



Center for Social and Economic Research

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**Caucasus and Central Asia:
Challenges and Priorities Going
Forward**

**Presentation at the IMF/EBRD/SECO/NBKR Conference on 'The
Caucasus and Central Asia: The Transition Journey and the Road
Ahead', Bishkek, Kyrgyzstan, May 19-21, 2013**

Presentation outline

- Where we are: whether transition is completed?
- Institutions, governance and political system
- Geography and geopolitics: advantages and disadvantages (the role of peace dividend)
- Openness (trade, investment, movement of people and information)
- Social policy and social services priorities
- Model to follow



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Where we are? End of transition?

- Basic transition agenda completed in early 2000s: the largest, fastest and most complex reform episode in contemporary economic history (ca. 15 years)
- In most former communist countries market mechanism coordinates most of production and investment decisions
- Private sector contributes between 60% and 80% of GDP (EBRD, 2010). Exceptions: Turkmenistan (25%), Belarus (30%), Uzbekistan (45%)
- Various levels of market distortions, macroeconomic stability and governance quality
- In contrast to 1990s the decade of 2000s: rapid economic growth, lower inflation, remonetization, high international reserves, better fiscal balances; part of achievements under strain in 2008-2010
- However, since early 2000s stagnation in reforms (EBRD and other rankings) and deterioration in governance (except for GE)

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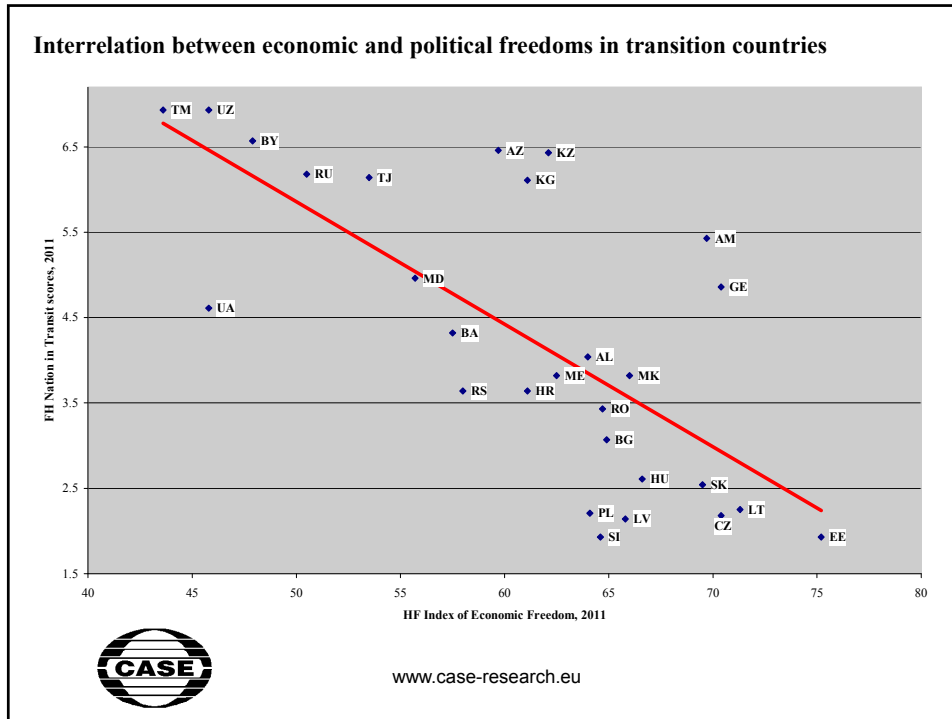


Institutions, governance and political system

- Poor institutional quality and weak state capacity – negative for growth, business climate and social justice. How to improve them?
- Market friendly authoritarianism may help in modernization but limited potential in long-term (KZ, East Asia)
- Mirage of political and economic stability under authoritarian regime
- How to manage political transition: traps of unstable democracy (UA, KG, Egypt)?
- Corruption under authoritarianism and democracy

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Geography and geopolitics

- Disadvantages: remote and landlocked region, underdeveloped transport networks, closed borders (hidden or open conflicts)
- Potential advantages: resource abundance, growth of well-educated labor resources, world economy's gravity center moving to the East
- The potential of peace dividend; even the most protracted conflicts potentially resolvable (N. Ireland and Serbia-Kosovo relations)



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Openness

- Trade liberalization: WTO accession (AZ, KZ, TJ, UZ, TM), CCA intra-regional trade, stabilization of CIS FTA without pushing towards CU, DCFTA with the EU (and TR), other neighbors
- Better investment climate, full openness to FDI
- Financial openness and its role in increasing quality and availability of financial services
- Free movement of people, open borders, unilateral visa waivers
- Development of ICT, free information movement



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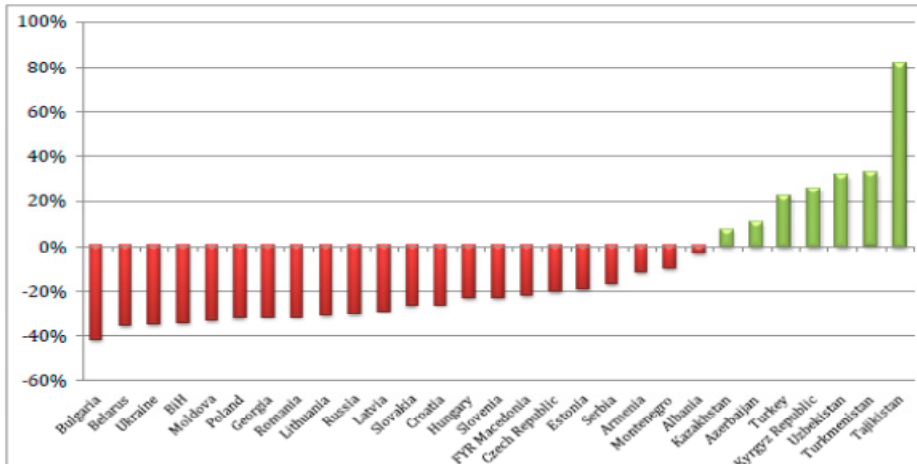
Social policy and social services

- Unlike in Europe and Western CIS (incl. AM and GE) in AZ, KZ, KG, TJ, TM and UZ population continues to grow \Rightarrow population aging slower
- Priorities: education, maternal and child healthcare, employment for youth, eradication of poverty
- SSN – better addressed and more selective
- So far pension reforms in KZ and KG only; in other countries – traditional PAYG systems



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Change in labor force, 2010-2050, in %

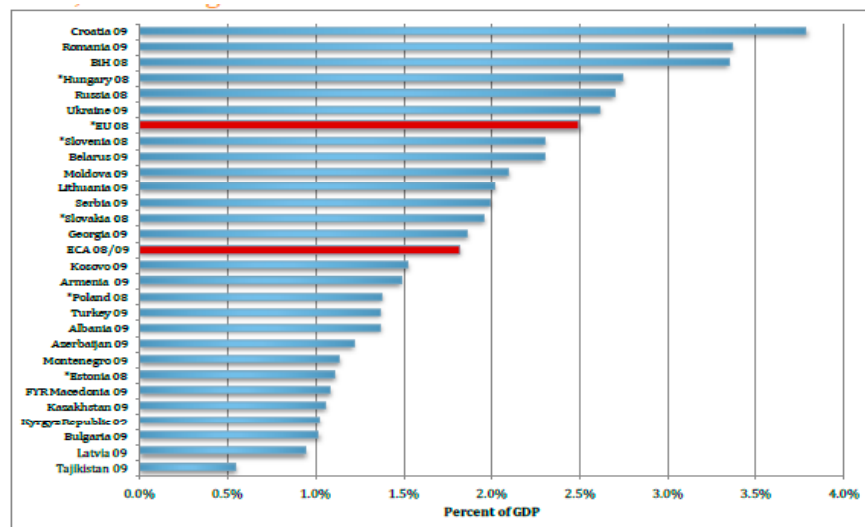


Williams, P. et al. (2012): *Social Safety Nets in Europe and Central Asia: Preparing for Crisis, Adapting to Demographic Change, and Promoting Employability*, The World Bank

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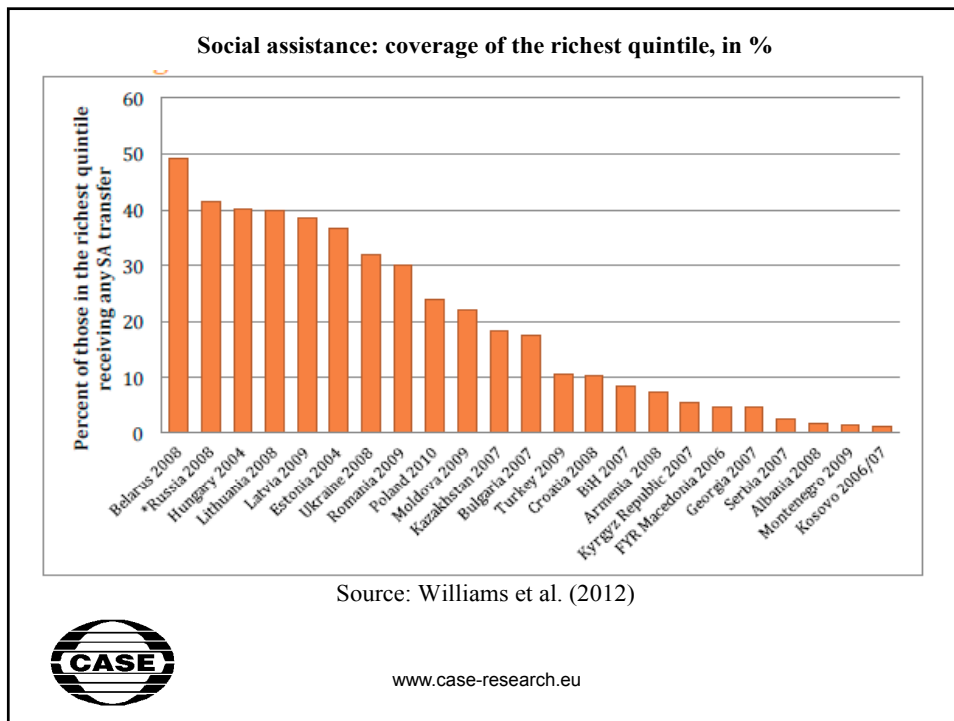
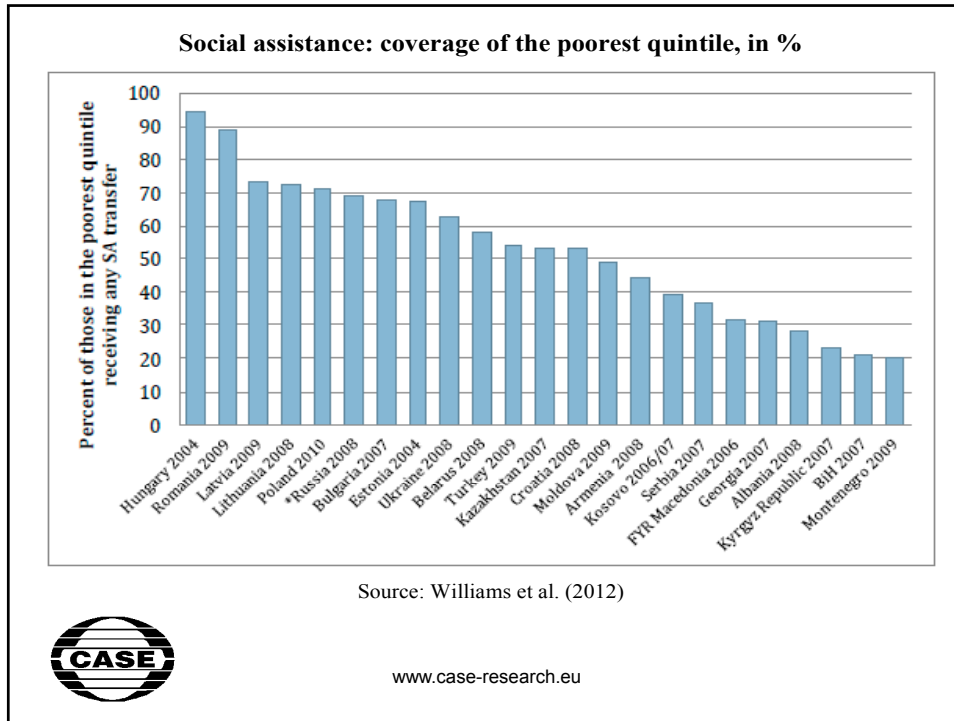
Public expenditure on social assistance (in cash form), % of GDP



Source: Williams et al. (2012)

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Any explicit model to follow?

- Country experiences are not easily transferable: what works in country A will not necessarily work in B
- In CCA – no obvious external institutional anchor; in Caucasus some importance of EU *acquis* (ENP, EaP)
- Nevertheless learning others' experience (good and bad practices) gives chance to move in right direction
- Import of institutions - important but not automatic (selection of right model and its adaptation to local conditions)



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