

**United Nations**

**Development Policy and Analysis Division, DESA**

**Report on the International Conference on Strengthening  
Integration of the Economies in Transition into the World Economy  
through Economic Diversification<sup>1</sup>**

**Geneva, 2-4 April, 2008**

The conference “*Strengthening integration of the economies in transition into the world economy through economic diversification*” was held from 2 to 4 April 2008 at the Palais des Nations in Geneva, Switzerland, co-hosted by the United Nations

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<sup>1</sup> The conference served as a background for the report of the Secretary General on the integration of the economies in transition into the world economy. The reference materials for the conference can be downloaded from <http://www.un.org/esa/policy/eitagenda.html>.

Department for Economic and Social Affairs and the United Nations Economic Commission for Europe. This conference was organised in response to the General Assembly resolution (A/RES/61/210) of 20 December 2006, which requested the Secretary General to prepare, in close consultations with the countries with economies in transition, a report on the integration of these economies into the world economy. Participants gathered from the countries with economies in transition, including official delegates and experts from different ministries and agencies, experts from academia and international institutions, such as the EBRD, OECD, the EU, and various UN agencies (For the list of participants see Annex I). The agenda of the meeting (Annex II) covered key policy-relevant issues seeking to push the economies in transition to greater economic diversification in order to benefit further from global integration. The following topics were discussed:

- (a) The role of international trade and trade policies in support of economic diversification;
- (b) Regional and sub-regional economic cooperation;
- (c) Foreign direct investment as a driver of economic integration and diversification;
- (d) The role of remittances as a source of development finance;
- (e) The importance of the business and institutional environment in fostering economic diversification;
- (f) Infrastructure as a factor contributing to increased competitiveness;
- (g) The diversity of national diversification strategies (policy challenges in resource-rich economies and those in countries that are not rich in natural resources); and
- (h) Knowledge-based development in support of economic diversification.

The presented papers and materials reflecting the discussions are available at the United Nations website (<http://www.un.org/esa/policy/eitagenda.html>). This document summarizes the content of the presentations and discussions.

## **I. Opening Session**

**Robert Shelburne (UNECE)** opened the conference and welcomed the participants on behalf of the UNECE Executive Secretary Mr. Marek Belka. He pointed out the importance of this meeting as its theme – strengthening the integration of the economies in transition into the world economy – has been one of the central objectives of the ECE since its creation and in particular after 1989 when these economies embarked upon the transition from planned to market economies. Despite the achievements in this process, much remains to be done, especially in economic diversification and sustaining growth. Also, he stressed that this event is important, as the ability to address many of the major challenges facing the world, such as global warming, terrorism, disarmament, or global imbalances can only be effectively done if these countries are fully integrated into the world economy. Mr. Shelburne expressed his appreciation to DESA for initiating the conference, identifying the main issues and format of discussions, and locating it at the UNECE in Geneva. He stressed the conference is an opportunity to provide an updated and detailed analysis on these countries and by that contributes to the ECE expertise in the field, which is of particular importance given the discontinuation of the Economic Analysis Division there.

**Rob Vos (United Nations, DESA)**, welcomed the participants to the conference on behalf of the United Nations, Department for Economic and Social Affairs and thanked the UNECE for co-hosting the meeting as well as UNCTAD for their collaboration. He stated that this meeting promised to be particularly interesting considering the participation of policy-makers and experts from countries with economies in transition, including official delegates; experts from international organisations, such as the EBRD, OECD, EU and various UN agencies; and a large number of scholars from academia who are well-known for their many-years expertise in assessing the economic developments and reforms in these countries.

After introducing the background of this conference – Resolution of the UN General Assembly as of 20 December 2006 (A/RES/61/210) – he briefly summarised the main achievements of the economies in transition in the last two decades. Generally, there has been success in the transformation of the economies in Central and Eastern Europe and the CIS from centrally planned economies to market led. Many of the former centrally planned economies, such as those in Central and Eastern Europe and the Baltic States have already joined the EU and have reached a high degree of integration into the global economy by diversifying output and exports with a high-technology content. However, as pointed out by Mr. Vos, much remains to be done in the countries in South-eastern Europe and the CIS, in order to shift from a narrow production structure based on a handful of primary commodities to a diversified economic structure with high value-added content and by that to increase the gains from integration with world economy.

Establishing fundamentals of functioning markets is still to be addressed by many countries as they continue to transform their economies. However, Mr. Vos pointed out, the importance of establishing economies that are capable of providing sustainable and equitable growth, and decent welfare to all citizens, and not just broadly functioning

markets. To this end, he emphasised, developing diversified and integrated economies that will ensure dynamic and sustained growth in these regions in the long-run.

Mr. Vos added that despite recent strong growth, the pace and pattern of integration varies across these countries. He then reflected on different factors accounting for divergent trends in these countries, such as commodity prices and natural endowments, strong FDI inflows and remittances, institutions and human capital, membership in the WTO and the EU, and migration. All these factors are promoting greater integration, along with setting up the relevant market structures in the economies in transition, but economic diversification targeting broad-based growth should help reduce poverty and inequality in these countries as well.

Mr. Vos hoped that the conference would contribute to a better understanding of these issues and suggest some guidance to policy-makers from economies in transition as how to deal with the challenges to promote greater economic diversification. He informed the audience that the outcome of this conference would be used as 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, noting in particular the expectations for substantial recommendations on the strengthening of cooperation between the UN System and countries of South-eastern Europe and the CIS, and wished the participants a fruitful discussion.

**Heiner Flassbeck, (Division on Globalisation and Development Strategies, UNCTAD)** welcomed the participants to the conference on behalf of the Secretary General of UNCTAD Mr. Supachai Panitchpakdi. He noted the importance of organising a conference on economies in transition at the premises of the UNECE taking into account that not all of these economies are covered by the UN institutions in Geneva. Mr. Flassbeck reflected on the definition of "transition economy" noting that while the transition as a process has a clear starting point, its ending point is not so clearly defined. In addition, the transition process in particular its monetary system is not clear cut either. In many transition economies growth as indicated by real growth rates, mirrors recent success. However, there are downsides as well, such as the developments in real exchange rate dynamics in some countries. He stressed that this is in particular the case for the commodity exporting countries, suffering from the Dutch disease as capital inflows have caused the currency to appreciate strongly. As a result, the products of domestic producers are suffering from lower competitiveness and it becomes difficult to diversify the economy in such an environment. Mr. Flassbeck stated that the purpose of this conference is useful and the results will give considerations on a broader view of how to integrate further the economies in transition into the world economy.

## **II. Mobilizing Institutions in Support of Economic Diversification and Integration of the Economies in Transition into the World Economy**

**Paul Hare (Heriot-Watt University, Edinburgh)** started his presentation by pointing out that he would apply a common approach to analysing institutions and diversification of the economies in transition instead of giving a common policy advice. Next he

reflected on this approach building upon general requirements for sustained economic growth, integration into the world economy, including desirable degrees of freedom, institutions in support of integration and diversification and policy tools and measures. While economic performance in most countries in South-eastern Europe and the CIS has been robust since 2000, Mr. Hare pointed out that few countries grow for long unless they ensure sound macroeconomic conditions, moderate to high investment rates (over 20 per cent of GDP) allocated efficiently and funded in a credible way, free business activities (not protected) open to trade and FDI, good business environments (with most new activity in the private sector) and improving labour force quality. He emphasised sustained growth as the most effective way of reducing poverty in general. After describing integration through trade in goods and services, income flows, aid and other external support, capital flows (FDI and financial flows) and flows of people, as well as FTAs and bilateral agreements, he moved to diversification, its meaning and reasons for applying. The role of institutions was analysed next, focusing on three key functions: protecting property rights, supporting transactions and facilitating cooperation and coordination. He outlined the key principles for designing an active approach to institution building and concluded on their implications for economic policy for economies in transition. His conclusions include: (1) policies vary between countries (from inaction to active measures), (2) some policies have little to do with diversification per se and (3) market failures are the focus of policies designed to promote diversification.

**Rostislav Kokorev (Ministry of Economic Development and Trade of the Russian Federation)** presented “the role of institutions for diversifying the economy in the Russian Federation” introducing the concepts of institutions and economic diversification. He described the institutional environment as a combination of rules and norms and organizations on the one hand and “institutional designing” on the other. “Institutional designing” implies both an active role by the state (active interference) as well as indirect support by the state through spreading information, tax preferences and implementation of best practices. Next, he reflected on the different aspects of institutional transformation, through which the Russian economy is undergoing. The first one is state development institutions – specialised state or quasi-state organizations aiming at correcting market failures – which include the Bank for Development and Foreign Economic Affairs (Vneshekonombank), the Venture Fund for the Russian Federation, the Russian Venture Company, The Russian corporation for Nanotechnologies, The Agency for Housing Mortgage Lending, the Russian Agricultural Bank, Regional Venture Funds, Techno parks, Special economic zones. After giving the principle of setting up the development institutions in Russia, Mr. Kokorev described several of these institutions. The second aspect/sphere of transformation is corporate governance, followed by financial markets, support to small business and protection of property rights. In any of these spheres he pointed out the main directions of development and instruments applied in the economy of the Russian Federation. In sum, he concluded, that the recent institutional environment of the Russian economy has incorporated all key institutions, which are necessary for a market economy, at least at the level of formal framework. However, the process of institutional transformation has not yet been completed.

**Simon Commander (EBRD and London Business School, United Kingdom)** presented a paper written with coauthors Jan Svejnar, and Katrin Tinn, “Explaining the performance of firms and countries: what role does the business environment play?”. He started his presentation by pointing towards the widely held argument that there is a link from institutions to the performance of countries and firms, which has been the subject of a large volume of literature. The paper examines this link using two different datasets. In the first case, the Business Environment and Enterprise Performance Survey (BEEPS) dataset allowed the specification of an econometric model in which various problems needed to be addressed, for example endogeneity through the use of an instrumental variable approach. The equation was estimated in a basic version and then, including constraint variables; individually, as an average of all constraints and all entered together. The results show that at the firm level, the business environment matters, although in various ways, while that in aggregate at the country level, the detailed features of the business environment become less relevant. The Doing Business questionnaire assumes causality from institutions to performance even though there are a number of arguments speaking against this proposition: the number of observations is small, there may be reverse causality and there are also time lags that would need to be considered. Attempting to deal with these issues, the authors then use intermediate outcomes such as job creation, but the results do not seem robust. In conclusion, the results hint that the conventional argument that institutions matter in explaining performance seems mainly based on intuition. Both datasets used in this study do not find any effect which does not mean that there is no effect but rather that sound analysis does not support conventional wisdom.

**Michael Ellman (University of Amsterdam, the Netherlands)**, as discussant of the previous papers, started by pointing out that Mr. Kokorev presented an interesting, informative paper that gives a good overview of policies in Russia and combines two points, namely institutions and the Russian discourse about diversification. Mr. Ellman has no objections to the argument in favour of a leading role for institutions and, in principle, could agree with the criticism put forward against Paul Hare’s point. However, the problem lies in the discrepancy between attractive plans and actual developments. More concretely, he formulated two points of criticism. First, while Russia does have private bank accounts, the state and its various branches including the tax authorities seem to have great ease at taking funds held in savings accounts. Given such limited status of private bank accounts, the question is how a true market economy could develop and function. Second, referring to corporate governance, he asked whether there exists anything similar to the concept of fiduciary duty in Russian law and how this notion is being internalized in the legal system.

Discussing Mr. Hare’s paper, he described it as a conventional overview with sensible views and added two more specific points. First, while Mr. Hare seemed scornful of picking winners, Mr. Ellman is less skeptical in this regard, referring to positive examples such as France (train and aerospace technology). Against this background, the state can play a useful role by providing markets and financing. Second, regarding the export sector, a low exchange rate increases exports and reduces imports and has been an

advantageous factor for economic development in numerous cases such as Germany in the past and China today. A further point in this context is the importance of market access.

He viewed Simon Commander's paper as the only very academic paper. While everybody seems to believe that institutions are important, which has been orthodoxy for more than 10 years, a closer look at the data actually reveals a lack of evidence in this respect. But there are wider policy issues as well. International organizations first advised countries to follow a path of liberalization and when this approach seemed to end in failure, the same kind of principles were applied to the area of institutions, again giving rise to failures. The problem lies in a one-size-fits-all approach and Mr. Ellman agrees with Paul Hare that country differences in terms of geography, size, history and culture need to be taken into account. A further point puts the neo-liberal theory that is centered on the entrepreneur against the other extreme, which is a focus on institutions. He noted that the prime example regarding regulations, namely the ease of dismissal of workers, is often used to call for less regulation, even though this view neglects the possible destabilizing effects inherent in this approach.

### ***General discussion***

In the general discussion, Mr. Hasanov asked Mr. Hare whether the theory of comparative advantage actually suggests that countries should naturally arrive at producing only a certain number of goods. To Mr. Kokorev, he pointed out that business development takes place due to demand and that problems arise if institutions and policies end up reducing consumption. Mr. Yunusov pointed out that after the collapse of the Soviet Union, entities that were interlinked before, emerged as individual countries, making regional agreements necessary. Past agreements have been a successful approach, given the numbers for economic growth, for example. The second stage now is to deepen these agreements. Mr. Solntsev was skeptical of Mr. Ellman's comment on private bank accounts, which may have referred to the number of tax claims on or investigations of private accounts. Paul Hare replied to Mr. Hasanov that the idea of comparative advantage is the wrong line of argument in this context if it is presented in a static form. In a dynamic environment, new products come along all the time, giving the state the opportunity to promote new activities. To Mr. Yunusov, he replied that while he agrees on the significance of regional trade agreements, the real problem lies in having too many of them as they differ in coverage, giving rise to the potential for inefficiencies and corruption. Mr. Kokorev replied that the concept of fiduciary duty does not exist as such in Russia and agreed that this needs to be addressed through an equivalent concept. Secondly, he made clear that private bank accounts do exist in Russia and that these accounts have not and will not have full immunity, as is also the case in many other countries. Nominal accounts and escrow accounts are a problem that needs to be resolved. Mr. Hasanov pointed to the role of corruption in development and argued for clear criteria for financing in a fluid institutional environment. Simon Commander made clear that the point is not that institutions do not matter, but rather how they matter and with which magnitude. In this respect, better measurement is needed. Mr. Ellman clarified that he referred to the ease with which institutions in Russia can help themselves

to private bank accounts. Mr. Kokorev emphasized that Russian tax agencies need court approval to access private bank accounts.

**Vladimir Gligorov (The Vienna Institute for International Economic Studies (WIIW), Austria) presented** “The impact of the EU enlargement and neighbourhood policies in integrating economies in transition”. Mr. Gligorov started by highlighting three points. First, institutions do matter in one way or the other; second, policies matter as well, be it normatively or empirically; and third, diversification seems to be supportive of development, confirming arguments such as those presented by Dani Rodrick, for example. For the EU, there are two ways they matter in this context, namely through integration and partnerships. One difference between the two is that integration refers to institutional reforms, while partnerships pertain to trade policies. A further distinction is that integration entails the provision of certain public goods such as security, while partnerships refer to coordination and cooperation. The effects of EU enlargement are visible in trade integration, investment, convergence and transfer payments, while partnerships affect free trade, the efficient allocation of resources and investment risk. Regarding the possible problems of enlargements, he pointed to the cases of the Western Balkans, Turkey and others.

**Maurice Guyander (European Commission)** presented “The Economic Impact of 2004 Enlargement of the EU”. He started by broadly agreeing with the distinctions outlined by Mr. Gligorov and then tried to insert further nuances into the picture. The enlargement policy has been successful, considering measures such as economic growth rates, trade and FDI. All this suggests a positive state of the integration process which is also further underpinned by other channels such as cultural contacts and student exchange programs. Migration is a further point in this context, as it has not created big problems even in the bigger recipient countries such as Sweden and the UK.

### **Round Table 1: Coordinating the Efforts of International and Domestic Institutions**

**Milica Ulavic (University of Perugia)**, was the moderator, and opened by saying that the objective of the session was to discuss the coordination of efforts at the national, regional, and international levels to diversify production in the CIS and Western Balkans. She posed three questions: Which domestic institutions would be needed, what kind of support from international institutions would be needed, and what kinds of strategies should be utilized to help the process.

On domestic institutions, progress had been made. There have been market enabling reforms, but not 2<sup>nd</sup> and 3<sup>rd</sup> phase reforms. Productivity increases through FDI are a key part of the process but are not enough. Lessons from CEE countries are that the business environment is crucial for FDI (for example Doing Business Indices). But, transparency, the enforcement of laws (Judiciary reforms are needed), the maintenance of competitiveness so as to attract new FDI are all needed. This new FDI is necessary for the move to higher value-added activity. A major constraint is labour and/or skills

shortages, so it is necessary to make investments in human capital. Currently there is a lack of investment in education, as well as R and D.

On international institutions, there is the United Nations and especially the UNECE. There are also a number of initiatives from the European Union. These include: enlargement, the neighborhood policy, and special policies for Russia and the CIS.

In the Western Balkans, which includes EU candidates and potential candidates, since 2000 there have been two parallel processes: the integration of the region into the EU through the SA process, which includes trade access; eventual EU membership; financial assistance; and the adoption of the *acquis* in many areas. This has provided a stimulus to reform. The second process consists of trade liberalization and regional integration (CEFTA).

In the CIS, there is the EU strategic partnership with Russia. The EU Neighborhood scheme is “everything but institutions”. This is a different framework than for the Western Balkans, with conditionality and accession prospects but with similar objectives, such as capacity building and trade, and instruments, such as road maps and action plans.

The results of these processes have been increasing economic integration, through trade, FDI and the selective adoption of *acquis*. Future Strategy should be the reconciliation and coordination of international efforts and national policies; an improvement in international support policies which are currently insufficient due to inadequate absorptive capacity; and finally a better alignment of priorities.

**Kseniia Liapina (Member of Parliament, Ukraine)**, said that Ukraine is actively involved in world processes. The country wants to become a member of NATO, which expresses a first clear desire to enter the integration process and is well articulated. Looking at the current situation, political reforms came first, and were before economic reforms. Consequently there has been very harsh political competition, with many risks. All of the political parties want to cater to voters, so social issues have taken precedence over economic issues. The risk is that the easy approach to voters is to redistribute and usually more is promised than is possible. The economic situation in Ukraine is characterized by high inflation (above 5%, in the first ten months of 2008, and now likely to miss the annual target of 7.5%) with GDP growth between 6 to 9% in the last 4 years. Income growth has been much higher at 15-20% annually. Some of this is catch-up, income growth was less than GDP growth before, but now there is a danger that wages are picking up too much.

Looking to future strategies, one possibility is institutional reforms, where there are currently many unresolved issues. There is constant competition in the state, with a need for reforms but with dangers and political consequences. This has resulted in risk averse politics and no reforms. There is also a foreign policy challenge, with a risk of losing traditional markets; already the share of exports to Russia is less than that to the EU. No one wants to lose the traditional markets but there is a political factor - the market losses

are due to Russian foreign policy and economic levers. Ukrainian dairy production and meat, for example, are hampered by political barriers not economic ones.

One important question is the role of the state in economic reforms. Public investment is a possibility but Ukraine's experience with state investment has not been good, (like a bull in a china shop) supporting the worst industries and freezing them into a bad state. In the metals industry, for example, there was lots of support but no improvement in competitiveness, but when the state stopped intervening, the private sector moved in and there were improvements. Therefore it is better for the state to be a "stimulator" and "regulator" but not a "player". This is difficult, however, because the market institutions are not ready, so the state needs to help develop the institutions. Transformation requires the state as well, but not through control but rather through assistance in homeopathic doses. These processes have started so hopefully there will be significant changes in five years

**Oleg Solntsev (Center for Macroeconomic Analysis and Short-term Forecasting, Russian Federation)** discussed the role that Development Institutions could play in the context of diversification. In the last two years the diversification of private investment has increased tremendously, which could be seen by inspecting various indices of export and production variety. But the absolute level remains very low, and so the government has embarked on a diversification policy. Tax policy is being used to redistribute the extra revenue from exports to other uses. Tariff policy is being applied to equipment imports and timber exports. Another policy is aimed at restructuring strategic sectors: atomic power, aerospace, ship building. There is also a sectoral strategy of development and a reactivation of regional industrial policy. Government investment is increasing in strategic and socially sensitive industries. Finally they are establishing a network of development institutions.

There is an increasing urgency to increase diversification. The current state of infrastructure, particularly energy and transport are limiting the growth of production. Labour market potential is limited due to low mobility and a shortage of skills. Competition has increased in both domestic and external markets, and there is a need to strengthen the corporate sector.

To this end a network of development institutions is being established. These are well placed to address a number of key issues. There is a severe shortage of long term finance, with a low share of long term credits in the Russian banking system, a strong demand for long term credit in the non-financial sector, and a lack of long term liabilities which hinders the growth of loans. These are having adverse effects. The growth of external borrowing has increased and there is a slowdown of diversification. Possible solutions include, a domestic market for bonds and using development institutions to lend as banks. Both would improve long term financing. Another major problem is the imbalanced competition between Russia and foreign producers. There is a lack of export finance and insurance is insufficient, there is a low level of infrastructure for non-commodity exports and a poor network of science and enterprise so the niche is reduced. It may be necessary to import technology rather than to produce it. This points to a need for Development

Institutions to compensate for these gaps and problems, but they need to be structured carefully: the institutions should be structured so that their responsibilities are clear and delineated; there needs to be coordination of the institutions; there needs to be monitoring and auditing; there should be feed back between the institutions and the business sector; and they should be encouraged to expand into new areas. They will face a number of dilemmas: between financial sustainability and economic effects; between financial sustainability and long term financing; between independence from private interests and feedback with business; and finally in terms of project profile to concentrate on diversify.

**Dragana Zoric (Serbia Investment and Export Promotion Agency (SIEPA), Serbia),** described the work of her organization, SIEPA, which has links to the government and to the private sector, and aims to help companies get FDI and to penetrate new export markets. There are a number of key drivers to FDI, such as long term political stability and sound macroeconomic policy, and there are obstacles, as well, such as a negative country image, inefficient administration, etc. SIEPA is working towards a coherent FDI development strategy based on: legal and regulatory reforms, institutional capacity building, competitiveness improvements and marketing campaigns.

In the area of legal reforms: there are issues with the privatization of industrial lands; commercial courts need to be improved; business registration needs to be speeded up; further liberalization of trade and foreign currency operations; and finally additional tax cuts. Tax incentives are an important area where there a number of initiatives: corporate profit taxes have been reduced; there is a tax holiday for large investment projects; tax credits and breaks for youth and older employment; and other tax incentives. There are also financial incentives such as grants to foreign investors and employment incentives for job creation.

Another area is institutional capacity building, where they advise on defining FDI related responsibility at the National level, to establish a clear division of tasks; reviewing institutional and financial positions; investment training for local officials as they often don't know how to deal with FDI

There is a lot of work in the area of improving competitiveness: encouraging cross border coordination through the unified Free Trade Agreement in SEE; introducing international quality standards; developing industry clusters; improved market access; working with local suppliers.

The organization is active in marketing campaigns. This involves creating FDI awareness amongst domestic businesses through conferences; working to improve the country's international image; and various marketing tools such as sectoral studies; creating and maintaining business databases etc. Finally the agency helps foreign companies do business in Serbia.

In the general discussion, Ms. Rakmatulina asked whether Ukraine actively wants to preserve the internal market of CIS. Ms. Liapina replied that there were examples of trying to maintain these markets. Next year is to be the "Year of Ukraine and

Kazakhstan”. Ukraine gives importance to energy cooperation and there is a plan to get Kazakhstan’s hydrocarbons to Ukraine, but there is need to get Russian support. Recently Ukraine gives priority to the West, so there is a question as to how much attention would be given to the neighbors.

### **III. Migration and Remittances: Policies in Support of Economic Diversification and their Impact on Development**

**Robert Shelburne (UNECE)** presented “Remittances in the SEE and the CIS: levels, trends, and determinants” Remittances are currently estimated to be around \$300 billion for the world as a whole and as a share of GDP they are less than 1% for most countries. Serbia has a ratio of over 10%, and in many CIS this ratio goes over 20 %, such as in Tajikistan and Moldova. Comparing the economies in transition to other emerging markets did not reveal any major differences, except for Moldova and Tajikistan. He divided the transition economies into three groups: New member states (NMS) and EU candidates, Russia and other CIS and the ECE11 - Central Asia, the Caucasus, and Moldova. Remittances as a share of GDP have gone up since 1999, but the growth rates for the three regions vary a lot. The share is 2% for the NMS, the shares for Russia and the CIS have fallen and are very small, while shares for the ECE11 have gone from 8% to 13%. There have been major financial flows into the ECE11. In sum, aid, FDI and remittances amount to 23% of GDP which is much larger than the typical emerging market. This large increase in inflows is not being used for increasing international reserves, as in many other emerging markets, rather both investment expenditure and consumption have increased.

Remittances outgoing from the Russian Federation to the other CIS have increased annually by 65% between 2002 and 2006. Neither increases in wages nor increases in registered migrants explained the change. It is unlikely that migrants are sending a higher proportion of their wages home, so the increase must be attributable to either: a rapid increase in undocumented migrants; an increased share of total remittances being sent via officially monitored channels; increased reporting requirements of firms; or there is a problem with the data. Reported outflows from the Russian Federation to the CIS are different than what are reported by the CIS as inflows.

There is a serious problem with inconsistent data. Most of the CIS grossly underestimate remittances. He estimated that overall true remittances were 2.5 times greater than reported. In Armenia, Georgia, Kyrgyzstan, Tajikistan and Ukraine, remittances were likely twice as large as officially reported. In Belarus, Kazakhstan and Moldova, the official numbers are close. Remittances to Turkmenistan are small, but for Uzbekistan they are very large, perhaps over 10% of GDP. Finally, transaction costs for sending remittances in the EIT are not particularly high, and migration and remittances are not so clearly linked as in other regions

**Artur Andrysiak (UNECE)** presented “Statistical issues in estimating remittances in the SEE and the CIS: Levels, Trends and Determinants”. The speaker started with the definition of remittances, noting that in 2006 a UN technical subgroup adopted a

conceptual definition of remittances, based on the balance of payment components. This adopted definition is aligned with the SNA. The speaker noted that remittances are difficult to measure, and in the case of CIS not all countries publish remittances statistics, and available statistics do not always reflect the real flows. There are different sources of information and they are imperfect, providing different pictures.

The speaker presented statistics on remittances in the CIS, and referred to the specific case of Kyrgyzstan. The Central Bank publishes the value of remittances on the BOP account, using its own estimates. Those estimates are based on the commercial banks data on cross-border transfers, information of the large companies on salaries of their foreign employees, and the national statistical office's data on migrants. The speaker then presented the key facts about remittances estimated by the Central Bank. These estimates, however, are based on a number of assumptions, such as that all transfers sent by individuals and the postal system are considered worker's remittances (while it can be a payment related to the shuttle trade) and that all remittances go through formal channels.

On the other hand, in 2006-2007 the Asian Development Bank conducted regional research on remittances, and in the case of Kyrgyzstan surveyed 4200 households. This research was also imperfect since there was a very poor response from the richest households, which were likely to receive remittances. The total amount of remittances in 2006 in any case was estimated to be \$US 253 million, versus 731 million according to the Central Bank estimate. This shows that there are methodological and conceptual differences between approaches to remittances published in the BOP account and the household survey, such as the definition of residents and non-residents and differences in the coverage of remittances, such as the exclusion of commercial transactions in the household survey.

It is interesting that according to the Central Bank of the Russian Federation the value of transfers to Kyrgyzstan is about \$US 438 million, somewhere between those two different estimates. As the speaker concluded, in order to improve the situation, the Luxembourg group is working on a guide on how to collect good quality data on remittances (the first draft will be published soon). The task force in charge should advance methodological work on household surveys, develop recommendations on how to conduct such surveys and harmonize methods and concepts.

**Gloria Moreno-Fontes Chammartin (International Migration Programme, International Labour Organization)** presented "The effective use of remittances in promoting economic development". The speaker said that not only the ILO, but also a number of organizations, such as the World Bank, the IMF and the Inter-American Development Bank work on the issue of migration and remittances. She described the overall impact of remittances on the recipient economies as a positive one, identifying a number of channels through which remittances improve the performance of those economies. One of the channels is the creditworthiness of a country, since as it builds up its foreign exchange reserves (obtained thorough the migrants' transfers), it may benefit from lower interest rates on its foreign borrowing. Other channels are: an increase in

national income, a reduction in poverty and inequality, smoothing of economic shocks, promoting development of the financial system by relieving credit constraints, and finally, promoting economic growth.

On the other hand, remittances have negative effects as well, among them appreciation of the exchange rate, which negatively affects growth in the tradables sector, especially for labor-intensive industries and cash crops. Another such effect is a reduction in labor supply as remittances may create disincentives to work.

According to the speaker's data, a large share of remittances is spent on consumption. But there is also spending on human capital (education, health care, and reduced child labor). The spending on physical capital is done either through micro-enterprises, or by acquiring property. There is also investment in financial capital, through higher savings.

Speaking then on policy tools and strategies to enhance the positive impact of remittances, the speaker stressed the importance of a number of measures to be undertaken:

1. reducing the transaction costs of remittances (reducing fees and avoiding unfavorable exchange rates) by disseminating information about transfer channels and agreeing on a voluntary code of conduct for transfer services. For example, Mexican banks opened affiliates in US cities, allowing migrants to open accounts and conduct transfers. This reduced transaction costs from 22 to 5 per cent, freeing the extra 17 per cent to be used for other needs.
2. enhancing the formal financial infrastructure by increasing competition and improving the technology of transfers.
3. improving access to the financial system. In the US, for example, it is sometimes possible to open an account even without an ID.

Other measures:

4. to provide tax exemptions on remittance income, as these are counter-productive. Such a policy was adopted in Asia.
5. to create incentives for diasporas to invest with income tax breaks (for associations of migrant workers)
6. to improve access to foreign exchange and to lower duties on imports.
7. to provide support for migrants associations' projects.

The speaker described specific areas of the ILO's activities, such as work on legislation and policy advice to governments, social dialogue and a number of programs being carried out: social finance programs, SEED (micro-enterprise development program), SKILLS (qualification recognition program), MIGRANT (legal conditions program). Social finance programs of the ILO are targeted to the effective use of remittances. The organization focuses on financial capacity building (saving and investment, credit facilitation), technical capacity building (managerial skills, information on modern technology), labour capacity building (safety issues). On the issue of channeling remittances into investment, policy incentives should be created for investing into greater value-added activities based on domestic resources and into strategic sectors. On the conditions of migrant workers, the speaker noted that the better they are, the higher their

skills and the higher the value of remittances. Governments are mutually concerned about the conditions of their migrants, but it is a sensitive issue domestically. It is also important to study differences in the conditions of migrants and undocumented workers, in terms of opportunities and minimum wages.

## **Round table 2: Mobilizing the efforts of international and domestic institutions**

**Robert Shelburne (UNECE)** moderated the round-table discussion and opened by presenting the topic and making an overview of the issues (as described in the round-table note), adding one additional question, should a policy to limit real estate investment be adopted in order to divert funds obtained through remittances into productive sectors.

**Hayk Mirzoyan (Dept. of Regional Economic Development, Ministry of Trade and Economic Development, Republic of Armenia)** said that remittances contribute to economic growth, and according to the Central Bank estimates, reached one billion dollars last year. Remittances are mostly used for consumption and only 2 percent go into investment. The funds are being sent both through the banking system and through money transfer services. Sometimes they are sent via hand-to-hand transactions. The policy goal is to increase the share going into investment. In order to divert remittances to formal channels, the strategy is to establish a dialogue with other countries and with international organizations. One way to increase the share of funds going to investment is to increase incentives for the receivers of transfers to put them into banking deposits.

**Mamuka Tsikelashvily (International Economic, Cultural and Humanitarian Relations Dept., Ministry of Foreign Affairs, Georgia)** said that, although remittances contribute significantly to economic growth in Georgia, there is no single assessment of their amount. According to the census conducted in 2002, about one million people left Georgia. The remittances sent by migrants are the main source of foreign exchange for the country, and while in 2000 they amounted to \$US 56 million, in 2004 the figure reached 250 million, while in 2007 they amounted to 850 million. But probably the realistic estimate, adding those funds which are sent by unofficial channels, would be double that amount. Adding together official and unofficial transfers would equal about 10 per cent of GDP. The average size of a remittance is \$US 162.60. In 50 per cent of the cases it is sent via the banking system, while in 17 per cent it is through the postal system. These funds are mostly used for consumption and day-to-day activities, and very rarely for investment or for starting-up a small business.

In order to facilitate these transactions and to improve the use of remittances, the speaker proposed the provision of more information to migrants and their families about the real cost of money transfers and available transfer services, as well as about the banking system.

In 2008, the IOM started implementation of a project on the efficient use of transfers in the regions of Georgia, diversifying the channels of transfer, offering new financial services to the families receiving transfers, and creating incentives for productive

investment. In parallel, bank transfers are developing in Georgia, increasing the share of funds sent through formal channels.

### ***General discussion***

Mr. Shelburne said that soon a regional commission document will be submitted to the Doha round. A number of ideas are proposed by the EU countries, among them to adopt the recommendations of the Luxembourg group on how to understand the picture better and on the governing principles of transferring the remittances. The recommendations contain a proposal to ratify the ILO convention on treating migrant workers as domestic workers and a proposal to create a “remittance transfer” organization. Mr Gerus (Belarus): commented on using remittances for investment, noting the experience of Mexico, where social and economic projects were financed by the “one plus one plus one” scheme, implying use of one dollar from remittances, one from the local government and one from the central government. Asked if they are going to implement such programs, he responded that this is not an issue for Belarus, but this experience can be useful for the low-income CIS countries. Ms. Lyapina said that in some areas, remittances create disincentives to work, and there are areas in Western Ukraine, where the young population prefers leisure. The discussion turned to the specific role of the UN system and how it can be helpful. A number of proposals were made, among them: Ms. Lyapina said that the agencies can assist by training local officials. Ms. Zoric said that training local officials and improving statistics on remittances, would help improve policymaking. It was also suggested that the countries should retain their departments of labor, since it is much easier to deal with for international organizations.

Mr. Gligorov commented on the remittances-related questions, saying that care should be taken when speaking about the strategies and goals. The goal of policymakers should not be to increase the amount of remittances flowing into an economy, since it might seem that the government wants to encourage migration. Also, in addition to creating distortions in the labor market, remittances create distortions in other markets as well, and the issue of taxing them is not a simple issue, it is rather a policy question. Mr. Hare said that some speakers during the discussion referred to remittances as illegal transfers, and this is not appropriate. Mr. Jackelen said that in order to divert remittances to formal channels, everybody needs to be covered by the banking system, which is impossible. So it should be accepted that a share of remittances goes through informal channels. Mr. Agabekian (UNDESA) said that as it is difficult to cover everybody, especially in the rural communities, by the banking system, the development of non-banking services to transfer funds can be a good alternative in order to divert transfers to official channels, mobile banking in Africa is an example, as well as development of such services in the CIS area. Mr. Shelburne said that there is a trade-off. Increasing accessibility of mobile banking, for example, can increase money laundering, and the financing of terrorism. Mr. Gligorov said that such funds usually go via informal channels. Mr. Hasanov said that on the issue of limiting real estate investment and diverting funds to the real sector, there are not many options to invest in Kyrgyzstan, so even if people have some savings from remittances, they can invest either in the banking system (but there is no trust at all), into real estate, or in the stock market (but this one is very weak). On the issue of migration, he expressed concern about the condition of their migrant workers in Russia.

Concluding the discussion, the representative of the ILO stressed, that remittances are a subject of a convention ratified by a number of countries. At the same time, a number of countries, which are a significant source of remittances, did not ratify the convention, thus complicating resolution of the emerging disputes. In any case, the issue of remittances is being considered in one global context with the issue of migration. But it is important to remember that remittances should not be considered as a replacement for the international aid. Then the speaker briefly commented on a number of issues, raised and discussed by the participants. On the linkage between trafficking and remittances (and migration), there is some linkage. Often those workers subject to trafficking are not able to send remittances in those conditions. The policy target should not be to increase the amount of remittances by increasing the number of workers, and to encourage migration. The policy target is to increase funds moving through the official channels and to improve accessibility of those channels, which will probably double the amount of remittances. To facilitate transfer of funds, both the banking system and non-banking transfer services should be developed further in order to reduce transaction costs, and these efforts should be combined with combating money laundering. On the problem of brain drain, the solution is to create incentives for talented people to stay in their countries. On the other hand, the better the conditions of migrant workers, the higher their wages. And those with high wages may accumulate some funds and bring them to the source country in order to open a business. Some countries are currently trying to abolish departments of migration and departments of labor. But this means that the international organizations will have to deal with the law enforcement agencies. It is much easier for them to deal instead with those departments, and therefore they should be retained.

#### **IV. International Trade and Economic Diversification: The Policy Challenge**

**Vladimir Gligorov (Vienna Institute for International Economic Studies (WIIW), Austria)** presented “Trade, investments and development in the Balkans”. He opened by saying that this was a simple story about a complex issue. The issue is complex because it is dealing with a number of variables, such as export performance, external imbalances, trade specialization, regional FTA’s and comparative advantages. The central question of his presentation is whether the Balkan states are repeating the Central European experience with a several years lag.

The speaker noted that starting in 2000, there was a turnaround in the export performance of those economies, as well as in the FDI flows, with exports accelerating. Another important characteristic is that the external imbalances of the region are large. Some deterioration in the external balance has recently taken place in Montenegro, but it was FDI-related. Current account deficits are high with the exception of FYR Macedonia and their sustainability is not clear. Although the ratios of exports to GDP are not high, the ratios of trade deficits to GDP are high.

On trade specialization in the region, the speaker noted that low skilled, labor-intensive exports prevail in trade with the EU, not necessarily reflecting the region’s human capital

endowment. Compared with the new EU members, the region has very few manufacturing industries, except perhaps in Serbia. The reason is that industrial production in the region collapsed but this can change.

Then the speaker turned to the regional free trade agreement and comparative advantages. The CEFTA has yet to show results, according to him, and it is not clear if this agreement matters. The theoretical idea behind a free trade agreement is to develop comparative advantages and trade specialization within the region. Bilateral free trade agreements concluded in the region have led to some diversification. Export shares in the region changed somewhat within the last five years and made certain a shift from low-skilled to medium-skilled products, and even, to some extent, to high-skilled products in the case of trade with the EU. The revealed comparative advantages of this region are a bit better than those for the CIS, but nevertheless the region specializes in low-skilled and medium white-collar-skilled industries, and also in mining.

For competitiveness of those exports, wage inflation is one of the key issues. The only country that has problems with both wage inflation and real exchange rates is Serbia, where higher wages led to higher inflation, which was accommodated by an appreciating real exchange rate. But this may not work for long. Similar problems are emerging in other countries.

The key point is if the region is repeating the experience of Central Europe, in this case transition policies should be implemented, otherwise, development policies are a better option.

**Vitalija Gaucaite-Wittich (UNECE)** as discussant of the previous paper noted that there is abundant research on the presented issue with the paper focusing on the following key questions:

1. If the Balkans are repeating the Central European path, then it is possible to compare the CEFTA-2008 to the CEFTA-1996.
2. What are the reasons behind lagging exports? Strong exchange rates, weak external competitiveness, no experience in sales?
3. The policy challenges, but this is an area that should be elaborated further in the paper.

According to the discussant's view,

1. The CEFTA probably matters. It would be useful to recall the experience of the old CEFTA and its relation with the EU. Currently, the new EU members, which started from the CEFTS, are converging to the EU-15.
2. As was mentioned, for those small open economies with open access to the EU market, exports are below potential. And their propensity to export is below potential. At the same time, their propensity to import is the same as for the new EU members. This is partially explained by FDI flows and especially by greenfield FDI. The issue of the high propensity to import should be elaborated further in the research.

Then the discussant presented some macroeconomic features of the region. Among them, trade in the region expanded following the efforts to promote trade liberalization, and

currently about two thirds of merchandise exports go to preferred markets and two thirds of imports enter duty-free. The comparative tariffs are at very low levels. The capital stock and FDI in the region follow a logic similar to that of the new EU members in the earlier period and there is a direct connection between them. The spreads between borrowing and lending in those countries are higher than for the countries of the old CEFTA and therefore higher than in the EU-15. Remittances matter for the region and they exceed FDI, but are used mostly for consumption.

A period of active trade liberalization started in the old CEFTA earlier, but trends in exports changed in the old CEFTA much faster. In the new CEFTA, the most recent trends are not encouraging, since the revealed comparative advantages as of 2006 are in primary commodities (including food), labor-intensive and resource-based industries (footwear, textile) and low-skilled sectors. So what are the reasons for the lagging export performance of the Balkans? If it is exchange rates and expectations of wage increases, then let's recall the experience of Hungary in the early 1990s, when fiscal policy was lax and wages were growing fast, but the exports nevertheless grew strongly. So this is not necessarily the case. On the policy front, the same approach of the first-best versus the second-best policies was used by D. Rodrick.

**Michael Landesmann (Vienna Institute for International Economic Studies (WIIW), Austria)** presented "International trade and economic diversification: patterns and trends in the transition economies",<sup>2</sup> where he intended to provide a comparative analysis of exports from the CIS and the new EU members.

The countries of South-eastern Europe have certain prospects for EU accession, while the CIS have no prospects for accession, raising a question about possible paths of development. The speaker said that he intended to cover: trade patterns, trade specialization, export concentration, natural resources/commodity based trade specializations, market orientation (although the CIS is also trading with the EU) and policy options. On the last point, the question was whether to try lock in some trade specialization and thus attract FDI.

The speaker compared trade specialization and export patterns of the new EU members and the CIS. In the exports of the new EU member states to the EU-25, comparing two periods, 2000-2002 and 2004-2006, the share of labor-intensive industries declined, while the share of capital-intensive industries and technology-driven industries increased. On the other hand, in the exports of the CIS to the EU-25 the share of labor intensive industries originally was low and did not change much, while the share of capital-intensive industries remains high (but this is mostly the commodity sector) and the share of technology-driven exports is almost zero.

On skill intensity, the new EU members have revealed comparative advantages (by industry grouping) in medium-skill industries (as they have trade surpluses in those products), but some of them also in high-skill industries, although in general this part of their trade is in deficit. In the CIS there are virtually no revealed comparative advantages

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<sup>2</sup> The original title was "Trade patterns and policies in the economies in transition".

in high-skilled industries. Although there is some heterogeneity, mostly the advantages are in fuels (including in refined products) and in low-skilled industries.

The speaker turned to the structure of exports to the EU-25 and to other regions. For the CIS countries, exports to the EU-25 are mostly fuels. But for exports to other regions there is some share of manufacturing as well (especially for Belarus). For the new EU members, the structures look similar, but less manufacturing is exported to outside of the EU-25. The reason is that manufacturing in those countries is integrated into the EU production system. The index of concentration of exports is about 0.2 for the new EU members, but is approaching 0.9 for some of the CIS countries, because export shares in the CIS in some cases are defined by exports of the top 10-15 industries. Therefore the new EU and the CIS are two distinct groups, and there are two groups within the CIS, fuel exporters and others. There are also some differences in the structure of their exports to the EU and to the other markets.

So who are the outliers, the new EU or the CIS? Both are outliers. Strong inflows of FDI into the new EU became an anchor for their institutions. The nature of reforms in the new EU member states had an industrial impact, locking them into some industries. The CIS countries are also outliers, but they cannot copy the experience of the new EU and remove the degree of state involvement. Trade is a highly competitive business, and any change in costs, transportation costs, etc., may force customers to move to another supplier. For commodities it is less simple and substitution is more difficult. This is one of the reasons why the CIS is being locked into the commodity sector.

So why should these countries diversify? Trade specialization itself is fine, and some countries are doing well with specialized trade patterns. Even some countries in the EU-15 started from a commodity-based trade pattern. And what are the reasons for the slow diversification and upgrading? An upgrading into processing requires relations to different customers, export orientation is helpful, and most of the progress is observed when exports are going to high-income markets. Other positive factors are cross-industry spillovers, while monopolies are obstacles (the case of CIS).

The speaker then identified three possible scenarios for the CIS countries: a) The countries of the CIS retain their commodity-based structure, undiversified exports and production, which will have repercussions on income distribution and on political economy, b) The economies remain commodity-based, but gradually move into the processing stage and the production of specialized inputs, undergo upgrading, in which case export-oriented FDI would be helpful, and c) The fuel and commodity price boom supports continued growth, generating diversity in production, and market-seeking FDI plays a positive role.

**Robert Shelburne (UNECE)** as discussant of the previous paper agreed with the key points of the presentation in a substantive matter, noting, however, that the analysis is concentrated on the exports to the EU, but for the CIS countries only 10 per cent of manufacturing exports go to the EU. In order to achieve diversification, a macroeconomic

framework is necessary. But for the transition economies, the current framework is focused more on bringing in the necessary resources (such as FDI, capital stock).

Most of the presented paper focuses on the export side, but import diversification is important for well-being as well. There is a relationship: the higher the per capita income of a country, the higher the product variety of imports. Diversification is important: a country's per capita income is related to its competitiveness index, and there is an estimated relationship. If diversification means exporting a higher variety of products to different markets, then the title of the conference should have been "integrating the economies in transition into the world economy by increasing high value-added manufacturing exports". It is difficult to have a diversified and dynamic middle-income economy without a sizeable manufacturing sector. Therefore in order to diminish export concentration in commodities, production and exports of manufacturing should increase. In general, the lower the share of manufacturing trade, the higher the export concentration index. Then the discussant turned to exports of manufacturing from Russia. They declined even before the oil boom, so their performance is related to more than just the exchange rate. For the CIS countries, the reasons for the destruction of the manufacturing sector were due to the transition, where capital inventory collapsed, and for small countries, the lack of integration into markets, since scale is important. Export growth in the new EU members and the CIS is about the same, and geographical diversification actually takes places for the Russian Federation. In intra-CIS trade, however, there is an over-reliance on the CIS for manufacturing exports, and an under-reliance on the CIS for manufacturing imports.

The Russian Federation is very important for the CIS economies either as an exporter or as an importer, in intra-CIS trade the share of manufacturing is about 50 to 75 per cent for imports, but only about 16 to 55 per cent for exports, the share of SITC6, according to the discussant's data, is a bit higher than in Landesmann's paper, since not only exports to the EU are counted.

In the CIS countries, there is no revealed comparative advantage in manufacturing and although the shares vary by country, exports of high skilled products are low even according to developing country standards. On the other hand, those countries are exporting more sophisticated products than can be expected for a country with the same level of standards of living. For the CIS, intra-CIS trade may be a testing ground for selling to other regions.

## **V. Market Access for the Economies In Transition and Multilateral Trade Liberalization: How Much and How Fast?**

**Mr. Zdenek Drabek (WTO)**, in a paper entitled "The Process of WTO accession and the stumbling blocks in SEE and the CIS", presented the WTO perspective, what it can do for you, the benefits, and what it does to you, the harm. The benefits are better market access for exports, subject to the rules and disciplines of access. However, member-countries have to follow the rules, and this depends on first the depth and then the speed

of liberalization. It's true that the rules bind members and restrict sovereignty, but he argued that there is enough flexibility available to developing countries and economies in transition. There are two types of effects: effects on policy making and effects on economic performance.

Mr. Drabek reminded the audience of the salient details of the Accession rules. Before 1994, this came under the GATT, article XXVI.5(c), which were a set of fixed rules for accession. After 1994, this was under the WTO, and came under Article III of Marrakesh, so that the rules for accession are now the outcome of negotiations with the member countries. Empirical evidence shows that post-1994 trade performance is better than pre-. He emphasized that the WTO operated under the principal of non-discrimination, which is not the same thing as free trade or trade liberalization. He went on to discuss the agricultural agreement and noted that quantitative restrictions are permitted (in contrast to industry where they are forbidden), export subsidies are permitted, domestic support is permitted, and heavy border restrictions are also permitted. For services, there is an ambitious set of rules but, the modalities are very liberal, and these are in the form of requests and offers and are not forced.

In summary, the general implications of WTO membership are that there are no rules or entry conditions. There are general rules after accession, but with exceptions, particularly in agriculture and services. For developing countries, there are enabling clauses with special considerations and exceptions to the principal of non-discrimination: there are other exceptions (GATT Art. XVIII (govt. assistance to development), GATT Art. XXIV (RTA), GATT Art. XIV (related currency restrictions), GATT Art. I/4 (Monopolies permitted), GATT Art XX (General exceptions) etc., Annex 2 of the Agricultural Agreement (Govt. Service Programs), Art. XIV and XIV bis of GATS). There are safe guards that allow additional protection and there are temporary safe guard measures for stability of markets, fair competition, macroeconomic conditions.

The speaker made some preliminary conclusions. As far as the effects on policy making, trade policy was restricted, because there is no free trade requirement, protection must be reasonable. For transition economies this was likely not very important. Historically economies in transition had low tariffs or had already started liberalizing, or had in some cases pursued very aggressive opening strategies. As far as FDI and the effect from WTO accession, so far, there is not much effect because there are limited rules about FDI from WTO. There are some issues in access to the service sector, typically through the "right of establishment", and there are some issues with FDI incentives, but these are limited. There has been competition amongst the EIT for FDI, so this would be affected, but this is bad policy anyway. On privatizations, there are commercial considerations - state owned enterprises must conform to art XVII. These are critical but vague. The existence of public enterprises is recognized, tolerated but not regulated.

The speaker then reviewed some of the literature on the effects of WTO membership. These could be on trade flows, government budgets, and governance. On trade flows Rose(2004) found no effect but Frankel, Subramanian and Wei found a positive impact. On government budgets, the problem is that as tariffs are decreased revenues decline as

well, but for the EIT's this didn't seem to be the case. On governance, there are beneficial factors in that it helps "sell" economic reforms. There are also issues of policy anchoring, policy space, and that membership may well lead to lower levels of corruption.

**Gulnar Rakhmatulina (Kazakhstan Institute for Strategic Studies)** talked about "Regional Cooperation in the CIS", highlighting the integration process in the former Soviet Union and legislative plans to integrate the CIS into the international environment. The history of these processes started in the 1991 "Belovezhskoye Agreement" which established the CIS. The Agreement on collective security was signed on May 15th, 1992, in Tashkent. In 1993, the Charter of the CIS was adopted. It was stipulated that the CIS does not have supranational authority.

At the minimum, the formation of the CIS stopped the collapse of the USSR. But there are other achievements. There is a regulatory/legal framework governing trade between the states, through a common free market zone. On social policy there is travel without visas. And there is an organizational structure for trade policy.

There are a number of integration problems in the CIS. There is an absence of an organized legal mechanism between states to implement decisions. There are inefficient measures in national legislatures on unification and harmonization within the CIS. There are barriers interfering with the efficient development of trade, with no coordination of customs duties and tariffs. For example, Kazakhstan goes through many levels of tariffs to get to markets. Finally there is a weak level of CIS countries interacting in the social sphere, on issues such as visa requirements and immigration policy.

The level of economic development varies within the CIS. Growth rates are strong but the quality varies. There are different rates of market reforms and the type of development is different. Kazakhstan and Russia are the highest. Kazakhstan is creating a banking system and has implemented a number of real sector reforms (the electric power network has been privatized) and this is not true in other states. Uzbekistan is also growing strongly but is in a very different situation, with very high state regulation. In Kirgizstan, Georgia and the Ukraine, there are power struggles and the economy is of secondary importance. Tajikistan is growing but it is one of the poorest states in the world, and there is a humanitarian crisis. So there are major problems in the CIS.

There are a number of regional unions in the CIS. The Union of Belarus and Russia is a customs union but is hampered by different development issues. For larger groupings there is the GUUM, established in 1997. But the corridor is not profitable due to the rail-sea-rail route. The big problem is that there are unstable economies within the group so it is not going anywhere. The Common Free Market Zone was established in 2003. There are stronger economies in this group but there is no leader. The Ukrainians have their own ideas and the other three are going in a different direction. There is the Eurasian Economic Community formed in 2000. This is the most advanced and has the appropriate legal and organizational agreements, and so could be a locomotive for the region. Within this group they are aligning customs and tariff policies. Three of the states are forming a customs union. There is major assistance to the transport and energy sector. But there are

still problems in transport and crossing customs borders. Therefore there is still a need for further enhancement and there are priorities for development of the zone: customs union improvement, real sector productivity increases, strategies for innovation, creation of a common energy zone, agreement on transit tariffs, common fuel/energy balances perhaps using hydro power, sound use of water resources (given the drying of the Aral Sea), a common financial market, and agreed migration policy.

### **Round Table 3: Key Issues in Multilateral Trade Liberalization of Economies in Transition**

**Sergey Afontsev (Institute for World Economy and International Relations, The Russian Federation)** discussed Russia and the WTO. The good news is that Russia is at the final stage for entry into the organization. The bad news is that they have been at the final stage for two years. The official position is that timing doesn't matter; rather the conditions for entry are the issue. There are no signs of a speeding up of the process, even after the Ukrainian entrance. There are a number of reasons for this. Neither economic nor political benefits are expected; for example anti-dumping won't help and producers won't benefit. In addition, all of the consequences from restructuring are done. The tariff rate has been reduced to 11-12%, and the real exchange rate has appreciated by 12.8%. These are approximately equal to the abandonment of all import duties. And producers already have incentives to adapt to competition.

The United Nations system could be of help in the accession process. So far the Russian Government has failed to reconcile the WTO with preferential trade agreements that they are part of. The problem is a deficit of skilled professionals for negotiations. So the UN could help in capacity building for trade negotiations.

**Tatyana Starchenko (Deputy Minister, Ministry of Economy, Belarus)** discussed the liberalization of foreign trade, noting that there were major changes in legislation necessary for the WTO accession, and that they were carrying these out. Twenty legal texts have been adopted in the trade area for WTO. Import customs tariffs have been reduced twice from 20.7% to 8.7%, which is allowable under WTO. She then described a free trade agreement (FTA) Belarus has with 11 states and a MFN with other countries. The country is trying to attract FDI so it is liberalizing rules and setting up free trade areas. It is also expanding concessions for foreign investors. There are plans to change legislation for private enterprises, land regulations and taxes. There will be help for start up businesses. But there are worsening conditions for access to markets.

**Bojana Todorovic (Assistant Minister, Ministry for Regional and Multilateral Economic and Trade Cooperation, Republic of Serbia)** said that there have been many challenges since 2000, when bilateral multilateral and regional cooperation and trade agreements were undertaken. There was also autonomous liberalization in 2000. There is a bilateral free trade agreement in the SEE. In 2006 there was CEFTA. There are a number of consequences stemming from trade liberalization for countries in the region: trade flows have increased and there is a parallel liberalization process for GDP. Export

growth has boosted GDP growth, the structure of trade is changing as is the structure of production - the service sector as a per cent of GDP has increased while agriculture has declined. The volume of trade increased after EU liberalization. Exports to the EU increased, imports from the EU also increased, but the trade balance deteriorated and generally is now in deficit of \$US 6.9 billion. So there is a question of how to cope with the deficit, and this is before WTO accession. CEFTA and the EU account for 88% of trade. For CEFTA exports increased and imports as well, but the trade balance is positive.

**Zdenek Drabek (WTO)** talked about reform at a stable pace. He noted that broadening the area of negotiation is a problem. There are greater demands on services, including more areas of services. There is a need for technical assistance for accession and this is very country specific. And there is a need for technical assistance after accession in dealing with compliance with procedures. Demands are being raised in the midst of difficult economic and political situations.

### *General Discussion*

Mr. Ellman asked Ms Rakhmatulina how real the Eurasian Customs Union was, for example the ease with which firms could move goods across frontiers and how high was the level of customs duties. Ms Rakhmatulina replied that yes customs duties did exist and there were still troubles, but these were common duties. There was still a problem with border crossings but procedures were improving. Mr. Ellman asked Mr. Afontsev what would be the benefit of WTO completion? Mr. Afontsev replied that there have been many studies on the consequences of WTO accession and the general conclusion was that there were no visible short term benefits.

### **Round Table 4: Export Promotion Initiatives and the Role of the UN System**

**Sergey Afontsev (Institute for World Economy and International Relations, The Russian Federation)**, in his presentation on export promotion in Russia, highlighted two basic groups of mechanisms: traditional export promotion, for example through financial and credit incentives, and trade policy measures. He elaborated that traditional trade policy measures tend to be inefficient due to significant red tape, while trade policy measures are more spectacular and also more controversial. The latter include protectionist measures to increase the quantity of exports, a successful approach taken for example in the timber sector. This is also one reason for WTO accession delays. Export support at the regional level – as opposed to the federal level – has been disastrous. Possible UN contributions include capacity building measures, consulting services regarding the most adequate export promotion measures, and the upgrade of regional administration capacity.

**Henry Jackelen (United Nations Resident Coordinator and UNDP Resident Representative in Bulgaria)** first distinguished between the group of countries that are more oriented towards the EU and another group leaning more to Russia and China. The UN system, through its regional representation, can offer valuable assistance to these countries and there are generally two ways for countries to make use of the UN system.

The traditional one includes working with international organizations like the World Bank and the EBRD. The second one is more difficult and rather non-traditional as it concerns the linking of growth and activity. There is a need to interlink the facets, for example the exploitation of resources and the creation of market access.

### *General discussion*

In the general discussion, Ms. Ruminskaya asked whether the Georgian program “Georgia without poverty” is linked to trade policy. Mr. Tsikhelashvili replied that the program is aimed at creating small firms and in this sense is not just trying to reduce poverty, but rather to increase exports. Mr. Hasanov asked regarding the relationship between ratings and exports. Mr. Spoor pointed towards what he views as a contradiction between the UN and the IMF, citing an example of a poverty reduction program in Moldova. He elaborated that an article 4 mission was threatened in order to preempt any criticism of a report. While the WTO advocates in favour of policy space, the IMF seems to advise not to use it. Mr. Jackelen replied that the various international and UN institutions are covering different areas and that the truth lies somewhere in the middle between the views taken by international organizations.

## **VI. Enhancing Economic Diversification through Foreign Direct Investments**

**Kalman Kalotay (UNCTAD)** presented his paper “Patterns of Inward FDI in Economies in Transition, 1991-2006”. He started by highlighting the importance of FDI as it helps create productive capacity and unlike trade is not linked to one-off transactions. He then introduced the trends in the FDI flows looking at four groups of countries: (1) the new EU members (since 2004 and 2007), (2) South-eastern Europe, (3) the Russian Federation and (4) the CIS. While there has been an increasing trend in FDI inflows into transition economies since 2000, growth has been spread unevenly among these groups, with the new EU members leading in their share in global FDI. He pointed out the large differences in cumulative inflows. While massive flows were attracted by large economies and those most advanced in the transition, only tiny flows went to small low-income countries from the group. Another important feature of the pattern, observed in these countries is described by the high ratio of FDI to gross fixed capital formation, which exceeds that of the world average and is growing. Next he focused on the cross-border M&As as the latter move together with FDI globally. Also, in the economies in transition, M&As are linked to FDI through privatisation and the available data for them is more reliable than for FDI. In addition, he presented the results of a mini-case study on the automotive industry as an example of the differentiation between the countries and implications for technological development of the countries. Finally, he concluded by drawing the attention to several policy-oriented issues confirming the role of FDI in reintegrating the economies in transition into the world economy. He also raised the question to what extent policies that have been implemented in these countries have been sufficient to attract FDI and most importantly if they have been a driver to structural changes there.

**Saul Estrin (London School of Economics)** gave a presentation on a joint paper with Klaus Meyer (University of Bath), “Foreign Direct Investment in Transition Economies:

Strengthening the Gains Through Diversification”, After providing an overview of the FDI flows into the region, their nature and pattern by sectors he discussed an empirical model to explain what has determined FDI inflows into these economies, based on the gravity approach. The results confirm positive significant effects from source and host country’s GDP and the distance between these countries, i.e. the so called gravity effects. In addition, Mr. Estrin outlined the importance of labour costs, trade flows (as complimentary to FDI) and institutional development, notably privatization, banking sector development, trade liberalization and legal institutions as factors determining FDI. Contrary to expectations competition policy did not turn out to be significant in attracting FDI. Next, he discussed the potential influence of FDI on economic performance and integration looking both at country level and macroeconomic effects – on the basis of endogenous growth models – and at microeconomic effects as well. Horizontal and vertical spillover effects to local firms were discussed from theoretical and empirical points of view and sources of variation in FDI were added to analyse the possible impact of FDI on company efficiency, labour and environment. Mr. Estrin summarised the evidence on the impact of FDI on transition economies underscoring that results in this area seem contradictory largely owing to different methodologies and techniques for empirical estimation as well as the scarcity of empirical work. Finally he concluded by discussing the policy implications and summarised the policy recommendations to support FDI inflows into those countries focusing on three important levels of policy implications: institutional environment, measures to facilitate maximum spillovers and to increase trade integration and liberalisation.

**Malinka Koparanova (United Nations, DESA)**, as a discussant of the papers by Klamon Kalotay and Saul Estrin and Klaus Meyer started by pointing out that both papers are interesting and informative; they contribute to the understanding of the potential of FDI to increase the gains from integration of the economies in transition into the world economy. The comparison between the previous two presentations on this topic began by looking at the similarities and differences between the approaches of assessing the FDI in transition economies and the results from these two studies. While the previous papers have similar motivation and focus on FDI in economies in transition since the start of their transformation, the coverage of the countries, and the selection of issues differ. After discussing the differences in the methodologies and methods applied to studying the dynamics of FDI Ms. Koparanova made some comments and posted specific questions to the papers. On Mr. Kalotay’s paper a general comment was made about bringing more evidence from the output, export and import composition by sectors and relating these structures to FDI inflows. Ms. Koparanova underscored that revealing the anatomy of FDI by looking at the sectors of activities in a country and linking it to the particular output, exports and imports structure is an important starting point for assessing the role of FDI in economic diversification. While she found the mini-case study on automotive industry interesting, she added the need to include greenfield investments as well. In addition, as the car assembly has a recent fast growth in some economies in transition, it is crucial to know if this growth is driving clustering of suppliers as strengthening local linkages are a sign of vertical integration. She also posted a question regarding complimentary policies supporting the promotion of this sector in order to benefit from its spillover effects into the economic system.

Discussing Mr. Estrin's paper, Ms. Koparanova made two specific comments and a more general one, related to policy recommendations. While the discussant agreed in general with the application of the gravity approach to model bilateral FDI flows, she raised the question as to what extent the empirical findings of an econometric model relating the FDI flows from Central Eastern European countries to Western Europe could be valid for the economies in transition, in particular for the countries in South-eastern Europe and the CIS. As these countries have reoriented their linkages to Western Europe, there are still strong flows between them and other regions, such as Asia (which is significant for the CIS and China for example). Additional issues come from the different phase of reforms in the CIS and Central European countries as well as differences in the period for which the empirics hold and the period of most recent growth of FDI in the CIS region. As a second comment, Ms. Koparanova focused on the analysis of the effect of foreign ownership on economic performance outlining the use of different methodologies for estimating the influence of FDI. She pointed to at least two issues that could provide the basis for controversial findings in the empirical literature: (1) using different time periods and (2) cross-section estimations as opposed to panel data models for estimation and discussed the different methodologies. Finally, she raised the questions about the omitted variables in the empirical models and the endogeneity in the estimations.

Mr. Kalotay responded to the questions raised by pointing out the scarcity of data on FDI by sectors, which is particularly constraining the analysis of the CIS economies. He also added that there have been strong linkages of the car industry with the second-tier suppliers. Mr. Estrin agreed that vertical integration is what matters for FDI and diversification of these economies. He also confirmed that more work is necessary to check the empirical findings for robustness as well as to focus on estimation of FDI characteristics and their relationship with other economic variables for the Balkan countries and the CIS.

**Robert Nowak (UNECE)** presented "Trading Across Borders, Transport in the CIS Region". He first defined diversification as well as integration and pointed out that transport infrastructure is a necessary condition for diverse and efficient trade. By contrast, an inefficient transport infrastructure discourages trade and investment and acts like a tax by increasing uncertainty. Moreover, it increases import and export prices as well as inventory costs, thereby affecting competitiveness. Given the positive effect of an efficient transport infrastructure on diversification, the goal is to reduce economic distances, which are defined as the expenditure in terms of time and costs. He then outlined the example of the China-Europe route for the transportation of a standard container, looking at the various means of transport. He concluded that too much time is being spent on border procedures and that such time expenditure reduces trade volumes. Border crossings could be made more efficient through better infrastructure and the reform of customs procedures as well as international cooperation. In this context, he cited the International Convention on the Harmonisation of Frontier Controls on Goods, which, as a framework convention, refers to the number and duration of controls, national coordination measures and international cooperation. The measures foreseen are cheap, simple and easy to implement. This is significant especially in view of the fact that three

quarters of border delays are related to procedures and not infrastructure. He recommended a refocusing on border crossing procedures and highlighted the TIR system as the only viable approach.

### **Round Table 5: Investment Promotion Initiatives and their Evaluation**

**Sergey Afontsev (Institute for World Economy and International Relations, The Russian Federation)** pointed out that FDI promotion is especially important for Russia and that Russia is both an importer and exporter of FDI. There has been an upsurge in exports of high-tech services without government support. He emphasized that FDI is not about capital but markets, technology and know how. Regarding inward FDI, a crucial element is the creation of value-added chains in Russia, while outward FDI is an important strategic element in building value-added chains with domestic and international or foreign companies. As for the latter, there is a lack of government support and assistance would be needed in how to build international value chains. A further line of cooperation is the assessment of the impact of FDI on the service sector.

**Gulnar Rakhmatulina (Kazakhstan Institute for Strategic Studies)** started by presenting the background to investment policy in Kazakhstan, where recent GDP growth amounted to 10.0%. Investment policy is closely linked to budget and social policies as well as to the strategy for industrial development. Furthermore, a focus on higher value added represents a core objective. While in the 1990s, the state pursued an open door policy, today's focus is on the defense of national interests such as in the oil and gas sector. She provided some details on the Kashagar oil project and emphasized the need for the state to also focus on the processing sector. Moreover, national interests also include the environment, for example around the Caspian Sea.

**Dragana Zoric (Serbia Investment and Export Promotion Agency (SIEPA), Serbia)** highlighted three elements of investment policy, namely promotion, assistance and feedback/advice. FDI is very beneficial in reducing unemployment. While privatizations have led to an increase in unemployment in recent years, the goal of greenfield investments is the reduction of unemployment. Also important are the political and overall stability of the country, while other FDI obstacles include an inefficient administration and a lack of information. Serbia's macroeconomic environment includes stronger economic growth, lower inflation and a rating of BB-/stable by S&P. Regarding the integration process, legal harmonization is under way, while there is strong market access given Serbian consumers' expectation of Western standards. The country has decades of experience in cooperating with international companies, as is also reflected in the high standard of education as well as peoples' language proficiency. Corporate taxes are relatively low and the recent fall in FDI inflows has been due to political uncertainty in the light of parliamentary elections. FDI needs to contribute to the prevention of brain drain and current plans envisage the creation of business parks. She concluded by suggesting that international organizations increase their efforts to receive information and suggestions from the business sector.

**Dmytro Lyapin (Institute for Competitive Society, Ukraine)** provided an overview of the Ukrainian economy and its business sectors as well as financial structures. He pointed out that the density of SMEs is consistent with the situation in the region. The implementation of new policies has two components. It must not worsen the qualitative indicators of the economy, requiring them to preserve a simplified tax system and the openness and transparency of government. Second, there are three tasks, namely to increase the export capacity of small firms; improve access to information; and improve the representation of small firms in international negotiations. He concluded by pointing out the need for more consistent and better state management.

**Carlos Griffin (UNCTAD)** highlighted two questions: the national goals linked to FDI and the best practices in FDI promotion, both in terms of attracting FDI and benefiting from it. As to the first point, a central point is job creation, requiring a selection of targeted benefits and the design of a national investment promotion strategy. In this context, a distinction needs to be made between FDI that seeks resources, markets or efficiency gains. As to best practice promotion, FDI policy resembles the activities of a corporate sales team.

### *General discussion*

In the general discussion, Mr. Vos asked which incentives work for attracting FDI and pointed out that policies to “pamper” investors do not seem very business-like. He cited the example of tax breaks, which feature low in surveys but are still included in policies. Ms. Rakhmatulina answered that the extractive sector seemed interesting irrespective of tax breaks and that the crucial criterion is profits. Ms. Zoric answered that although the state depends on tax revenue, incentives do work, with tax breaks as a factor in lowering firms’ costs. Mr. Afontsev argued that case studies show that tax breaks play an important role at the decision stage of firms’ investment process. Mr. Lyapin emphasized that for firms, the achievement of their business goals is at the forefront.

### **Round Table 6: Role of Infrastructure, Cross-Border Issues, Energy, Transport and Access to ICT**

**Rafkat Hasanov (Public Association “Investment Roundtable of Kyrgyzstan”, Kyrgyzstan)** pointed towards the problem of governments imposing restrictions regarding the use of shipping companies. He went on to highlight trade and transit as well as partnerships between the public and private sector as two important areas. Kyrgyzstan has no sea port and its transport infrastructure is not well developed. Regional cooperation is very important and major issues to be addressed include border crossings and the prospects for small export companies. In the transit area, limitations on the use of shipping companies impede competition and there are also questions pertaining to goods insurance and other costs. In the bilateral and international arena, there is the need to harmonise custom regulations, ensure compliance with free trade, eliminate customs duties and to provide assistance regarding transparent legislation.

**Gulnar Rakhmatulina (Kazakhstan Institute for Strategic Studies)** addressed specific problems of transport infrastructure in Kazakhstan. While oil production plays a prominent role, energy supply is a big problem, especially in the southern region. There are plans for the construction of north-south pipelines and increased energy capacities in the south of the country. The transport infrastructure needs to be upgraded and expanded in the whole country, with the transit route from Western Europe to China possibly serving as a catalyst. The communication infrastructure is equally deficient and in need of investment. She called for the UN to cooperate more closely with the country and to assign priorities to projects.

**Andrei Savinykh (Deputy Permanent Representative, Permanent Mission of the Republic of Belarus to the UN Office at Geneva)** touched on the main trends in Belarus. The rate of technological progress has constantly increased and the country holds a leading position in the CIS region regarding telephone lines, although stronger international cooperation is needed to increase the number of internet users and lower the costs of internet usage. The energy sector plays an important role, but the country also depends on external suppliers, making it vulnerable to price fluctuations. This increases the pressure for improved energy efficiency. The development of Eurasian transport corridors holds significant potential for the country. He recommended fewer customs procedures, improved practices regarding the building of highways, and a single-paper electronic administration of transport. He also highlighted the worsening problem of granting Schengen visas to drivers.

**Erkinjon Yunusov (Ministry of Foreign Economic Relations and Trade, Uzbekistan)** described Uzbekistan as a transit country par excellence against the historic background of the Silk Road. The country has no access to the sea and he agreed with Mr. Nowak on the importance of existing bottlenecks created by border crossing procedures. He emphasized the country's role as a buffer between Europe and Asia in the fight against the trade in drugs, arms and other undesirable commodities. Hence, he argued that the issue of reducing holding times at borders is complicated, as the problem is not that officers do not want to let people pass through, but rather that they face a lack of modern equipment such as scanners that would speed up the conduct of proper and adequate inspections.

In the discussion, Mr. Nowak pointed out that many countries viewed the issues of driver visas as a bilateral question, not an international one. Mr. Shelburne highlighted the situation of economies excluded from trade by their location and the value of goods used up in transit costs. Mr. Hasanov saw an important role for public-private partnerships, with UNECE especially well suited to help in capacity building. Mr. Dobrinsky answered that UNECE is very much aware of this and that this forms an important component in UNECE's work on cooperation. He specifically highlighted an upcoming meeting in Moscow in this respect.

## **VII. Economic Diversification and Modernization of the CIS: Opportunities and Policy Challenges**

**Rudiger Ahrend (OECD)** presented “Strategies for Economic Diversification in Resource-rich Countries” and concentrated on the diversification of both the export and non-export sectors of these economies. Export diversification can be very useful but it is difficult to achieve, however the risks from a concentrated export structure can be reduced by applying relevant macroeconomic policies (such as exchange rate policies to reduce appreciation of national currencies and the setting up of a Stabilisation Funds), and hence export diversification may be not such a priority to the government. He emphasised that diversification of the non-export economy may be more important and as it is easier to be implemented, has better chances for success. In the case of resource-rich economies, he described diversifying production and exports of natural resources through increasing the depth of processing exports and increasing quality, as well as developing services in related areas as most appropriate strategies. He outlined service sector development (including policies for innovation and the development of supportive institutions and macroeconomic policies) and import substitution as two crucial elements of diversification of the domestic economy. Finally he brought attention to the need to develop the resource sector as it could be a contributor to diversification, and summarised that in general, good economic policy will lead to a more developed and diversified economy through an improved business climate as well as aided by innovation and education polices.

**Marek Dabrowski (Center for Social and Economic Research(CASE), Poland)** presented “Policy challenges faced by the low-income CIS economies”, describing some economic characteristics of these countries. He pointed out the skewed commodity structure of exports towards primary commodities for all these countries (except Armenia and Kyrgyzstan) which makes these economies vulnerable to fluctuations in commodity prices. Also, in many of them, receipts from workers’ remittances are a significant element of capital flows and for some as a share of GDP as well (in particular for Moldova and Tajikistan). Compared to world average levels of diversification, Mr. Dabrowski emphasised the highly concentrated export structure, while imports remain relatively more diversified, confirming the difficulties which the small low-income economies have facing competition from other developing countries. Next, he discussed the options for policies in support of economic diversification, namely the statist industrial policies and policies, based on continued progress in market reforms, outlining the consequences for each of these policies. After reflecting on the progress of structural reforms in these countries according to the EBRD indicators he looked at the key determinants of unfavourable business climates and suggested that deregulation could be a quick fix for these economies. In addition, based on the information provided by the data from the Ease of Doing Business (the World Bank), Transparency International CPI and the Heritage Foundation Index of economic freedom, he made some conclusions on the causes for the poor business and investment climate in these countries, such as barriers to market entry, various administrative permissions and non-transparent tax and customs systems. Finally, addressing the question as to how the international community could help these economies, he pointed out that the following activities are important:

facilitating the completion of the WTO accession, helping the advancement of global trade liberalization (especially agriculture), deepening FTA's with the EU and within the CIS based on WTO rules, helping in solving regional conflicts, regional infrastructure projects and technical assistance in further institutional reforms.

**Max Spoor (Institute of Social Studies (ISS), Netherlands)**, as discussant, summarised the major points of the previous overview of the macroeconomic and reforms indicators of the low-income CIS countries and continued the discussion on the policy challenges faced by those countries. He addressed an additional development challenge for these economies: agricultural production. This sector is important for many countries in the region, in particular Kyrgyzstan, Tajikistan and Uzbekistan because of the high contribution of agriculture to both GDP and total employment. He pointed out that serious rural-urban income inequalities have emerged due to non pro-poor growth patterns in these countries. In addition he addressed some problems of human development: many countries were experiencing brain drain, brain waste and low investment in R & D. Regarding policy advice to economies in transition he highlighted the need to understand better the specific political economy of these countries in order not to repeat the experience of the early 90s of the IFIs for liberalizing, deregulation and privatization. As a final comment he underscored the importance of the EU policy towards these countries, including the European Neighborhood Policy, which has the potential to contribute to more economic diversification and institutional transformation in the region.

Responding to some questions on diversification strategies Mr. Ahrend commented that diversification is independent of comparative advantages; the economy could go into a diversified growth pattern without necessarily having comparative advantages, such was the case of Finland's experience. However, if an economy has comparative advantages it could have a more active strategy to diversify through deepening the process and developing new areas of comparative advantages given the existence of the relevant environment. Meanwhile, regional trade barriers may constrain economic diversification in some of these countries as they attempt to expand their markets outside. Mr. Dabrowski added to the comments that specialisation, as in the development of a car industry, is an import substitution strategy which may be helpful for these economies. He also agreed that governance is indeed a long-term factor for economic diversification, which the low-income CIS economies need to improve and adopt as a strategy for development.

#### **Round Table 7: Key Development Policies, including MDGS, and Obstacles of the Low-Income CIS to Diversify their Economies**

**Max Spoor (Institute of Social Studies (ISS), Netherlands)**, moderated the session, and said that for these economies in general, an increase in poverty levels was observed during the transition period. It is therefore important to discuss the development strategies, related to the MDG-s.

**Rafkat Hasanov (Public Association “Investment Roundtable of Kyrgyzstan”, Kyrgyzstan)** said that among the MDG-s, two are being considered to be relevant for the country, first, reducing extreme poverty and second, achieving gender equality. Extreme poverty has been reduced by a factor of two within the last several years. And poverty in general is on a declining trend. There are different instruments in use for reducing extreme poverty, usually through government spending, and for reducing poverty in general, which is more reliant on economic growth.

Describing the country’s obstacles to development, the speaker noted the small size of the domestic market, the lack of natural resources and its difficult geographical location, as the country is landlocked. Therefore the country faces more obstacles to development, than its neighbors. On the other hand, he noted, economic growth in the country is among the highest in the region. There are some basic barriers to growth, both external and internal. In the speaker’s view, there are some trade barriers, including restrictions on certain exports and certain imports and subsidies to agriculture in the developed countries. Reducing those barriers would increase growth by 55 per cent within ten years.

According to the EU, continued the speaker, the main obstacle to growth is that the economy is closed. But in fact, in the period from 1995 to 2001, there was a decline both in exports and imports, as there was both weak external demand and weak domestic demand, while the average growth rate was 5.5 per cent. On the other hand, in the period from 2002 to 2006 both external and domestic demand was strong, but the average growth rate was only 3.1 per cent. It would be interesting to analyze the reasons.

The most recent economic growth is mostly due to the retail industry, and import tariffs finance government spending. This underlines the role of remittances, since imports are financed by remittances, and the massive outward migration resulted in an insufficient labor force, with largely the male population migrating. The country has a low savings rate, compared to other CIS economies.

In terms of reform, the country is recognized as one of the best reformers, and government policy is to join the top twenty in the ease of doing business, but even if it is achieved, not much progress is expected. Usually this rating is based on legislation, and not the real picture, and focuses only on certain aspects of doing business. There is a lack of political consensus on many issues.

**Hayk Mirzoyan (Department of Regional Economic Development, Ministry of Trade and Economic Development, Armenia)** said that the government’s focus is on creating value. Foreign investment into the country is insignificant and it is an obstacle for development. On the international level, only a couple of sectors are competitive, among them jewelry and some technological sectors. In order to ensure the medium-stage of development, the main strategy is to attract FDI and to move from the transition stage to the more innovative stage of development. For that purpose it is especially important to attract FDI from the major transnational companies and the country may benefit from its relatively cheap labor force. The previous FDI flows were mostly related to privatization or to some politically motivated infrastructure projects. One of the obstacles

to development is that there is too much monopoly in the economy. Since the competition for attracting FDI is tightening, in order to attract FDI, specific transactions with specific companies are needed. But there is poor understanding of the target audience and potential investors must have positive signals from the country. The policy goal is to achieve economic and social growth. It is important to have competitiveness in particular sectors. Technological, managerial and innovative competencies are needed. It is important to involve diasporas. Some specific policies are to maximize the use of locally available and manageable resources, including for export-oriented production and to bring professional managers from abroad.

**Zamira Xhepa (Trade Policy Department, Ministry of Economy, Trade and Energy, Albania)** said that in order to achieve economic development, the country is following policy continuity and consistency. In 2006 a free trade agreement was signed with the EU. The country also joined the CEFTA-2006 and concluded a free trade agreement with Turkey. All commitments of the WTO will be fulfilled. The liberal trade regime should have a positive impact on development. On economic and social development, the UNDP provides support on the MDG-s. A major public administration reform process is underway. The policies should be pro-growth and pro-poor, concluded the speaker.

**Erkinjon Yunusov (MFA, Uzbekistan)** said that the country probably did more for diversification than any other country. The economy initially used to be one-sided, providing only cotton, similar to Kazakhstan which largely produced grain, and virtually everything was imported. The first period after central planning was difficult, but currently the economy has achieved 8 per cent GDP growth, which is created virtually from nothing. The government, good or bad, is functioning. The country has its own mentality, but it is a dynamically developing economy. Inflation is about 6-8 per cent, which is acceptable. Growth is not connected with external factors, as, investment increased by 20 per cent, mostly into fuels and telecommunications. The policy goal is to move the economy to cotton-free technologies and new management.

### ***General discussion***

Mr. Spoor said that during their presentations, some of the speakers did not talk much about the MDG`s, so he posed a direct question to all of the participants about the MDG`s and related policies. Mr. Shelburne said that most of the discussion has been focusing on trade and FDI. Should it be understood that the policies simply target a trickle-down effect and further redistribution. Or the policy is just to promote economic growth and then everything else will happen automatically. Mr. Vos questioned whether these countries should move to a higher share of industrial production. They have a large rural population and a large agricultural sector, so should it be diversified? A question was asked on gender equality in those countries, in particular equal opportunities and equal pay. Mr. Hasanov (Kyrgyzstan) replied that as regards social policy, it is done through the budget policy, and salaries of cultural workers and teachers were recently increased. This is on the expenditure side. On the income side, the budget is supported by collecting import duties, and imports are financed by remittances. So in fact the migrants are financing growth. In the rural area, originally land was distributed to farmers, but those who cannot manage it, cannot sell. The current agrarian policy is to increase the

size of farms and improve availability of credit. But the banks are not interested in “land mortgages” for those who want to acquire land.

Mr. Spoor noted that in the case of Armenia, there was an early privatization of land and during the first stages of transition it acted as a buffer to poverty in the rural area. Was this a deliberate strategy or it just happened that way? He followed by asking a question to all participants on the poverty in the rural area and on associated policies. Mr. Mirzoyan replied, saying that the early distribution of land intended to increase the efficiency of the agricultural sector. There are a number of government programs to eliminate poverty and the first one is already being implemented. On the issue of rural poverty, about half of the population lives outside the capital. But in the rural areas, the owners of land are not poor, the problem of poverty is in the small cities. Mr. Hasanov also replied. The problem of poverty is in the small cities, where it is difficult to receive even a minimum income, and people often turn to alcoholism. There are no major projects, for example, from the World Bank to revive those cities. On the issue of gender equality, there are some activities of the UNDP and other agencies. But out of the 14 sectors of the economy only 4 registered an improvement. There is high unemployment among women, and without improving the gender equality, this issue may become serious. But in fact the issue of access to property is more important for gender equality than the situation in the labor market, because there are some inequalities in opportunities. One additional issue the speaker would like to raise is the problem of child labor, when children work instead of studying. Ms. Xhepa replied saying that in terms of the MDG's, only one per cent of the population is below the extreme poverty line, and there is an engagement of the international organizations to solve the problem.

Mr. Yunusov (Uzbekistan) said that it is not clear why there is a perceived relationship between poverty and the agricultural sector. People living in the agricultural areas are doing well, even young people are enrolled in some businesses, organizing, for example, small mobile farms to process food. The exports of agricultural products are increasing, as well as domestic demand for those exports, so during some seasons there are even limitations on exports. On the gender issue, there are some numbers available on the female participation in business, in parliament, etc, but in general there is a traditional mentality, so not much activity is being done on the women side.

Kazakhstan commented on the problems of poverty and gender equality. Gender equality is in the legislation, and therefore there is high percentage of women in government services, businesses, etc. In terms of the MDG's, a lot of attention is devoted to the development of education, such as financing the education of gifted children overseas. Regarding the rural areas, the policy is to provide micro-credit, to improve conditions in villages. There are also policies to enforce the social responsibility of business. The major corporations, such as “Kazakhgas” and others, are encouraged to build schools and to help to revive enterprises.

Belarus said that in those CIS countries where social development indicators are weak and economic growth is not leading to improved well-being, national development programs should be implemented.

## **VIII. Diversification through Knowledge-Based Development: Policy Challenges for Economies in Transition**

**Rumen Dobrinsky (UNECE)** presented a paper entitled “Knowledge-oriented diversification strategies: policy options for transition economies” The talk focused on one type of diversification policy, which was not to be thought of as a solution to all problems, and required many other things to be in place: good institutions/environment, good trade policies, and a broad policy mix. These are not always in place so this is not appropriate for all and will take a long time, but can proceed in parallel, reforming institutions and diversifying policy. The strategy is called knowledge oriented, because we are currently in an era of knowledge based development within globalization and the two are linked, so that diverse strategies may fail or not be sustainable if they are not knowledge-based. This is a change in policy paradigm, where policy now needs to be specific to knowledge based.

The nature of diversification lies in the emergence of non-traditional sectors, deeper integration into the international division of labour, and the emergence of new comparative advantage (dynamic concept). Diversification means re-industrialization and a mastery of knowledge driven economic activities, which will require an active role of public policy, but policies of the past may no longer work. Diversification can be viewed as an entrepreneurial discovery process, the discovery of an economy’s underlying cost structure, “learning by doing”. But the private costs may exceed social gains. Others can appropriate and bid down the gain. There are externalities through knowledge spillovers, and thus policy intervention is needed or there will be an undersupply.

This leads to the consideration of industrial policy, but not to pick the winners, but rather to create an enabling environment for innovation so that there is a fair return on investment. The rational and objectives of such policy is to foster dynamic competition, deal with market failures, help agents, and enhance connectivity between agents. Comparing this to traditional industrial policy, one sees broader scope but less ambition, with policy working with the market, a type of pro-market activism.

Policy instruments need to target the generation of knowledge, accumulation, flows, spillovers and risk sharing. Specific features include the shift from direct institutionalized R&D to the differentiated financing for specific R&D projects. The speaker then addressed financing instruments for knowledge and information externalities, non-financial policy mechanisms for internalizing knowledge externalities., hybrid policy tools, and finally the role of the UNECE in promoting Knowledge-oriented industrial policy.

**José Palacín (UNECE)** presented “National diversification strategies and knowledge-based development: some financing issues on CIS countries” He first discussed the importance of financial development within the context of diversification. New firms depend more on external finance than existing firms. Well-developed financial systems

ease external financing constraints that impede firm and industrial expansion. Sectors that depend on external finance because of technological reasons, grow faster in more developed financial countries. Higher levels of financial development are associated with faster adoption of new technologies and capital reallocation among sectors.

He then discussed some key issues regarding financial development, and then argued that financial development promotes diversification and innovation. But, what are the specific needs of innovative companies – particularly in high-tech sectors? Can traditional financial intermediaries address them? And finally what is the role of public policy?

He discussed the case for equity, noting that bank lending does not fit well with uncertain and unpredictable cash flows, a lack of tangible collateral, large information gaps and extreme uncertainty. He noted that specialised financial intermediaries such as informal or formal venture capitalists (VC) were a way to overcome barriers to innovation in large corporations and financing by traditional intermediaries. But there is also a case for public intervention. R&D is underprovided in a competitive market. There is a gap between private return and the cost of capital. Increasing returns in the development of the VC industry and market failures justify government intervention but the design of policies needs to avoid government failures through the creation of a proper system of incentives. He noted particular issues in transition economies, including the lack of entrepreneurship, low R&D, the dominance of public R&D in total R&D financing and poor links between publicly-funded R&D and industry.

Public policies can support VC development through institutional and legal development, identifying and correcting bottlenecks in the financing cycle, through grants or public-private co-financing. A functioning VC market requires: entrepreneurs, specialized financial intermediaries, and/or capital -Investors with a taste for risk.

**Michael Landesman (The Vienna Institute for International Economic Studies, Vienna)** discussed the two papers, noting that they are both keen that policy suggestions need sound theory. The new Industrial Policy requires new theoretical foundations and tools. He made some general points. There are similarities to the old style of industrial policy, and consequently there will be major blunders. In the old style the underlying theory was economies of scale, but there were crucial neglected issues and hence the policies failed. A second point is that there was a network of interaction failures. Private actors neglect the potential of further coordination, an issue utilized in evolutionary economics, with the upshot that agents do not coordinate. He then made some specific comments on the two papers. First, the tensions between competition and coordination need more emphasis. The evolutionary approach builds on Schumpeter - heterogeneity means that people do not want to coordinate because they won't reap the benefits. For example, in many instances attempts by MITI to coordinate didn't work (information was held back). Ultimately, coordination and Schumpeterian are in conflict. Second, the world has tremendous access to knowledge now, but to be useful it requires lots of complementary inputs, and this holds back development of products. The issue is the failure in building up the complementarities. Third, the framework sounds like the Lisbon agenda, but it is not adjusted to the EIT or catching up countries. In the latter you need to

elucidate specific issues of catching up complementarities. Fourth, there are potential policy failures in coordination. Some major mistakes of the past were due to economies of scale, there was policy capture by a few groups - there are economies of scope in the use of knowledge, but a few actors can capture the gains. Fifth, there are financing issues for catching up economies. Many catching up economies have been successful with bank based financing, but here it's all equity.

### ***General discussion***

Ms. Uvalic said that she has looked at the SEE in the context of modern growth theory and this current work. In the implementation of Lisbon there has been very little progress in some countries, for example Italy. In the case of SEE, there are economic constraints such that little can be done. Inflation is very high so monetary and fiscal policy are being used to slow activity. Government budgets are declining so spending on education is declining. And these economies have very little financial development.

Another participant asked why not compare countries within the EU, how much does implementation of Lisbon help?

Mr. Solntsev asked whether the underdevelopment of the venture capital industry is a deficit in something or something to do with the economy. He noted the difference between the anglo-saxon model and the bank financing model.

Mr. Dobrinsky said that this was not intended to be an all embracing policy mix. Yes you need the institutional environment and macroeconomic situation and other preconditions, but you also need to start. It's a set of options for policy makers and is context contingent. The risks of policy failure in this context is far less than for the old policies. It is not money to a single producer, but rather small amounts of money to lots of start ups and its one-off. He said that as far as evaluation was concerned this was at a very early stage.

Mr. Palacin said that some of these policies are already happening and so now they are looking at how to make them better. On stocks versus bonds, he said that high tech with high risk was better suited to equity financing. The supply of funds is not sufficient. He agreed that there is heterogeneity of levels of development.

## **IX. Closing Session**

**Mr. Rob Vos (UNDESA)** gave the concluding presentation, asking what had been learned and whether the objective had been accomplished. The idea of the conference was to collect ideas for a report on how best to guide the economies in transition towards market economies with growth as well as equity. Diversification was the centralizing theme. The conference did succeed in generating lots of ideas and suggestions, particularly highlighting the different country perspectives and that there was no one size to fit all.

He noted a number of areas of broad agreement:

(1) Diversification is good for growth. It should help generate sustainable as well as equitable growth and reduce vulnerability.

(2) It is necessary to dynamize market forces but more is needed. Government intervention coupled with reforms is needed to fix difficulties.

(3) There is a need for coordination between domestic and international actors. Government intervention is less effective sometimes, but there are still cases where government fills in the blanks, for example, when there are market failures or when markets are not sufficiently developed. Finance can be such an area, where domestic bond markets do not exist or are insufficiently developed.

(4) On trade and trade agreements, there are interesting comparisons between the SEE and the New EU (CEE). And there are good arguments that 1<sup>st</sup> best solutions are appropriate for some countries while 2<sup>nd</sup> best are appropriate for others.

(5) The CIS is very diverse and more complicated than SEE. There is a need to build on existing comparative advantage and processing.

(6) Looking at institutions and the business environment, there is a problem in defining these concepts.

(7) In the area of the WTO, accession leads to increased market access, and the process is moving forward with many countries already close to completion. Whether there is a need for more FDI is less clear and it depend on a variety of factors.

(8) There are a lot of initiatives from the EU as there are for regional trade agreements, but there are significant problems.

(9) On remittances, there are both gains and pains (for example the brain drain). There is scope for improvements, particularly in whether these transfers can be funneled into investment.

And lastly some general points. Poverty reduction is still an issue, and there are important challenges in achieving a balanced development in both the sectoral and geographic dimensions.

## LIST OF PARTICIPANTS

<b>Governmental delegations-ECE member states</b>			
<b>Ms. Zamira XHEPA</b>	Trade Policy Department Ministry of Economy Trade and Energy of the Republic of Albania	Boulevard Dëshoret e Kombit 1001 Tirana Albania	<b>Phone :</b> +3554 222 245 ext. 186 <b>Fax :</b> +3554 223 119 <b>Email :</b> zxhepa@mete.gov.al
<b>Mr. Hayk MIRZOYAN</b>	Head of Department Department of Branch and Regional Economic Dev. Ministry of Trade and Economic Development	Mkrtchyan Street 5 375010 Yerevan Armenia	<b>Phone :</b> +37410 589511 <b>Fax :</b> +37410 526-577 <b>Email :</b> hmirzoyan@minted.am
<b>Mr. Andrei SAVINYKH</b>	Deputy Permanent Representative Permanent Mission of the Republic of Belarus to the United Nations Office at Geneva	15, avenue de la Paix CH-1211 Geneva 20 Switzerland	<b>Phone :</b> +41 22 748 2457 (Direct) <b>Fax :</b> +41 22 748 2451 <b>Email :</b> mission.belarus@bluewin.ch
<b>Ms. Tatyana STARCHENKO</b>	Deputy Minister Ministry of Economy of the Republic of Belarus	Bersona Street 14 Minsk 220050 Belarus	<b>Phone :</b> +37517 222 69 29 <b>Fax :</b> +37517 200 37 77 <b>Email :</b> minec@economy.gov.by
<b>Mr. Andrei TRIBUSH</b>	Third Secretary Permanent Mission of the Republic of Belarus to the United Nations Office at Geneva	Avenue de la Paix 15 1211 Geneva 20 Switzerland	<b>Phone :</b> +41 22 748 2456 <b>Fax :</b> +41 22 748 2451 <b>Email :</b> mission.belarus@ties.itu.int/ triandr@lenta.ru
<b>M. Mamuka TSIKHELASHVILI</b>	Ministry of Foreign Affairs of Georgia	Chitadze Street 4 Tbilisi Georgia	<b>Fax :</b> +995 32 28 46 78 <b>Email :</b> mamuka71@yahoo.com
<b>Mr. Marek DABROWSKI</b>	Chairman of the Supervisory Council CASE - Center for Social and Economic Research	12 Sienkiewicza Street 00 010 Warsaw Poland	<b>Phone :</b> +48 22 622 66 27, 828 61 33 <b>Fax :</b> +48 22 828 60 69 <b>Email :</b> Marek.Dabrowski@case- research.eu
<b>Mr. Rostislav KOKOREV</b>	Deputy Director Corporate Governance Department Ministry of Economic Development and Trade of the Russian Federation	1st Tverskaya- Yamskaya Street 1/3 Moscow 125993 Russian Federation	<b>Email :</b> kokorevRA@economy.gov.ru

<b>Ms. Dragana ZORIC</b>	FDI Advisor SIEPA - Serbia Investment and Export Promotion Agency	Vlajkovicева 3 11000 Belgrade Serbia	<b>Phone :</b> +381 11 3398 550 <b>Fax :</b> +381 11 3398 814 <b>Email :</b> dragana.zoric@siepa.sr.gov.yu
<b>Ms. Bojana TODOROVIC</b>	Assistant Minister Ministry of Economy and Regional Development of the Republic of Serbia	Vlajkovicева 10 st. 11 000 Belgrade Serbia	<b>Phone :</b> + 381 11 3346 571, 3342 663 <b>Fax :</b> + 381 11 3346 571, 3342 663 <b>Email :</b> bojana.todorovic@merr.sr.gov.yu
<b>Mr. Khojamahmad UMAROV</b>	Head of the Department of Macroeconomic Research Institute of Economic Studies Ministry of Economy and Trade of the Republic of Tajikistan	42 Rudaki street Dushanbe, 734025 Tajikistan	<b>Phone :</b> +992 37 223 26 74 <b>Email :</b> umarov2000@mail.ru
<b>Ms. Olga APATENKO</b>	Consultant Assistant to the Chairperson of the Committee on Industrial and Regulatory Policies and Entrepreneurship Verhovna Rada of Ukraine	Grushevskogo Street 5 Kiev Ukraine	<b>Phone :</b> +380442553585 <b>Email :</b> Liapina.Kseniia@rada.gov.ua
<b>Ms. Kseniia LIAPINA</b>	Member of Parliament of Ukraine National Deputy of the Verkhovna Rada of Ukraine, Deputy Chairperson of the Committee on Industrial and Regulatory Policies and Entrepreneurship Verhovna Rada of Ukraine	Grushevskogo Street 5 Kiev Ukraine	<b>Phone :</b> +380442553585 <b>Fax :</b> +380442553241 <b>Email :</b> Liapina.Kseniia@rada.gov.ua
<b>Mr. Erkinjon YUNUSOV</b>	Head of Department of CIS Countries Ministry of Foreign Economic Relations and Trade	Uzbekistan	<b>Email :</b> erkin.yunusov@mfer.uz

**European Community-European Community (EC)  
European Commission**

<b>Mr. Maurice Guyader</b>	Enlargement DG European Commission	Brussels 1049 Belgium	<b>Phone :</b> +322 295 4146 <b>Email :</b> maurice.guyader@ec.europa.eu
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**UN Organizations and Specialized Agencies-Specialized Agencies**

<b>Ms. Gloria Moreno-Fontes CHAMMARTINE</b>	International Labour Office (ILO)	4, Route des Morillons CH-1211 Geneva 22 Switzerland	<b>Phone :</b> +4122 799 61 88 <b>Fax :</b> +4122 799 79 67 <b>Email :</b> m.fontes@ilo.org
---	-----------------------------------	--	---

<b>Mr. Zdenek DRABEK</b>	World Trade Organization (WTO)	Centre William Rappard Rue de Lausanne 154 CH-1211 Geneva Switzerland	<b>Phone :</b> +4122 739 5885 <b>Fax :</b> +4122 739 5770 <b>Email :</b> zdenek.drabek1@gmail.com
<b>UN Organizations and Specialized Agencies-UN Programmes and Funds</b>			
<b>Mr. Henry JACKELN</b>	United Nations Development Programme (UNDP) Bulgaria	25, Khan Krum Street 1040 Sofia Bulgaria	<b>Phone :</b> +359 2 969 6105 <b>Fax :</b> +359 2 981 3184 <b>Email :</b> Henry.Jackelen@undp.org
<b>UN Organizations and Specialized Agencies-UN Secretariat</b>			
<b>Mr. Heiner FLASSBECK</b>	United Nations Conference on Trade and Development (UNCTAD)	Palais des Nations 8-14, Avenue de la Paix CH-1211 Geneva 10 Switzerland	<b>Phone :</b> + 41 22 917 6227
<b>Mr. Carlos GRIFFIN</b>	United Nations Conference on Trade and Development (UNCTAD)	Palais des Nations 8-14, Avenue de la Paix CH-1211 Geneva 10 Switzerland	<b>Phone :</b> + 41 22 917 6227
<b>Mr. Kalman KALOTAY</b>	United Nations Conference on Trade and Development (UNCTAD)	Palais des Nations 8-14, Avenue de la Paix CH-1211 Geneva 10 Switzerland	<b>Phone :</b> + 41 22 917 6227
<b>Ms. Anne MIROUX</b>	United Nations Conference on Trade and Development (UNCTAD)	Palais des Nations 8-14, Avenue de la Paix CH-1211 Geneva 10 Switzerland	<b>Phone :</b> + 41 22 917 6227
<b>Ms. Joerg Mayer</b>	United Nations Conference on Trade and Development (UNCTAD)	Palais des Nations 8-14, Avenue de la Paix CH-1211 Geneva 10 Switzerland	<b>Phone :</b> + 41 22 917 5722
<b>United Nations Department of Economic and Social Affairs (UNDESA)</b>			
<b>Mr. Grigor AGABEKIAN</b>	Development Policy and Analysis Division United Nations Department of Economic and Social Affairs	United Nations DC2-2032 New York NY 10017, USA	<b>Phone :</b> +1 212 963 4712 <b>Fax :</b> +1 212 963 1061 <b>Email :</b> agabekian@un.org

<b>Mr. Clive ALTSHULER</b>	Development Policy and Analysis Division United Nations Department of Economic and Social Affairs	United Nations DC2-2032 New York NY 10017, USA	<b>Phone :</b> +1 212 963 4707 <b>Fax :</b> +1 212 9631061 <b>Email :</b> altshuler@un.org
<b>Mr. Matthias KEMPF</b>	Development Policy and Analysis Division United Nations Department of Economic and Social Affairs	United Nations DC2-2032 New York NY 10017, USA	<b>Phone :</b> +1 212 963 4787 <b>Fax :</b> +1 212 963 1061 <b>Email :</b> kempf@un.org
<b>Ms. Malinka KOPARANOVA</b>	Development Policy and Analysis Division United Nations Department of Economic and Social Affairs	United Nations DC2-2032 New York NY 10017, USA	<b>Phone :</b> +1 212 963 6808 <b>Fax :</b> +1 212 963 1061 <b>Email :</b> koparanova@un.org
<b>Mr. Rob VOS</b>	Director Development Policy and Analysis Division United Nations Department of Economic and Social Affairs	United Nations DC2-2032 New York NY 10017, USA	<b>Phone :</b> +1 212 963 4838 <b>Fax :</b> +1 212 963 1061 <b>Email :</b> vos@un.org
<b>Intergovernmental Organizations-Intergovernmental Organization</b>			
<b>Mr. Rudiger AHREND</b>	Organisation for Economic Co- operation and Development (OECD )	2 Rue André Pascal F-75775 Paris Cedex 16 France	<b>Phone :</b> + 331 4524 7864 <b>Fax :</b> + 331 4524 7852 <b>Email :</b> rudiger.ahrend@oecd.org
<b>Non Governmental Organization-Official</b>			
<b>Mr. Rafkat HASANOV</b>	Executive Director Public Association "Investment Round Table"	199, Tynystanov Street, apt. 1 720040 Bishkek Kyrgyzstan	<b>Phone :</b> +996 312 66 02 22 <b>Fax :</b> +996 312 66 02 88 <b>Email :</b> hasanov@investment.kg
<b>Others/Other Organizations</b>			
<b>Mr. Michael ELLMAN</b>	Amsterdam University	Roetersstraat 1 1018 WB Amsterdam Netherlands	<b>Phone :</b> +31 20 5254235 <b>Fax :</b> +31 20 5254254 <b>Email :</b> m.j.ellmann@uva.n
<b>Mr. Oleg SOLNTSEV</b>	Task Leader Center for Macroeconomic Analysis and Short-term Forecasting (CMASF)	47 Nakhimovsky Prospekt 117418 Moscow Russian Federation	<b>Phone :</b> +7495 129 1722 <b>Fax :</b> +7495 718 9771 <b>Email :</b> OSolntsev@forecast.ru

<b>EBRD and London Business School</b>			
<b>Mr. Simon COMMANDER</b>	Economist Centre for New and Emerging Markets London Business School	26A Belsize Grove London, NW3 4TR United Kingdom	<b>Phone :</b> +4420 733 87 475 <b>Fax :</b> +4420 733 86 110 <b>Email :</b> scommander@london.edu
<b>Heriot-Watt University, Edinburgh</b>			
<b>Mr. Paul Gregory HARE</b>	Professor of Economics School of Management and Languages Heriot-Watt University, Edinburgh	Riccarton Edinburgh EH14 4AS United Kingdom	<b>Phone :</b> + 44 131 4513 483 <b>Fax :</b> + 44 1314513 498 <b>Email :</b> p.g.hare@hw.ac.uk <b>Web Site :</b> www.som.hw.ac.uk/ecopgh
<b>Institute for Competitive Society</b>			
<b>Mr. Dmytro LIAPIN</b>	Vice-President Institute for Competitive Society	Andreevsky Uzviz, 1a, office 8 Kiev Ukraine	<b>Phone :</b> +38044 255 19 23 <b>Fax :</b> +38044 255 19 23 <b>Email :</b> dmitry.lyapin@gmail.com
<b>Institute for World Economy and International Relations</b>			
<b>Mr. Sergey AFONSTEV</b>	Institute for World Economy and International Relations	23 Profsoyuznaya Street Moscow 117997 Russian Federation	<b>Phone :</b> +7 495 128 1774 <b>Fax :</b> +7 495 120 6575 <b>Email :</b> afontsev@gmail.com
<b>Institute for Social Studies</b>			
<b>Mr. Max SPOOR</b>	Associate Professor Institute of Social Studies	Kortenaerkade 12 P.O.Box 29776 The Hague 2502LT Netherlands	<b>Phone :</b> +31704 260 559 <b>Fax :</b> +31704 260 799 <b>Email :</b> spoor@iss.nl
<b>Kazakhstan Institute for Strategic Studies</b>			
<b>Ms. Gulnur RAKHMATULINA</b>	Chief Researcher Kazakhstan Institute for Strategic Studies under the President of the Republic of Kazakhstan	87-b Dostyk Avenue Almaty Kazakhstan	<b>Phone :</b> +77272 64 26 43 <b>Fax :</b> +77272 64 49 95 <b>Email :</b> gulnur@kisi.kz
<b>London School of Economics and Political Science</b>			
<b>Mr. Saul ESTRIN</b>	London School of Economics and Political Science	57 Hannover London NW14SN United Kingdom	<b>Phone :</b> + 44 961-125211 <b>Email :</b> s.estrint@lse.ac.uk

<b>Stockholm School of Economics</b>			
<b>Mr. Vladimir GLIGOROV</b>	The Vienna Institute for International Economic Studies (WIIW)	Oppolzergasse 6 1010 Vienna Austria	<b>Phone :</b> +43 1 533 66 10 <b>Fax :</b> +43 1 533 66 10 50 <b>Email :</b> gligorov@wsr.ac.at
<b>Mr. Michael LANDESMANN</b>	Research Director The Vienna Institute for International Economic Studies (WIIW)	Oppolzergasse 6 1010 Vienna Austria	<b>Phone :</b> + 43 1 533 66 10 10 <b>Fax :</b> + 43 1 533 66 10 50 <b>Email :</b> landesmann@wiiw.ac.at
<b>University of Perugia</b>			
<b>Ms. Milica UVALIC</b>	Professor Department of Economics, Finance and Statistics University of Perugia	Via Pascoli 20 06123 Perugia Italy	<b>Phone :</b> +39075 5855292 <b>Fax :</b> +39075 5855299 <b>Email :</b> uvalic@unipg.it
<b>United Nations Economic Commission for Europe (UNECE)</b>			
<b>Mr. Artur ANDRYSIAK</b>	Statistician, Economic Statistics Section Statistical Division United Nations Economic Commission for Europe	Palais des Nations 8-14, Avenue de la Paix 1211 Geneva Switzerland	<b>Phone :</b> +41 22 917 4113 <b>Fax :</b> +41 22 917 0040 <b>Email :</b> artur.andrysiak@unece.org
<b>Ms. Vitalija GAUCAITE WITTICH</b>	Economic Affairs Officer Statistical Division United Nations Economic Commission for Europe	Palais des Nations 8-14, Avenue de la Paix 1211 Geneva 10 Switzerland	<b>Phone :</b> + 41 22 917 1462 <b>Fax :</b> + 41 22 917 01 23 <b>Email :</b> vitalija.gaucaite@unece.org <b>Web Site :</b> www.unece.org
<b>Mr. Robert NOWAK</b>	Economic Affairs Officer Transport Division United Nations Economic Commission for Europe	Palais des Nations 8-14, Avenue de la Paix 1211 Geneva 10 Switzerland	<b>Phone :</b> +41 22-917 1267 <b>Fax :</b> +41 22-917 0039 <b>Email :</b> robert.nowak@unece.org
<b>Mr. Robert SHELBURNE</b>	Sr. Economic Affairs Officer Office of the Executive Secretary United Nations Economic Commission for Europe	Palais des Nations 8-14, Avenue de la Paix 1211 Geneva 10 Switzerland	<b>Phone :</b> +41 22 917 2479 <b>Email :</b> robert.shelburne@unece.org

**Development Policy Analysis Division, DESA/Economic Cooperation and  
Integration Division, UNECE  
International Conference  
Geneva UNECE  
April 2-4, 2008**

**Strengthening integration of the economies in transition into the world economy  
through economic diversification**

*Agenda*

**Wednesday, 2 April 2008**

10:00 – 10:45

**Opening session**

*Welcome and introduction*

Marek Belka, Executive Secretary, UNECE

Rob Vos, Director, Development Policy and Analysis Division, UN-DESA

Heiner Flassbeck, Director, Division on Globalisation and Development Strategies,  
UNCTAD

10:45 – 13:00

**Mobilising institutions in support of economic diversification and integration of the  
economies in transition into the world economy**

Chair: Rob Vos, UN-DESA

Institutions and diversification of the economies in transition: policy challenges

*Paul Hare, Heriot-Watt University, Edinburgh*

The Role of institutions for diversifying the economy in the Russian Federation

*Rostislav Kokorev, Ministry of Economic Development and Trade of the Russian  
Federation*

Explaining the performance of firms and countries: what role does the business  
environment play?

*Simon Commander, EBRD and London Business School; Jan Svejnar, University  
of Michigan; Katrin Tinn, Stockholm School of Economics*

Discussant: *Michael Ellman, University of Amsterdam*

General discussion

The impact of the EU enlargement and neighbourhood policies in integrating economies in transition

*Vladimir Gligorov, The Vienna Institute for International Economic Studies (WIIW)*

The economic impact of 2004 enlargement of the EU

*Mr. Maurice Guyader, European Commission*

13:00 – 15:00

### **Lunch**

15:00 – 15:50

### **Round table 1: Coordinating the efforts of international and domestic institutions**

Moderator: Milica Uvalic, University of Perugia

*Kseniia Liapina, Member of Parliament (Ukraine)*

*Oleg Solntsev, Center for Macroeconomic Analysis and Short-term Forecasting, Moscow (Russian Federation)*

*Dragana Zoric, Serbia Investment and Export Promotion Agency (Serbia)*

General discussion

15:50 – 18:00

### **Migration and remittances: policies in support of economic diversification and their impact on development**

Chair: Michael Ellman, University of Amsterdam

Remittances in the SEE and the CIS: levels, trends, and determinants

*Robert C. Shelburne, UNECE*

Statistical issues in estimating remittances in SEE and the CIS

*Artur Andrysiak, UNECE*

The effective use of remittances in promoting economic development

*Gloria Moreno-Fontes Chammartin, International Migration Programme, ILO*

### **Round table 2: Mobilising the efforts of international institutions; Policies to channel remittances into investment**

Moderator: Robert Shelburne, UNECE

Hayk Mirzoyan, *Department of Regional Economic Development, Ministry of Trade and Economic Development (Armenia)*

Gloria Moreno-Fontes Chammartine, *International Migration Programme, ILO*

Mamuka Tsikhelashvili, *International Economic, Cultural and Humanitarian Relations Department, Ministry of Foreign Affairs (Georgia)*

Zamira Xhepa, *Trade Policy Department, Ministry of Economy, Trade and Energy (Albania)*

General discussion

## **Evening: Cocktail reception**

### **Thursday, 3 April 2008**

10:00 – 11:30

#### **International trade and economic diversification: the policy challenge**

Chair: Joerg Mayer, UNCTAD

Trade, investments and development in the Balkans

*Vladimir Gligorov, The Vienna Institute for International Economic Studies (WIIW)*

Discussant: *Vitalija Gaucaite Wittich, UNECE*

Trade patterns and policies in the economies in transition

*Michael Landesmann, The Vienna Institute for International Economic Studies (WIIW)*

Discussant: *Robert Shelburne, UNECE*

General discussion

11:30 – 13:00

#### **Market access for the economies in transition and multilateral trade liberalisation: how much and how fast?**

Chair: Saul Estrin, London School of Economics

The process of WTO accession and the stumbling blocks in SEE and the CIS

*Zdenek Drabek, WTO*

Regional cooperation in the CIS

*Gulnur Rakhmatulina, Kazakhstan Institute for Strategic Studies, Kazakhstan*

**Round table 3: Key issues in multilateral trade liberalisation of economies in transition**

Moderator: Rumen Dobrinsky, UNECE

Sergey Afontsev, *Institute for World Economy and International Relations (The Russian Federation)*

Zdenek Drabek, *WTO*

Tatyana Starchenko, *Deputy Minister, Ministry of Economy (Belarus)*

Bojana Todorovic, *Assistant Minister, Ministry for Regional and Multilateral Economic and Trade Cooperation (Republic of Serbia)*

General discussion

13:00 – 15:00

**Lunch**

15:00 – 15:30

**Round table 4: Export promotion initiatives and the role of the UN system**

Moderator: Jose Palacin, UNECE

Sergey Afontsev, *Institute for World Economy and International Relations (The Russian Federation)*

Henry Jackelen, *United Nations Resident Coordinator and UNDP Resident Representative in Bulgaria*

Mamuka Tsikhelashvili, *International Economic, Cultural and Humanitarian Relations Department, Ministry of Foreign Affairs (Georgia)*

General discussion

15:30 – 18:00

**Enhancing economic diversification through foreign direct investments**

Chair: Milica Uvalic, University of Perugia

Patterns of inward FDI in economies in transition, 1991 - 2006  
*Kalman Kalotay, UNCTAD*

Foreign direct investment in transition economies: strengthening the gains through diversification

*Saul Estrin, London School of Economics; Klaus Meyer, University of Bath*

Discussant: *Malinka Koparanova, UN-DESA*

General discussion

**Round table 5: Investment promotion initiatives and their evaluation**

Moderator: Malinka Koparanova, UN-DESA

Sergey Afontsev, *Institute for World Economy and International Relations (The Russian Federation)*

Carlos Griffin, *UNCTAD*

Dmytro Lyapin, *Institute for Competitive Society (Ukraine)*

Gulnur Rakhmatulina, *Institute for Strategic Studies (Republic of Kazakhstan)*

Dragana Zoric, *Serbia Investment and Export Promotion Agency (Serbia)*

General discussion

**Friday, 4 April 2008**

10:00 – 10:30

**Enhancing economic diversification through foreign direct investments (continued from the previous day)**

Chair: Milica Uvalic, University of Perugia

Border crossing facilitation: policy challenges for economies in transition  
*Robert Nowak, UNECE*

General discussion

10:30 – 11:30

**Round table 6: Role of infrastructure, cross-border issues, energy, transport and access to ICT**

Moderator: Ralph Heinrich, UNECE

Rafkat Hasanov, *Public Association “Investment Roundtable of Kyrgyzstan” (Kyrgyzstan)*

Gulnur Rakhmatulina, *Institute for Strategic Studies (Republic of Kazakhstan)*

Andrei Savinykh, *Deputy Permanent Representative, Permanent Mission of the Republic of Belarus to the UN Office at Geneva*

Khojamakhmad Umarov, *Institute of Economic Studies (Tajikistan)*

Erkinjon Yunusov, *Ministry of Foreign Economic Relations & Trade (Uzbekistan)*

General discussion

11:30 – 13:00

## **Economic diversification and modernisation of the CIS: opportunities and policy challenges**

Chair: Sergey Afontsev, Institute for World Economy and International Relations, Moscow

Strategies for economic diversification in the resource-rich countries  
*Rudiger Ahrend, OECD*

Policy challenges faced by low-income CIS economies  
*Marek Dabrowski, CASE- Center for Social and Economic Research*

Discussant: *Max Spoor, Institute of Social Studies, The Hague*

General discussion

13:00 – 15:00

### **Lunch**

15:00-16:30

## **Round table 7: Key development policies, including MDGs, and obstacles of the low-income CIS to diversify their economies**

Moderator: Max Spoor, Institute of Social Studies (Netherlands)

Rafkat Hasanov, *Public Association “Investment Roundtable of Kyrgyzstan” (Kyrgyzstan)*

Hayk Mirzoyan, *Department of Regional Economic Development, Ministry of Trade and Economic Development (Armenia)*

Khojamakhmad Umarov, *Institute of Economic Studies (Tajikistan)*

Zamira Xhepa, *Trade Policy Department, Ministry of Economy, Trade and Energy (Albania)*

Erkinjon Yunusov, *Department of CIS Countries, Ministry of Foreign Economic Relations & Trade (Uzbekistan)*

General discussion

16:30 – 17:45

## **Diversification through knowledge-based development: policy challenges for economies in transition**

Chair: Marek Dabrowski, CASE- Center for Social and Economic Research, Warsaw

Promoting knowledge-based development in transition economies: policy options  
*Rumen Dobrinsky, UNECE*

National diversification strategies based on knowledge based development:  
experiences of CIS countries

*Jose Palacin, UNECE*

Discussant: *Michael Landesmann, The Vienna Institute for International  
Economic Studies (WIIW)*

General discussion

17:45 – 18:00

**Concluding remarks**

Rob Vos, UN-DESA