“Central Asia and the Caucasus: At the Crossroads of Eurasia in the 21st Century”

BOOK LAUNCH AT BROOKINGS
EMERGING MARKETS FORUM AND THE BROOKINGS INSTITUTION

22 JUNE, 2011

WERNER HERMANN AND JOHANNES F. LINN
How did the book come about?

- **Emerging Markets Forum** ([www.emergingmarketsforum.org](http://www.emergingmarketsforum.org))
  - Brings together high-level government and corporate leaders from around the world to engage in dialogue on the key economic, financial and social issues facing emerging market countries

- **Eurasia EMF (2009/2010)**
  - On regional integration and cooperation in Central Asia and the Caucasus (with support of the Swiss authorities)

- **Six Discussion Papers turned into a book**
  - Framing the issues (Linn)
  - The political dimension (Olcott)
  - Trade and transport (Pomfret)
  - Energy (oil and gas) (Olcott)
  - Business environment (de Tray)
  - Impact of the global crisis (Mitra)
  + EMF event summary (Heim) and data annex (Mukherjee)
Other regional challenges (not covered)

- Water and energy (hydro)
- Capital markets and financial integration
- Agricultural development and food security
- Human development
- Threats: environment, climate change, natural disasters
- More threats: drugs, epidemic, conflict

Note: Water and energy, food security and natural disaster risks are covered in UNDP-led CARRA exercise [www.brookings.edu/opinions/2011/0426_central_asia_disaster_linn.aspx](http://www.brookings.edu/opinions/2011/0426_central_asia_disaster_linn.aspx)
Connecting Central Asia and Caucasus to Eurasia and the rest of the world
Central Asia and Caucasus at the hub of Eurasian trans-continental trade and transport

East Asia ↔ EU
1995 = $244 billion
2008 = $795 billion

East Asia ↔ Middle East
1995 = $57 billion
2008 = $454 billion

EU ↔ South Asia
1995 = $34 billion
2008 = $117 billion

Source: ADB
Transcontinental transport and trade corridors are developing – example: CAREC

Source: CAREC
Removing key constraints

- Trade policy – join WTO
- Physical transport infrastructure and quality of services
  - Roads, rail, air
- Border crossings
  - Efficient, integrated border services (example: South East Europe)
- Behind the border business conditions
  - Logistics
  - Business climate
- Monitoring progress
  - Measurement of time and cost along corridors (CAREC)
- It’s essential, but won’t be easy
  - To paraphrase Bill Clinton: “It’s the politics/governance, Stupid!”
## Improving the business climate: the data

<table>
<thead>
<tr>
<th>Country</th>
<th>DB</th>
<th>GCR</th>
<th>CPI</th>
<th>GDP Growth Rate</th>
<th>Net FDI Flows (%GDP)</th>
<th>Manufact., Value Added (%GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Asia</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>63</td>
<td>67</td>
<td>145</td>
<td>10.2</td>
<td>8.5</td>
<td>14.7</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>41</td>
<td>122</td>
<td>166</td>
<td>4.5</td>
<td>3.1</td>
<td>15.3</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>152</td>
<td>122</td>
<td>151</td>
<td>8.7</td>
<td>5.7</td>
<td>27.6</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td></td>
<td></td>
<td>166</td>
<td></td>
<td></td>
<td>5.4</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>150</td>
<td></td>
<td>174</td>
<td>6.0</td>
<td>0.9</td>
<td>9.9</td>
</tr>
<tr>
<td>Comparators</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>122</td>
<td>54</td>
<td>111</td>
<td>5.0</td>
<td>0.2</td>
<td>28.4</td>
</tr>
<tr>
<td>Malaysia</td>
<td>23</td>
<td>24</td>
<td>56</td>
<td>5.6</td>
<td>3.1</td>
<td>29.6</td>
</tr>
<tr>
<td>Philippines</td>
<td>144</td>
<td>87</td>
<td>139</td>
<td>5.1</td>
<td>1.6</td>
<td>22.8</td>
</tr>
<tr>
<td>Vietnam</td>
<td>93</td>
<td>75</td>
<td>120</td>
<td>7.6</td>
<td>4.6</td>
<td>20.4</td>
</tr>
</tbody>
</table>

**Notes:**
- DB - Doing Business (out of 183)
- GCR - Global Competitiveness Report (out of 134)
- CPI - Corruption Perception Index (out of 180)
Business climate data, ctd.

- The data tell a mixed story – some good news and quite a lot bad, esp. on corruption
- Because the countries are differentiated and because the indexes capture different aspects of the story
Improving the business climate: the storyline

- The Growth Commission: the business climate is critical for growth, and it’s doubly critical for small, land-locked countries

- The Central Asia/Caucasus is not hopeless:
  - Rapid growth in the 2000s
  - Connectivity is improving (transport, the Internet)
  - Some improvements in the domestic business climate

- Each country has its own big challenges in improving the business climate, but doing it in tandem will maximize benefits (spillovers)

- Improving record on corruption will be critical

- Key need is to reduce the “credibility deficit” for investors
  - again: “It’s the politics/governance, Stupid!”
Conclusions from the E-EMF

- Start a high-level dialogue with the political leaders of the region.
- Focus on opportunities for cooperation (e.g., common threats, such as disasters, food security)
- Include important players in neighboring countries
- Build resilience into macroeconomic policies
- International partners need to stay engaged and keep a long-term time horizon
- Consider cultural, historical and political dimensions