

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



ROUND TABLE 1

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Round Table 1 - Objectives

Coordinating the efforts of international and domestic institutions to diversify production in the countries with economies in transition

- CIS, Western Balkans
- Institutions that facilitate productive diversification, at national, regional and international level



Round Table 1 - Objectives

- 3 questions:
 - (1) Which institutions are needed to diversify the economy?
 - (2) What support are international institutions providing?
 - (3) What are the strategies to improve these institutions – domestic and international?



(1) Domestic institutions

- Further progress in structural and institutional reforms, also in countries lagging behind (→ convergence)
- Market-enabling reforms, though not second and third-phase reforms (financial sector, competition policy...)
- Productive diversification: through FDI, trade... but *not enough!*



Domestic institutions

Lessons from CEE countries

- Business environment crucial for FDI (*Doing Business* indicators), but
 - Transparency
 - Enforcement of laws (timely judiciary reforms)
- Maintaining competitiveness



Domestic institutions

Promoting further diversification

- Attract FDI in higher value-added sectors (compensating for the outflow of earlier FDI)
- *Major constraint:* shortages of skilled labour (educational mismatches)
- → Investment in human capital – education, R&D, S&T (neglected)



(2) International institutions

- Important role in sustaining diversification (institution-building, trade, finance...)
- UN and its agencies (UNECE)
- EU policies
 - EU Enlargement Policy (Western Balkans)
 - EU Neighbourhood Policy (CIS)
 - Russian Federation – Strategic Partnership



EU – Western Balkans (candidates and potential candidates)

Since 2000 → 2 parallel processes

- *Integration WB-EU* through the SA Process: trade access, SAA → EU membership, financial assistance programmes (CARDS + IPA), adoption of *acquis* in many areas
→ important stimulus to reforms
- *Regional integration*: trade liberalisation & integration among the WB Cs (CEFTA)



EU – CIS

- EU Strategic Partnership with Russia
- EU Neighbourhood Policy – “everything but institutions” (Prodi, 2002)
- Different framework than for the WB, (conditionality, accession prospects...)
- Yet important similarities



EU & neighbourhood – WB and CIS

- Similar objectives (capacity building, trade...) + instruments (Road maps, Action plans, financial & technical assistance...)
- Result? Increasing economic integration (trade, FDI, financial markets, sectoral cooperation, selective adoption of *acquis*)
→ stimulus to reforms, promoting further productive diversification



(3) Future strategies

- Better coordination of international and national policies to promote further economic diversification
- International support policies insufficient, if absorption capacity is not there → reforms of public administration & institutional capacity building
- Better alignment of priorities



Concluding...(wrap up question)

- Are the discussed initiatives for promoting diversification sufficient – are they already contained in the *Monterrey Consensus Financing for Development* document?
- If not, what should be added to the Doha Review document so that the issues raised here would be properly addressed?
- Concrete recommendations?