agencies, including the EBRD, OECD, EU, various UN agencies; and, a large number of renowned scholars from academia. No doubt this will be the basis for a fruitful exchange of ideas and experiences and which will contribute to a better understanding of how the economies in transition can make further progress with the integration of their markets and societies into the global economy in a way that will benefit their populations at large.

Let me take this opportunity to say something about the background to this conference and what we expect to get out of it.

The background to this conference lies in a resolution of the UN General Assembly adopted in December 2006 and which requests the Secretary General to prepare, in close consultation with the countries with economies in transition, a report on the integration of those economies into the world economy.<sup>1</sup> In compliance with this mandate, the UN Department of Economic and Social Affairs and the UN Economic Commission for Europe decided to organize this event as a forum to discuss policy options that could push the transition economies towards greater economic diversification in order to secure greater gains from global integration

Almost two decades have passed now since the former centrally planned economies started their transition to market economies. Since then, some of them, mostly in Central

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<sup>1</sup> A/RES/61/210

and Eastern Europe and the Baltic States, successfully completed their economic transformation, joined the European Union, and now have reached a high degree of integration into the global chain of production by diversifying production and export bases with a high-technologically content. Not all economies in transition have come this far. Many countries in South-Eastern Europe and the CIS have production bases that have remained rather narrow and specialized on few commodities and production is constrained by obsolete capital, energy shortages, lack of adequate infrastructure, and/or isolation from major trading routes. Economic growth in these contexts is either highly dependent on low value-added activities or on the extraction and exportation of primary commodities.

At the UN, we categorize these countries as economies in transition. We have no clear definition of what a “well-functioning market economy” is or when it is fully established. I will not try and establish a benchmark for you or for the UN. The economies in transition have come a long way in creating market mechanisms and opening of their economies. But clearly, their continued status as economies of transition suggests that the process of market reforms and the creation of the right kind of regulatory market institutions is as yet incomplete. Probably there is no ideal situation of full market functioning. We only need to look at the current crisis in financial markets in the United States. The urgent calls for renewing financial market regulation and supervision to stem the systemic excesses in by and large unfettered financial markets signal that even in the world’s most sophisticated market economy markets operate far from ideally. As markets are dynamic also market institutions and regulatory frameworks should be under continuous scrutiny and revision.

The unfinished market reform agenda in most economies in transition is much bigger, of course. Many fundamental aspects of the transition are still incomplete. In some cases there is still a need to create critical market institutions, establish competition policies, and restructure public enterprises. We will address a number of these institutional aspects in the coming days, but the main focus is not just on having a market economy that broadly functions, but one which is capable of providing sustainable and equitable growth and decent welfare to all citizens. One ingredient to this end, we believe, is ensuring that the economies are sufficiently diversified and integrated to spread out and dynamize growth. As we have shown in the UN’s *World Economic and Social Survey of 2006* on “*Diverging Growth and Development*”, it still holds that the lack of a sufficiently diversified economy is an impediment to high and sustained growth in the long run and to take advantage of global integration.

Looking at the present economic performance, one could get a different picture. Economic growth in the economies in transition has been more than buoyant in recent years and, besides India and China, stronger than pretty much everywhere else. In 2007, GDP growth in the economies in transition recorded its fastest rate since the start of transition. For the group as a whole it averaged 8.0 per cent, up from 7.6 per cent in 2006, and higher than the average for developing Asia. While activity is expected to slow in 2008 owing to a slowing of global activity, it should still remain relatively robust at 7.1

per cent, according the most recent issue of the UN's annual global outlook, the *World Economic Situation and Prospects 2008*.

The dynamism recorded in the region since the end of the 1990s has been the result of a recovery from the economic collapse in the early transition period. The recovery came as the economic reforms took hold and a more predictable business environment was established. More recently, of course, the rise in commodity prices has provided an enormous additional boost to growth, especially in several of the CIS countries.

But the pace and pattern of integration vary widely across countries. Some of the CIS countries and the economies in transition in South-Eastern Europe remain highly dependent on primary commodities or low value-added sectors. The primary exporters may now be benefiting from an export price boom, but they should be weary of their vulnerability to the volatility in commodity prices. Also, the countries that see currently see strong inflows of FDI or worker remittances may not take full benefit if they lack, for instance, an adequately functioning financial system and regulatory framework to enable such flows to work as a catalyst of economic activity.

Adequate institutional frameworks are an important ingredient to promote greater economic diversification.

Human capital is another important ingredient. But this is not only a matter of having a well-educated labour force. Production processes will have to be adapted to put it to good use by moving towards more dynamic, high-value-added sectors. This in itself will require greater diversification within clusters of economic activities. Stimulating knowledge-based development in a competitive environment is a common challenge for all economies in transition. This may not be possible without further integration into the world economy, among others things through the attraction of the necessary investments and technologies to support the improvement of national innovation capabilities. Also, being a member of the WTO can support this, even though it is not a panacea. Today, many of the economies in transition are already fully integrated into the multilateral trading system, but for several the WTO accession negotiation has not been completed.

Also, closer ties between the European Union and the economies in transition have accelerated the reform process and the build-up of market institutions. Several of the economies in transition, or which we used to call economies in transition until recently, have become full members of the EU; Bulgaria and Romania are the most recent additions. Currently, several of the countries in South-eastern Europe are candidate EU members. But also for those countries for which EU membership may be a more distant option, the EU is becoming more active to strengthen economic and political ties, especially through the European Neighbourhood Policy. The requirements for intensifying economic ties with the EU as an enabling force towards dynamic economic diversification, as well as the potential benefits from WTO accession is another key issue we wish to address in this conference.

Some economists argue that the gains from labour migration could be even greater than those from more trade. In South-eastern Europe and the CIS, the mobility of labour and people in general has increased dramatically since the early days of the transition. In the early 1990s, regional conflicts pushed many people into migration, but more recently economic factors have become the main driving force. There are positive and negative aspects to these large labour movements. On the upside, for countries with shrinking populations, immigration may help mitigate problems of labour shortages. For the countries with surplus labour, strongly increased remittance inflows may help alleviate poverty and bring in resources that potentially could support economic development. Migration may also generate so-called "social remittances", namely, transfer of the up-to-date knowledge and business culture, and establishment of business networks.

Policy makers also see downsides, however. Especially, in countries with ageing populations, policy makers fear that outward migration is causing not only a "brain drain", but also a "youth drain", that is, a drain of younger workers. There are also concerns about the conditions of migrant workers and deficiencies in the regulation of labour migration.

So an additional question we wish to raise in this conference is to what extent these "drains" will be "gains" or rather sources of economic "pain". If there is something to be gained, then the next question will be how that gain can be channeled towards further dynamizing productive activity and diversification.

Finally, we are also interested in how economic diversification can help making growth more broad-based and help reduce poverty and inequality. The transition to a market economy has brought severe hardship for many people in all economies in transition, but most in particular in the low-income CIS countries. During the 1990s, poverty increased sharply, as a consequence of contracting economies, galloping inflation, widespread unemployment and falling real wages. Against national poverty lines, the poverty affected 62% of the population in Azerbaijan, 55% in Armenia, 64% in Kyrgyzstan and 83% in Tajikistan, by the mid to late 1990s. Poverty has come down as their economies started to recover and has fallen further with the robust growth in recent years. Poverty rates have fallen by 20 percentage points or more in these countries, but even so, they remain high and poverty reduction should be a major policy concern. It could well be argued that active policies to reduce poverty and inequality will also be supportive of generating growth of domestic markets and higher levels of human capital which in turn will be supportive of a process of economic diversification

The aim of this conference is to contribute to a better understanding of all of these issues and to inform and, hopefully, guide, policy-makers to deal with the challenges and to seize the opportunities to promote greater economic diversification for a more sustained growth that can be shared broadly. We also hope to be able to identify how the agencies of the UN system could help to facilitate and promote this.

The outcome of this Conference, including presented papers and materials reflecting the discussions, will provide an input for the preparation of the Secretary General's Report

on integration of the economies in transition into the world economy for the 63<sup>rd</sup> session of the General Assembly. The report should also contain substantial recommendations on the strengthening of cooperation between the UN system and countries of South-Eastern Europe and the CIS, so I hope the conference will provide valuable inputs in this direction. A report on the outcomes of the conference will be presented to the Third Session of the UN Committee on Economic Cooperation and Integration as an input for the policy discussion on fostering wider and deeper economic integration and it should also serve the deliberations of the Financing for Development Summit to be held in Doha at the end of this year. We will make all materials available through the conference website, but we also intend to collect all papers for a book volume.

But this is, if you like, the bureaucratic side of things, what matters, of course, is to generate meaningful ideas and build on workable practices with which we can inform our governments and the multilateral institutions, in order to take the right steps that will enable an economic transition that will allow for sustained and equitable growth and a benign integration into the world economy. Those ideas and experiences we need to get from you. I wish you a fruitful conference.