

Economic Trends and Prospects

Trends

Before independence, the CARs were a unified market and were integrated into the production and trading network of the Soviet economic system. All borders were completely porous. Their employment, income, and social indicators were broadly middle-income; poverty was virtually unknown. All this changed abruptly with independence. National borders and import controls converted these countries into small, segmented market economies with limited growth potential. Intra-regional trade declined by nearly 50% from 1992–2002, export earnings were disrupted, and incomes declined precipitously.

At the time of independence, the CARs faced a quadruple transition: (i) from centrally planned to market economies, (ii) towards pluralist democracies, (iii) from Soviet republics to sovereign nations, and (iv) from closed economies with extensive public ownership to integration with world markets and an increasing role for private enterprise. There was a broad consensus on the direction and content of the structural reforms required to successfully manage this multiple transition though there were differences across countries in the pace of reform and in the role of the state.

The economic performance of the CARs since independence falls into three distinct phases. The period 1991–1995 saw a sharp decline in gross domestic product (GDP) and all related indicators. The years 1996–1998 brought mild recovery and the consolidation of policy reforms. Robust recovery began in 1999.

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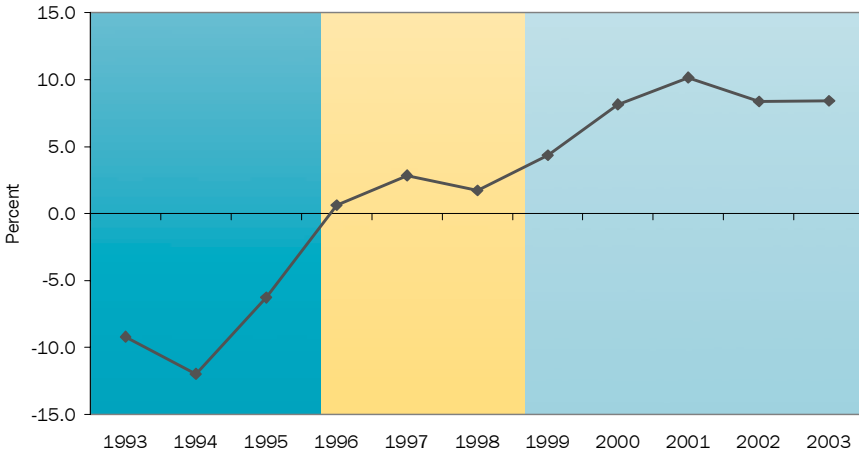
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From 1992–1995, the GDP at constant prices declined every year for every CAR with overall declines averaging 9.1% annually.³ The average per capita income in all CARs had dropped by more than 30% by the end of 1995 resulting in absolute poverty. The sharp GDP decline; the emergence of new border controls; trade and transit restrictions; and rising mutual mistrust due to border restrictions, territorial claims, and unsettled financial claims stifled efforts at regional cooperation.

During the second phase (1996-98), the region experienced a mild recovery though average GDP growth of only 1.7% per year implied near stagnation in per capita incomes given annual population growth of 1%. The Kyrgyz Republic was unable to pay for necessary energy imports and Tajikistan had to rely on emergency imports during the civil conflict, so both countries accumulated large, unsustainable external debts during this period.

The third and ongoing phase (since 1999) has seen a sustained recovery that has been reinforced by the continued boom in the PRC, an upturn in the Russian economy, and a marked rise in international commodity prices. The region’s average GDP growth for this period

Figure 1: GDP Growth in Central Asia 1993–2003



Source: World Development Indicators Online, August 2004.

was 7.9% while Russia's was 5.9%. By 2002, Kazakhstan had recovered its pre-independence GDP level, GDPs in the Kyrgyz Republic and Tajikistan were still below the 1991 levels (by 20% and 30% respectively), and those for Uzbekistan and Turkmenistan were somewhat higher (by 12% and 34% respectively). Azerbaijan's GDP at the end of 2003 was 93% of its pre-independence level. Currently, the total GDP of the six is about \$56 billion.

Even with the declines since independence, the average per capita incomes of the three major hydrocarbon exporters (Azerbaijan, Kazakhstan, and Turkmenistan) at the end of 2003 were \$1,285, substantially higher than those of low-income countries globally. On the other hand, the average per capita incomes of the three non-hydrocarbon exporters at the end of 2003, (Kyrgyz Republic, Tajikistan, and Uzbekistan) were \$389 which is below the average in South Asia (\$460) and in sub-Saharan Africa (\$450).

The external debt situation in the Kyrgyz Republic and Tajikistan remained precarious until the end of 2001 when its present value as a percentage of GDP was 112.6% and 103% respectively. There has been some relief in the last 2 years, but debt-servicing requirements are a binding constraint on capital formation and growth in both countries and have adverse impacts on regional projects because the governments cannot contribute the necessary resources.

In the PRC, the 1978 economic reforms and the open door policy have made substantial changes in the structure of the economy. GDP has increased by more than 9% per annum. Sustained, rapid economic growth has improved the living standards of the vast majority of the population and has reduced poverty. The PRC is becoming increasingly integrated into the world economy. Its external trade increased more than 30-fold from 1978 to 2003, and it has become the world's fourth largest trading nation and the world's largest recipient of foreign direct investment (FDI).

Mongolia suffered a decline in national output of only about 20.3% between 1991 and 1993. This was perhaps

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due to foreign aid and to the fact there were no major disruptions in its exports of copper and cashmere. The GDP recovered subsequently and grew steadily by 2.3–4.0% from 1994–2003 except in 2000 and 2001 when it fell to about 1% due to harsh winters and a decline in world copper and cashmere prices. Per capita incomes have risen over the years and were estimated at \$457 at the end of 2003, but income distribution has worsened. Unemployment is high and is concentrated in the younger population. As a result, the poverty that emerged during the initial transition years has remained unchanged at about 36%. Moreover, the economy remains critically dependent upon climatic conditions and commodity exports that are vulnerable to volatility in world prices. Nevertheless, after more than a decade of transition and despite the external and climatic shocks, Mongolia could be said to have achieved reasonable political and economic stability.

Prospects

GDP in the hydrocarbon-exporting CARs is projected to grow at 8.1% per year from 2002–2015 according to data from the International Monetary Fund (IMF). This is associated with investments of about 30% of GDP made possible by oil and gas sales. Progress in poverty reduction is forecast to be relatively impressive with a decrease of more than 50% in the poverty ratio during the same period. This is based on the assumption that growth will not be fully inclusive: the rate of reduction of the poverty ratio will be lower than the rate of increase in per capita income as suggested by the experience of Kazakhstan from 1995–2001. Poverty could be further reduced if economic cooperation leads to more inclusive growth.

The non-hydrocarbon exporting countries have modest prospects for growth and poverty reduction. GDP growth is projected to be 4.1% per year. Assuming that the relationship between growth and poverty reduction will be similar to that of the Kyrgyz Republic from 1998–2001 (the only country in the group for which time-series data are available), the poverty ratio for this group is projected to decline by 35% from 2002–2015.

Because of the hydrocarbon-rich countries, regional GDP growth from 2002–2015 is projected to be an impressive 7.3% per year, but this will yield a reduction in the poverty ratio of only 41%. Assuming that this somewhat optimistic growth rate can be realized, the main challenge lies in making it more inclusive among and within countries and in creating positive growth in the non-hydrocarbon exporters.

XUAR is at the forefront of economic cooperation in CAREC. The GDP at the end of 2002 was reported at 159.8 billion yuan or \$ 17.94 billion. The rate of growth was in line with the overall economic growth in the PRC at more than 8% annually pushing per capita incomes to 8072 yuan (\$972) in 2002. It has become a major producer of grain, cotton, and other cash crops. The province's industrial strength is based on its vast hydrocarbon reserves that were exploited after 1955 and now attract significant FDI. The industrial structure has become quite diversified as a result of the policy of making XUAR into one of the country's largest petrochemical bases which in turn has spurred the growth of related industries since the mid-1990s. Infrastructure is well developed with 3361 kilometers of railway lines connecting XUAR with the rest of the PRC, with Almaty in Kazakhstan, and with cities in the Russian Federation. The province reportedly has a road network of 80,900 kilometers of which 428 are expressways. The total value of foreign trade was \$2.7 billion in 2002 with manufactured goods accounting for more than 70% of exports largely destined for Central Asian and Russian markets.

The Mongolian government's medium-term strategy targets poverty reduction through higher rates of economic growth by strengthening macroeconomic, financial, and banking stability; by generating employment; by expanding domestic industries and exports; and by improving social service delivery. It is expected that from 2004–2007 an average GDP growth of about 7% will be achieved provided world copper, gold, and cashmere prices do not plummet and weather conditions are normal.

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SECOND MINISTERIAL CONFERENCE ON
CENTRAL ASIA ECONOMIC COOPERATION



ВТОРАЯ МИНИСТЕРСКАЯ КОНФЕРЕНЦИЯ
ПО ЭКОНОМИЧЕСКОМУ СОТРУДНИЧЕСТВУ
В ЦЕНТРАЛЬНОЙ АЗИИ

Leaders work together at the Second Ministerial Conference in Tashkent, 11–12 November 2003.