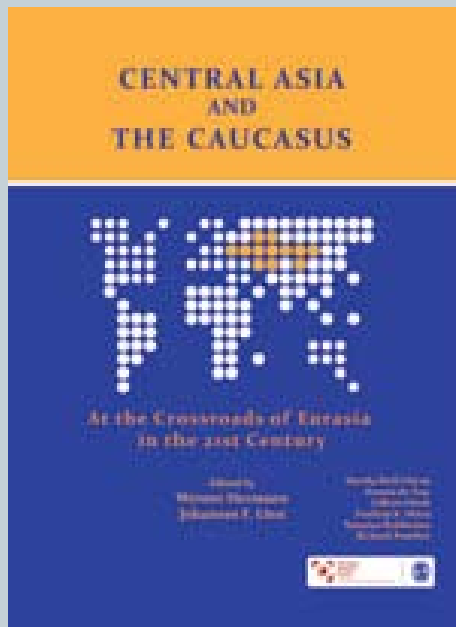


“Central Asia and the Caucasus: At the Crossroads of Eurasia in the 21st Century”



BOOK LAUNCH AT BROOKINGS

**EMERGING MARKETS FORUM AND
THE BROOKINGS INSTITUTION**

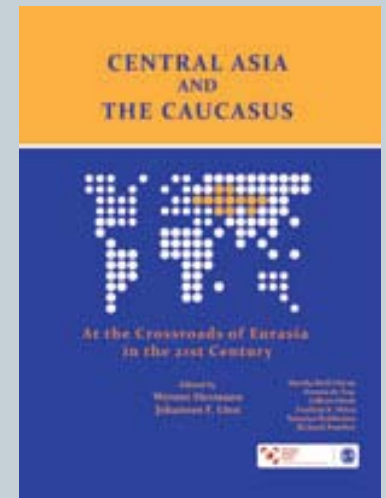
22 JUNE, 2011

**WERNER HERMANN AND
JOHANNES F. LINN**

How did the book come about?

2

- **Emerging Markets Forum** (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)

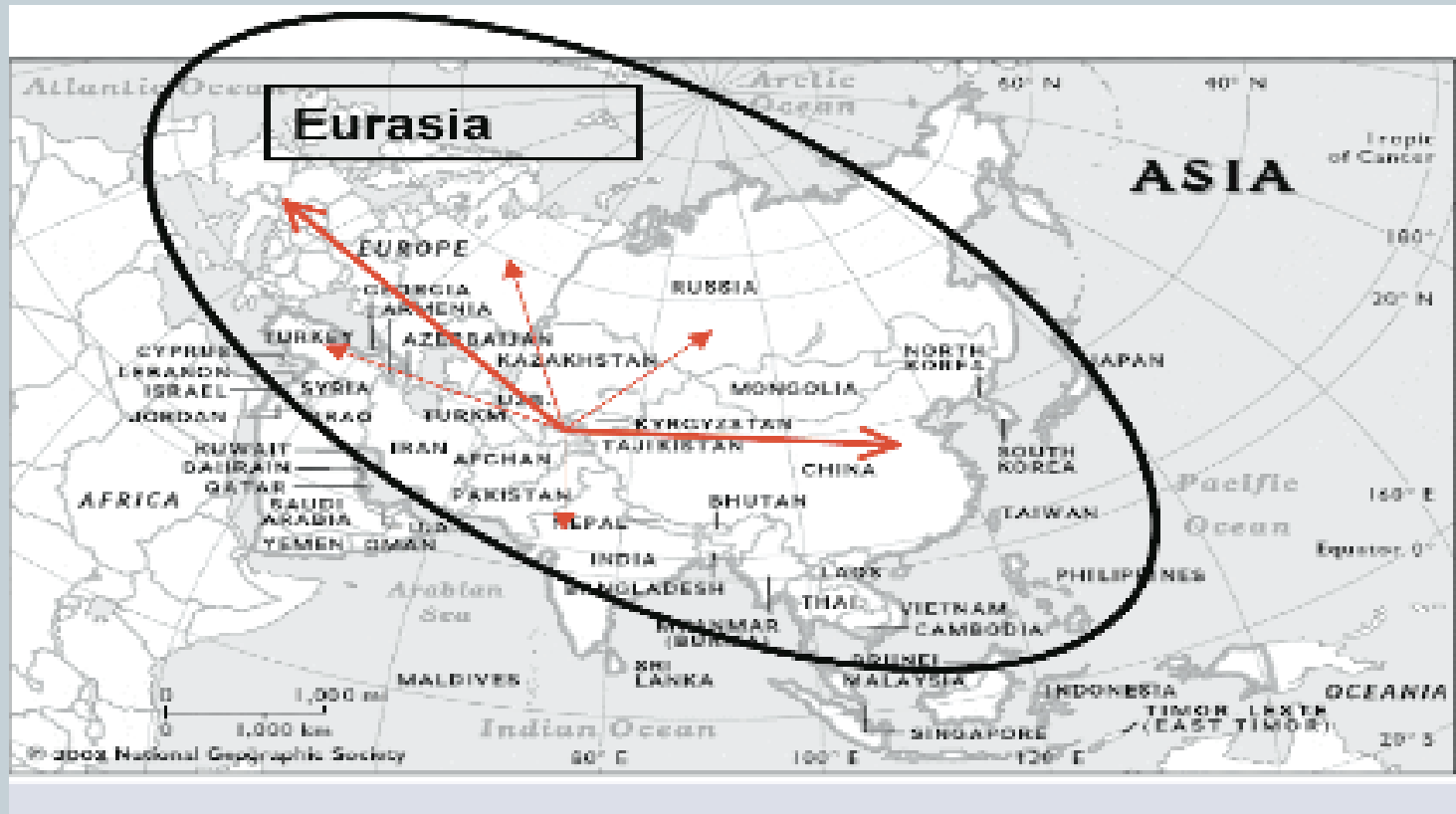
3

- 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

Connecting Central Asia and Caucasus to Eurasia and the rest of the world

4



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

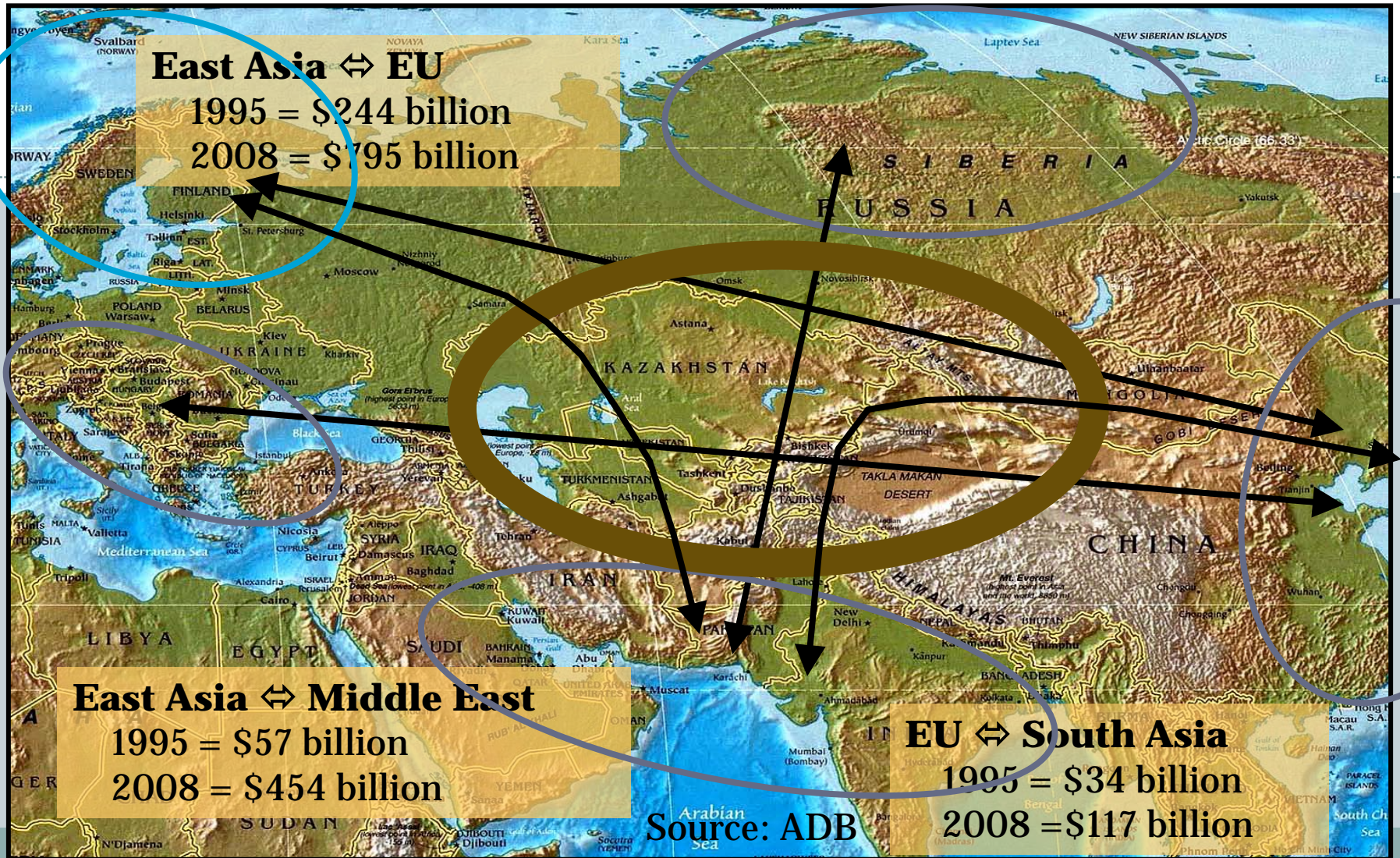
2008 = \$454 billion

EU ⇌ South Asia

1995 = \$34 billion

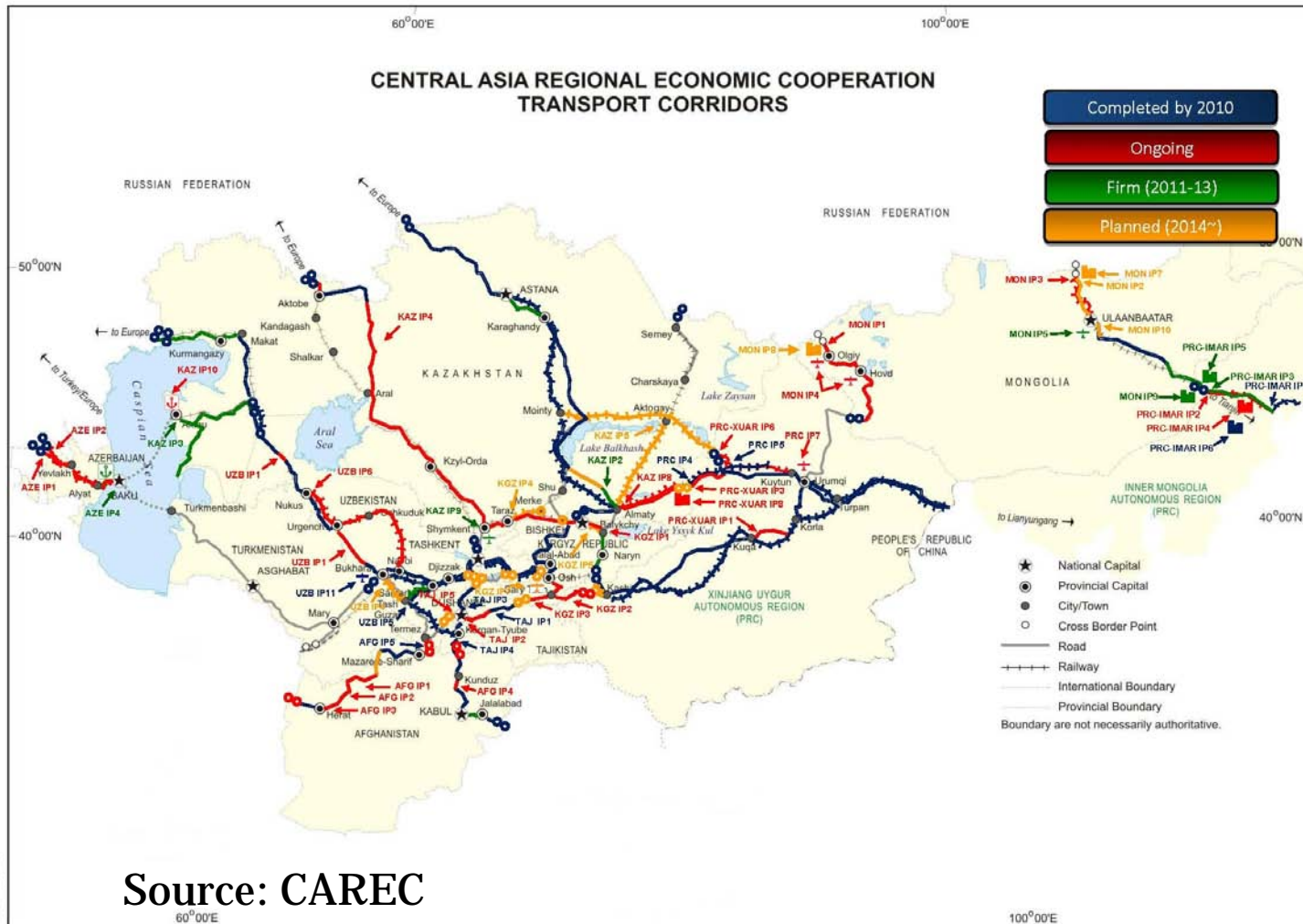
2008 = \$117 billion

Source: ADB



Transcontinental transport and trade corridors are developing – example: CAREC

6



Removing key constraints

7

- 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

8

	2009			2000-2007 Averages		
	DB	GCR	CPI	GDP Growth Rate	Net FDI Flows (%GDP)	Manufact., Value Added (%GDP)
Central Asia						
Kazakhstan	63	67	145	10.2	8.5	14.7
Kyrgyz Republic	41	122	166	4.5	3.1	15.3
Tajikistan	152	122	151	8.7	5.7	27.6
Turkmenistan	-	-	166	-	5.4	10.1
Uzbekistan	150	-	174	6.0	0.9	9.9
Comparators						
Indonesia	122	54	111	5.0	0.2	28.4
Malaysia	23	24	56	5.6	3.1	29.6
Philippines	144	87	139	5.1	1.6	22.8
Vietnam	93	75	120	7.6	4.8	20.4

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.

9

	2009			2000-2007 Averages		
	DB	GCR	CPI	GDP Growth Rate	Net FDI Inflows (%GDP)	Indust., Value Added (%GDP)
Armenia	43	97	120	11.75	5.53	39.25
Azerbaijan	38	51	143	17.37	13.80	56.35
Georgia	11	90	86	7.56	8.52	24.57
Mongolia	60	117	120	6.48	7.03	29.51

- 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

10

- **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

11

- 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