



EXPERTS' MEETING

PARTNERSHIP FOR DEVELOPMENT WITH CAUCASUS AND CENTRAL ASIA: TRADE AND INVESTMENT INTERLINKAGES



BACKGROUND NOTE & DRAFT AGENDA

**16, February 2004,
OECD Istanbul Centre for Private Sector Development
Istanbul, Turkey
OECD, 2 rue André-Pascal, 75016 Paris, France**

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EXPERT MEETING ON THE ANALYSIS OF TRADE AND INVESTMENT INTER-LINKAGES FOR THE COUNTRIES OF THE CAUCASUS AND CENTRAL ASIA IN THEIR FURTHER INTEGRATION INTO THE WORLD ECONOMY

With initial focus on Azerbaijan, Kazakhstan and Uzbekistan

Introduction

1. The Caucasus and Central Asian former Soviet Republics are interesting cases of countries that have yet to complete their transition from being poor and developing to being developed market economies. As pointed out in a recent Development Centre paper, “[the countries in question] have each chosen a different path towards development and towards transition, particularly in their political regimes. Moreover, they represent a counter current in the sense that, whereas, elsewhere, regionalism and regional alliances are seen as key to efficient participation in the world economy, these five countries are becoming more differentiated in a context of intra-regional tension.”¹
2. Twelve years after independence, former Soviet Union Caucasus and Central Asia Republics still face the daunting task of completing their full transition to democracy and open markets, the two pillars upon which OECD countries work. Completing this transition requires building a functioning market mechanism, underpinned by solid democratic institutions and transparent legal and regulatory frameworks. Economic growth can help achieving a smooth transition. Soon after independence and the beginning of large-scale reforms, these countries experienced a dramatic drop in GDP levels that was reversed only at the middle of the decade, when sustained growth was eventually achieved (see Annex, Figure 1). Still, growth in the region does not have a secure base. This is due to the presence of several common constraints: heavy dependency on a few export items, mainly mineral or unprocessed agricultural products (see Table 2) whose prices are extremely volatile; heavy indebtedness and remoteness (the Caucasus and Central Asian Republics are all landlocked, with Uzbekistan being a double landlocked country). Integration into the multilateral trading system and increased foreign investment could play a key role in sustaining and raising growth prospects for these countries, and help them to achieve a complete transition.
3. Recognising these constraints, several countries, bilateral donors and multilateral agencies have accelerated their efforts in the region. For instance, the CIS-7 initiative backed by bilateral donors, neighbouring countries and four international financial institutions (Asian Development Bank, EBRD, International Monetary Fund and World Bank Group) is a collaborative international effort to enhance the economic growth and poverty reduction prospects of the lower-income countries of the region.
4. Much remains to be done, however, before a rigorous assessment can be made of the constraints and opportunities facing the countries of the region, in particular with respect to trade and investment. Such an assessment can be made only on the basis of a solid understanding of these countries’ economies. Not only does there exist a large information gap, the national research institutions, which should be the primary source of information and analysis, lack adequate resources. Hence, there is a particular need for country case studies, involving local researchers, to address the information gap and assist donors and their partner countries in formulating their strategies.

¹ R. Pomfret (2003), “Central Asia Since 1991: The Experience of the New Independent States”, OECD Development Centre, *Technical Papers* No. 212.

Purpose of this expert meeting

5. Against this background, the OECD Development Centre and the OECD Directorate for Financial and Enterprise Affairs, in collaboration with the Foreign Investment Advisory Service of the World Bank Group, are jointly organising an informal meeting of national experts from the region to discuss future collaborative work and priorities. The meeting will provide an opportunity for participants from research institutes and the international community to discuss strategies that would facilitate the integration of these countries into the world economy, focussing in particular on trade and investment inter-linkages. This is an area where both the OECD and FIAS have a proven track record in research and policy dialogue and are in a position to assist capacity building efforts in the region.

6. The proposal emerged from discussions between the Development Centre and the Directorate for Financial and Enterprise Affairs on the importance of strengthening OECD activities in the region, building on the work on trade and investment undertaken in the past by the Organisation and exploiting the unique role of the OECD Istanbul Centre for Private Sector Development as central platform for co-operation between the OECD and transition or emerging economies. Relevant OECD work includes the following research projects:

- Incentives-based competition for FDI in Developing Countries²;
- Supply side constraints in trade capacity building³ and best practices for donor's effort in trade capacity building⁴;
- Trade capacity building and WTO accession for transition economies⁵;
- Structural change in transition economies⁶; and
- Maximising the benefits of FDI for development⁷.

7. The objectives of this informal meeting are threefold:

² See for instance C. Oman (2000), *A Study of Competition among Governments to Attract Foreign Direct Investment*, OECD Development Centre Studies, Paris.

³ See for instance F. Bonaglia and K. Fukasaku (2002), *Trading Competitively: Trade Capacity building in Sub-Saharan Africa*, OECD Development Centre Studies, Paris, and "Export Diversification in Low-Income Countries: An International Challenge after Doha", OECD Development Centre *Technical Papers*, No. 209.

⁴ *DAC Guidelines on Strengthening Trade Capacity for Development*, endorsed at the DAC High Level Meeting in 2001.

⁵ See for instance "OECD Expert Meeting on Developing Governmental Analytical Capacities in the Trade Policy Area Proceedings and Implication for Russia", Moscow, June 3 2003" (CCNM/TD(2003)3/FINAL) and Annotated agenda and issues for discussion for the "OECD Expert Meeting on Strategies For Developing Regional and Multilateral Trade in Services in Transition Economies: The Experience of the Baltic States, Russia and South East Europe", Paris, 3-4 December 2003 (CCNM/TD/A(2003)4).

⁶ See for instance R. Pomfret (2002).

⁷ See for instance, *Foreign Direct Investment for Development. Maximising Benefits, Minimising Costs*, OECD (2002), and "Foreign Direct Investment and Development. Where Do We Stand?" Development Centre and Japan Bank for International Cooperation (2002).

- i) To identify the areas for future research and policy dialogue on trade and investment inter-linkages that are of particular interest to the region's governments and non-governmental actors (e.g. business associations), and where the OECD and the FIAS can provide added value;
- ii) To explore the potential for establishing a regional network of experts on these issues with whom the OECD may collaborate in:
 - developing an analytical framework on the interplay between governance, trade, investment, and official assistance; and,
 - raising funds for related research (including case studies) and policy dialogue projects with the clear objective of strengthening capacity building in research institutes in the region;
- iii) To explore the possibility of launching a one or more pilot projects and allocate responsibilities for these undertakings.

Structure of the meeting

8. This one-day event will be held on 16 February 2004 at the OECD Istanbul Centre for Private Sector Development and bring together a delegation from the OECD (Development Centre, Directorate for Financial and Enterprise Affairs, and Trade Directorate), the FIAS, representatives of the main regional research institutes and experts from Central Asia and the Caucasus. The meeting will be structured as follows:

- **Session I** will provide an overview of the key trade and investment opportunities, challenges, constraints and policy priorities for the region as a whole, and for Azerbaijan, Kazakhstan and Uzbekistan in particular.
- **Session II** will react to the initial overview and bring into greater focus each country's perspective, based on three country presentations by local researchers.
- **Session III** will provide participants with an overview on OECD and FIAS activities in the area of trade and investment. The aim is to identify areas for future research and policy dialogue on trade and investment that are of particular interest to these countries.
- **Session IV** will be devoted to open discussion and brainstorming among all parties to explore possible collaborative arrangements, including the establishment of a network of research institutions from the region. Drawing on the previous sessions, it will seek to identify concrete points for future action.

Workshop participants

9. The workshop is of interest for representatives of the following institutions and organisations:

- Research institutes from Azerbaijan, Kazakhstan and Uzbekistan, as well as experts on the region from OECD countries.
- Bilateral and multilateral donors active in the region including, among others, ADB, EBRD, BSEC, as well as other regional co-operation organisations.
- Private sector organisations.

DRAFT AGENDA

Expert Meeting on the Analysis of Trade and Investment Inter-Linkages for the Countries of the Caucasus and Central Asia in their further Integration into the World Economy - with initial focus on Azerbaijan, Kazakhstan and Uzbekistan.

16 February 2004, Istanbul

9.15 – 9.30 Registration at the OECD Istanbul Centre

9.15 – 9.30 Welcome and Brief Opening Remarks

Prof. Louka Katseli, Director, OECD Development Centre

Mr. Engin Göksu, Manager, OECD Centre for Private Sector Development

SESSION I – KEY TRADE AND INVESTMENT CHALLENGES FOR THE ECONOMIES IN THE CAUCASUS AND CENTRAL ASIA

This session will provide an overview of the key challenges and opportunities in the area of trade and investment facing the Caucasus and Central Asia region, and Azerbaijan, Kazakhstan and Uzbekistan in particular. The presentation place these challenges in a broader framework taking into account the regional and multilateral dimension as well as lessons of experience from other economies in transition. It will cover a range of issues relevant to the region including the scope for greater regional economic co-operation, the constraints to investment, export competitiveness and diversification.

Some questions to consider include:

- What are the major economic challenges facing the region and the three countries in particular?
- What are the challenges to increase productivity and diversify exports?
- What are the major achievements and obstacles in terms of trade and investment liberalisation?
- What are the prospects for enhanced regional co-operation? To what extent can the integration into the international trading system contribute to countries' trade and investment development and what are the main problems encountered in ongoing negotiations on WTO accession?

9.30 - 10.00 *Chair:* *Mr. Engin Goksu, Manager, OECD Centre for Private Sector Development.*

Speaker: *Prof. Richard Pomfret, Adelaide University, Australia, and Consultant to the OECD.*

10.00 – 10.30 *Discussion*

10.30 - 10.45 **Coffee and Contact Break**

SESSION II – TRADE AND INVESTMENT INTER-LINKAGES: THE COUNTRIES' PERSPECTIVE

Based on three presentations by local researchers this session will react to the initial overview and bring into greater focus each country's perspective.

Some questions to consider include:

- What are the main concerns of the region as regards enhancing trade and investment opportunities?
- What are the key policy directions to enhance these opportunities currently being considered?
- Do there exist adequate institutional arrangements to implement the policies?
- What is the scope for public-private sector dialogue and private sector involvement in policy design, implementation and review?
- How are the countries of the region reconciling regional and multilateral trade and investment challenges with national development and poverty reduction priorities?

10.45. – 12.15 *Chair:* ***Prof. Louka Katseli, Director, OECD Development Centre***

Speakers: ***Mr Rahim Huseynov, Director, Center of Economic Reforms, Ministry of Economic Development, Azerbaijan (TBC)***

Mrs Meruert Makhmutova, Director, Public Policy Research Center, Kazakhstan.

Mr. Nishanbay Sirajiddinov, Senior Research Coordinator, Centre for Economic Research, Uzbekistan

12.15-12.45 *Discussion*

Lead discussant: Dr. Ilias Alexopoulos, Aegean University, Greece

Prof. Subidey Togan, Bilkent University, Ankara (TBC)

12.45 – 14.15 **Lunch Break (Location TBD)**

SESSION III – OECD AND FIAS ACTIVITIES RELEVANT TO THE REGION

Based on the morning discussion on major challenges facing the countries of the region, this session will provide participants with an overview on OECD and FIAS activities in the area of trade and investment. The aim is to identify areas for future research and policy dialogue on trade, investment, aid and governance inter-linkages that are of particular interest to the region's governments and non governmental actors, and where the OECD and FIAS can provide substantial added value.

14.15. – 15.45 *Chair: TBD*

INVESTMENT

Speakers: **Mr. Charles Oman**, Senior Economist, OECD Development Centre
Mr. Hans Christiansen, Principal Administrator, OECD Directorate for Financial, Fiscal and Enterprise Affairs
Mr. Gokhan Akinci, Project Manager, Middle East and Central Asia FIAS.

TRADE

Speakers: **Ms. Blanka Kalinova**, Principal Administrator, OECD Trade Directorate.
Mr. Federico Bonaglia, Economist, OECD Development Centre

15.45-16.15 *Question and Answers*

16.15-16.30 *Coffee and Contact Break*

SESSION IV – PLENARY DISCUSSION: HOW TO TAKE THIS FORWARD

Open discussion and brainstorming among all parties to develop analytical framework on trade and investment inter-linkages and explore possible collaborative arrangements including the establishment of a network of research institutions within the region.

16.30 – 17.30 *Chairs:* **Mr. Gokhan Akinci and Prof. Louka Katseli**

17.30 – 18.00 **Concluding remarks**

ANNEX

Table 1. Comparative main economic indicators, 2002

	Azerbaijan (Baku)	Armenia (Yerevan)	Georgia (Tbilisi)	Kyrgyzstan (Bishkek)	Kazakhstan (Astana)	Tajikistan (Dushanbe)	Uzbekistan (Tashkent)	Russia (Moscow)	Turkey (Ankara)
Real GDP growth (%)	10.6	12.9	5.4	-0.5	9.5	9.1	4.2	4.3	7.8
GDP (US\$ bn)	6.1	2.4	3.3	1.6	24.4	1.1	9.7	346.6	183.1
GDP per head (US\$)	748	783.9	673.5	325	1,649	173	375	2,413.50	2,605.00
Consumer price inflation (average; %)	2.8	1.1	5.7	2	6	12.2	24.2	15.8	45
Exports of goods fob (US\$ billion)	2.3	0.5	0.6	498	10,066	663	2,510	107.2	39.1
Imports of goods fob (US\$ billion)	-1.8	-0.9	-1	552	7,646	771	2,187	-61	-47.8
Current account balance (US\$ million)	-0.8	-0.1	-0.3	-35	-596	-23	222	32.8	-1.8
Current account balance (% of GDP)	-12.6	-6.2	-7.8	-2.2	-2,438	-2.1	2.3	9.5	-1
External debt (US\$ billion)	1.4	1.1	1.8	1.7	10,081	1.1	4,360	147.2	131.6
Population (million)	7.8	3.3	4.9	5	15	6.2	25	144.5	68.1
Area (thousand square km)	86	29.8	69.7	198	2,700	143	447	17,000	780

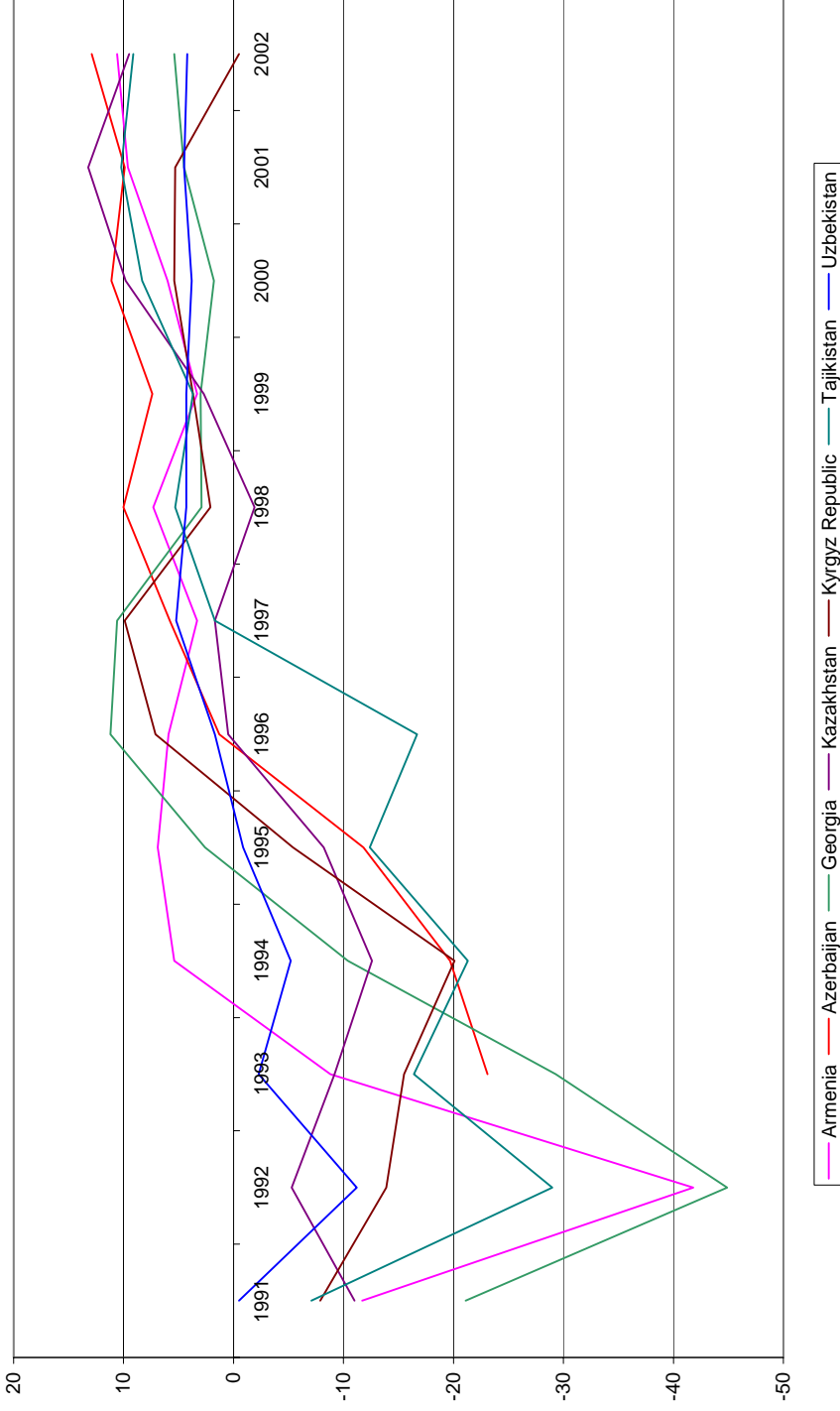
Source : Economist Intelligence Unit, 2003, and CIA, *The World Factbook*, 2003.

Table 2. Comparative major exports, 2001

	Major exports and share in total	Share of top three exports in total export
Armenia	Diamonds (21), alcoholic preparations (15), articles of jewelry (6)	42
Azerbaijan	Crude petroleum (75), petroleum oils (16), machinery parts (1)	92
Georgia	Aircraft (1), Ferrous waste and scrap (10), Wine of fresh grapes (10)	46
Kyrgyzstan	Gold (35), cotton (12), tobacco (11)	58
Kazakhstan	Crude petroleum (37), refined copper (7), ferro alloys (4)	48
Tajikistan	Aluminum (47), cotton (24), cotton fabrics (5)	76
Uzbekistan	Cotton (47), gold (8)	56

Note: Percent of total export between brackets. Source: UN COMTRADE database, 2003.

Figure 1. Annual GDP growth (%)



Source : World Development Indicators 2003, World Bank.