

Measures towards increasing the role of think tanks in development of regional integration in Central Asia and improvement of economic policy-advice

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Dear Chairman, Participants, Ladies and Gentlemen,

As a representative of the Center for Economic Research I will mostly focus on the role of think tanks in development of regional integration in Central Asia and improvement of economic policy-advice. Particularly, this presentation briefly describes CER's approach in this sphere.

Until recent times the Government of Uzbekistan used the currency control as the main instrument of structural reformation of economy. However, existing regime of currency rationing, although allowed managing import volumes and its structure, led to drastic price distortions and hindered export development. One of the negative consequences of the currency control is that it became the main barrier to the inflows of foreign direct investment (FDI), which is far below its potential volumes. Possessing cheap qualified labor force and being abundant with natural resources the country is ranked near the bottom of among CIS countries by FDI inflow per capita indicator. Therefore, for the past two years economic policy is mainly aimed at introducing current account convertibility. In this regard, in summer 2002 the government has further strengthened protectionism measures for import and tightened technical import barriers. The monetary policy was considerably improved accompanied by repeal of centralized credits.

Moreover, the 2003 state budget was financed solely through non-inflationary sources. These measures in combination with considerable devaluation of the national currency allowed securing the unification of exchange rates. Starting October 15, 2003, the Government introduced of the convertibility of national currency on current international accounts.

Improving of investment climate and increasing the inflows of foreign investment during transition period are closely connected with conducting of institutional reform, which assumes drastic decrease of the state's role in the economy, and transition from administrative methods towards market regulating mechanisms, strengthening civil society and mass media freedom, raising transparency and accountability of state bodies to public.

Further deepening of economic reforms, raising living standards and poverty reduction are closely connected with agricultural reform in Uzbekistan. The country has considerable potential in agriculture, and in this regard, attracting of the FDI flows in the sector of agricultural processing could play a role in creation of new job places, income generation, poverty reduction and diversification of economy. However, it requires radical changes in relationships between the government and producers of agricultural products.

Neither agriculture nor other sectors of economy are able to provide a high level competitiveness without access to financial resources and developed financial infrastructure. Therefore, the problems of development of banking sector and raising confidence of private sector and population to banking system remain critical.

Substantial inflow of foreign investment and sustainable economic growth cannot be reached without liberalization of foreign economic activity and regional integration development. It is extremely important to ascertain a condition when foreign investors consider the entire Central Asian market, or even the CIS market as a single object for investing, which presumes development of regional integration. Moreover, taking into consideration geographical position of the Central Asian countries and their high dependence on the transit through neighboring

countries, joint use of water resources, and joint fight against terrorism, uncontrolled drugs and arms circulation strengthen the idea that sustainable economic growth and successful integration of their economies into the world economy mainly depends on the degree of regional integration and cooperation.

Although there are numerous agreements between CIS countries as well as Central Asian countries on development of integration processes, in practice, they are not being effectively implemented so far. Absence of progress in this direction can be explained, on the one hand, existence of a threefold threat posed by drugs, arms and terrorism, on the other hand, differences in political interests of the involved parties, together with absence of effective penalty mechanisms for violating the terms of agreement.

In our opinion, think tanks of the Central Asian countries and establishment of close partnerships and networking between them could and might play a key role in development of regional integration in the region. Time shows that under the current conditions in Central Asia conducting one-dimensional studies on existing problems, development of recommendations and publications of the research outcomes are not sufficient for resolving these problems. It is important to understand that in the period of transition conducting research activities is only one of the instruments of economic policy improvement.

Taking into consideration these circumstances the Center for Economic Research (CER) is aspiring to organize its activities on completely new principles.

First, the temporary research group formed particularly for a particular problem and coordinated by CER conducts research and develops related recommendations. CER provides theoretical and methodological support to this research group, creates environment for the wide-ranging discussion of this issue in the society.

Second, CER on contractual basis involves into research process civil servants who directly participate in designing and implementing of economic policy on the issue studied. This approach allows improving qualification of the civil servants, and forms ownership feeling of research outcomes, which at the same time, accelerates the decision-making process.

Third, to ensure participatory approach in development of economic policy it is mandatory in formation of the research group to attract of leading specialists from academia, NGOs and private business. Participatory approach will ensure wider involvement at all levels to discussions in order to utilize best experience, lessons learned, as well as base on innovative approaches in developing sound and relevant policy advises.

Fourth, it is advised to involve journalists and lawyers into research group. It allows not only improving qualifications of journalists and lawyers in the area of economic policy but also widely covering progress of the research in mass media (task of journalists) and developing normative documents for practical realization of research outcomes (task of lawyers).

Fifth, experience shows that it is essential designation of a high rank government official, not lower than Deputy Minister in the sphere of the problem studied, as the head of research group who will be responsible for both organization of research and introduction of research outcomes into practice.

Experience demonstrates that during the period when society is in the process of transition from administrative system of governance to market economy, and civil society is still weak, introduction of such a mechanism considerably improves not only efficiency of think tank's efforts but also economic policy. It should be noted that our Center is proud of making significant contribution to such spheres of economic policy as SME and ICT development, institutional reforms, adoption of national currency convertibility on current operations and etc.

In our opinion, it would be reasonable to increase the role of the Central Asian think tanks in studies of issues that have regional importance, including problems of regional integration and

preparation of related recommendations, as well as enhancing their efforts through conducting joint research activities and round table discussions, investigating and developing common approaches to resolution of problems. In this sense, it is important to ensure broad participation of all strata of civil society in the process of conducting joint research, discussions and development of recommendations. International donor organizations could play an important role in implementation of this concept.

It is obvious that direct engagement of international development agencies in policy-making process in transition and developing countries at times faces various obstacles, and an indigenous mediator trusted by both sides could play a very useful role in facilitating communication between such agencies and national governments. There is need to increase considerably the role of international organizations in capacity building of think-tank institutions in Central Asia, establishment of productive cooperation between them on conducting of joint research and recommendation development. Organization of international conferences with participation of the high rank policy makers from the Central Asian countries and international experts on problems of the joint research interests and the coordinating role of think tanks could serve as one of the important instruments to accelerate regional cooperation in the region.

It is noteworthy that today international development agencies pay great attention to regional cooperation in Central Asia. For instance, International conference on “Economic Reforms and Foreign Direct Investment in Transition Economies: Lessons Learned and Prospects for Central Asia” organized by CER and UNDP with participation of high rank officials from the Central Asian countries, experts from international development agencies and transition economies in January 2003, Conference of ministers from the Central Asian countries, organized by ADB in December 2003, or forthcoming the UNDP conference in Bishkek and other events are among others prove the above statement.

“The Central Asian Gateway” (<http://www.cagateway.org>) - Internet website on development issues has been developed by the CER in accordance with recommendations received on the above mentioned FDI conference, with the support of the United Nations Development Programme.

Thus various initiatives are taking place, however, the absence of insightful preliminary joint study of the problem, consensus on the problems under consideration and mechanisms on implementation of developed recommendations reduces drastically the efficiency of such efforts. In this point, think tanks of the region could and might fill out these existing gaps.

In order to ensure effectiveness and targetness of policy measures and sustaining their long-term impact, policy recommendations will have to be based not only on scientifically tested hypothesis, but also supported by **pilot projects**. Importance of pilot projects as a viable and reliable tool for supporting policy recommendations is dictated by the need to maintain a policy recommendation with implementation mechanism and actual realization in a country. Pilot projects also provide huge opportunity for empirical analysis and impact assessment for each policy recommendation.

Regional economic integration is important but not the only factor of improving investment climate, increasing the inflows of FDI and accelerating of the Central Asian economies' integration into the world economy. One of the most important factors is improvement of economic policy, increase of its stability, transparency and predictability.

However, the government decision-taking mechanism in Uzbekistan still remains nontransparent resulting in poor quality and effectiveness of the above mentioned analysis. Civil non-governmental organizations (NGOs) often do not have opportunity to participate in the decision making process and preparing resolutions of public importance. Solution of this problem lies on creation of a new system of transparent interactions between the government and citizens. It is necessary to form a new mechanism of compulsory consultation provided to public administration bodies by civil based organizations and juridical persons during the decision-making process, as well as to create a system of public expertise for discussion of the government directives. Think tanks could play more active role in resolution of this problem. Thus nowadays the transformation

of think tanks into the “nodes”, which would play as a bridge between the government and civil society and facilitate accommodation representatives of all society strata for discussion and making contributions to the decisions made by the government, becomes important issue.

At the end of my presentation, I would like to emphasize that, hopefully, the above-mentioned instruments and approaches would be useful for the think tanks of the region in their activities and help linking their efforts in developing of effective and targeted policy measures and recommendations in the sphere of accelerating regional integration, improving of investment climate and FDI attraction in the Central Asian economies.

Thank you for attention.