

Searching for a Development Model in Central and West Asia

Structural Transformation and Regional Integration

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Some constraints

Geographic:

- Most are landlocked (Landlocked countries trade 0.59% less)

Economic:

- Most depend on a few commodities
 - Lack of export sophistication
 - Lack of export diversification
 - Low regional integration
 - Deficient infrastructure
- Lack of structural transformation

Political:

- Many are transition economies

Policy making

Soften constraints to:

Grow



Structural
transformation

Create
Employment



Unemployment
Under-employment

Natural resources & Landlocked Policy matters

Landlocked

Coastal

Higher transport costs → Neighbors matter

Resource
Poor

Worst Case
Switzerland



e.g., Singapore
Italy, Germany

Resource
Rich

Most C&W Asia



Best case
Serve neighbors and open
routes to the sea

Dutch disease

Some things landlocked economies can do

- Increase growth spillovers in neighborhood:
 - Transport infrastructure
 - Trade policy & facilitation
 - Energy policy
 - Regional integration
- Work on neighbors' economic policies

Benefits of neighborhood growth

- Neighbor grows extra 1%, you grow extra 0.4% (good neighbors)
- Landlocked countries: larger spillover, 0.7% (Switzerland)

Trade facilitation (TF)

- Increasing exporter's TF extra 1%, boosts trade extra 5.53%
- Increasing importer's TF extra 1%, boosts trade extra 4.53%
- Decreasing tariffs extra 1%, boosts trade extra 3.65%

TF is a more significant barrier to trade than tariffs

Growth & Structural Transformation

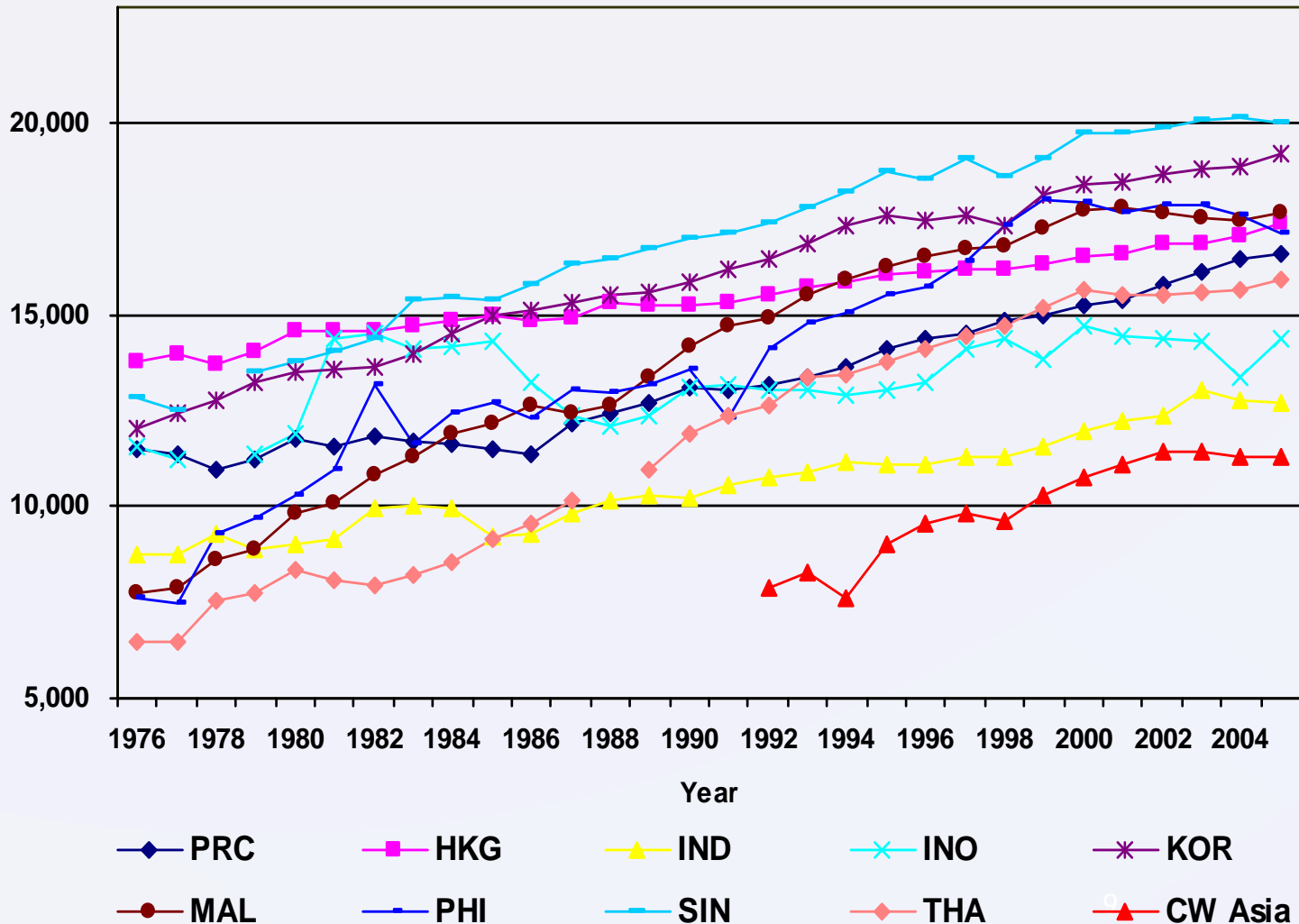
Growth – not “more of the same”

Structural change:

- Transfer resources
- Industrialize
- Upgrade production and exports
- Diversify production

YOU ARE WHAT YOU EXPORT

You are what you export: Sophistication



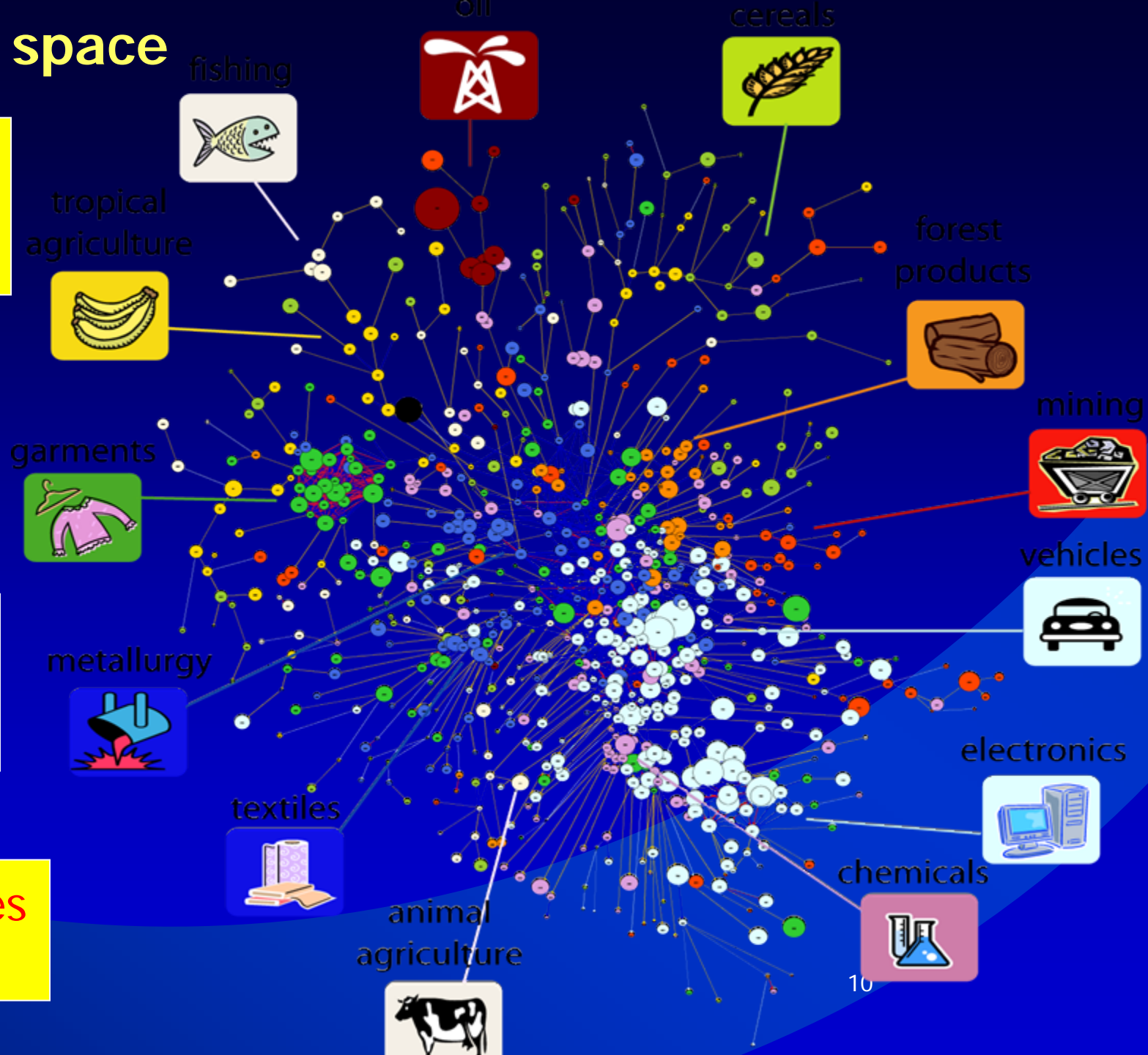
Product space

Periphery
to
center

Very
difficult

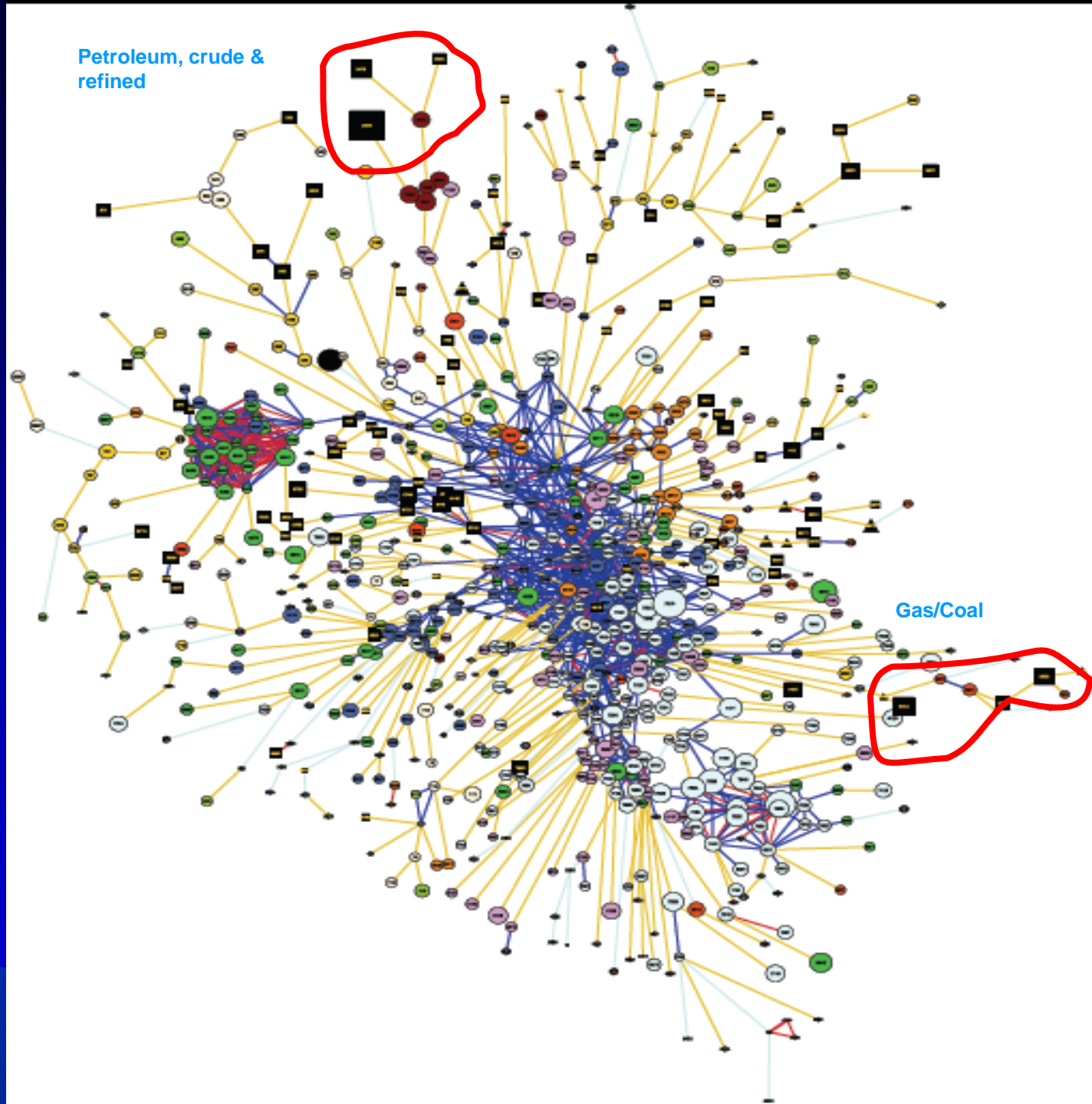
Capabilities

Policy does
matter



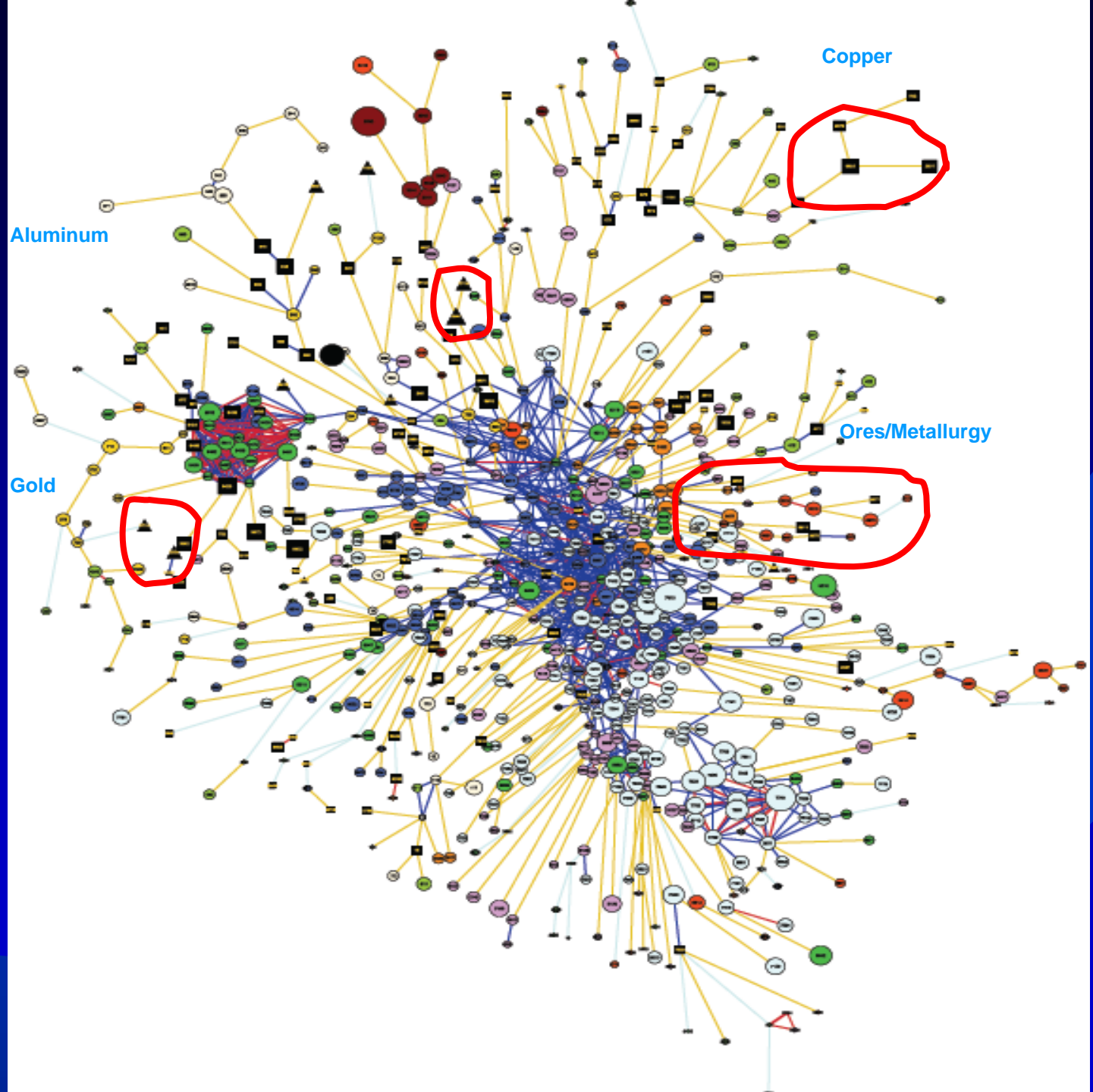
**Azerbaijan
Kazakhstan
Turkmenistan**

**Petroleum,
Gas and Coal**



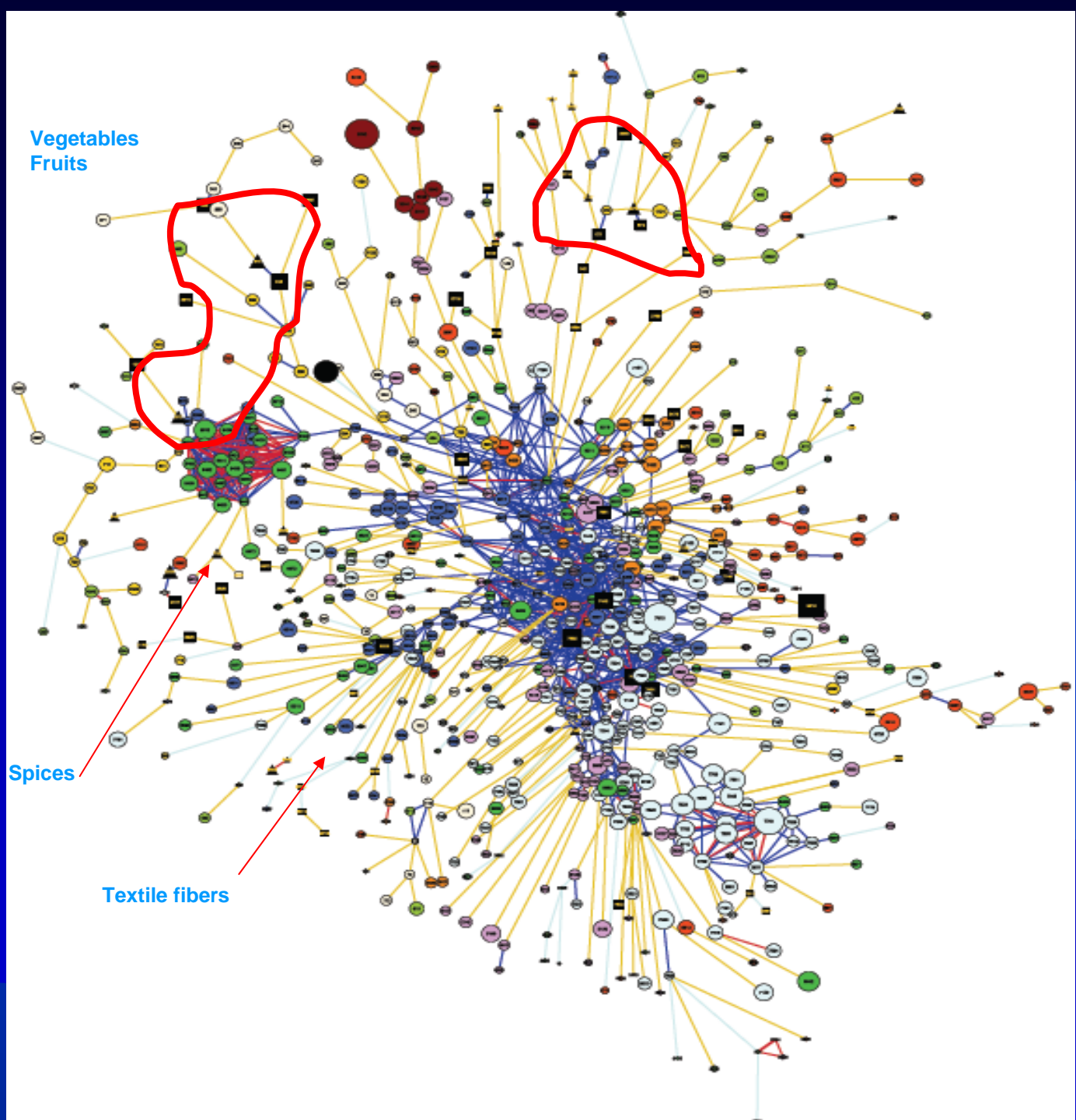
Armenia
Georgia
Kyrgyzstan
Tajikistan

Metal Ores,
Gold,
Metallurgy



Afghanistan

Agriculture

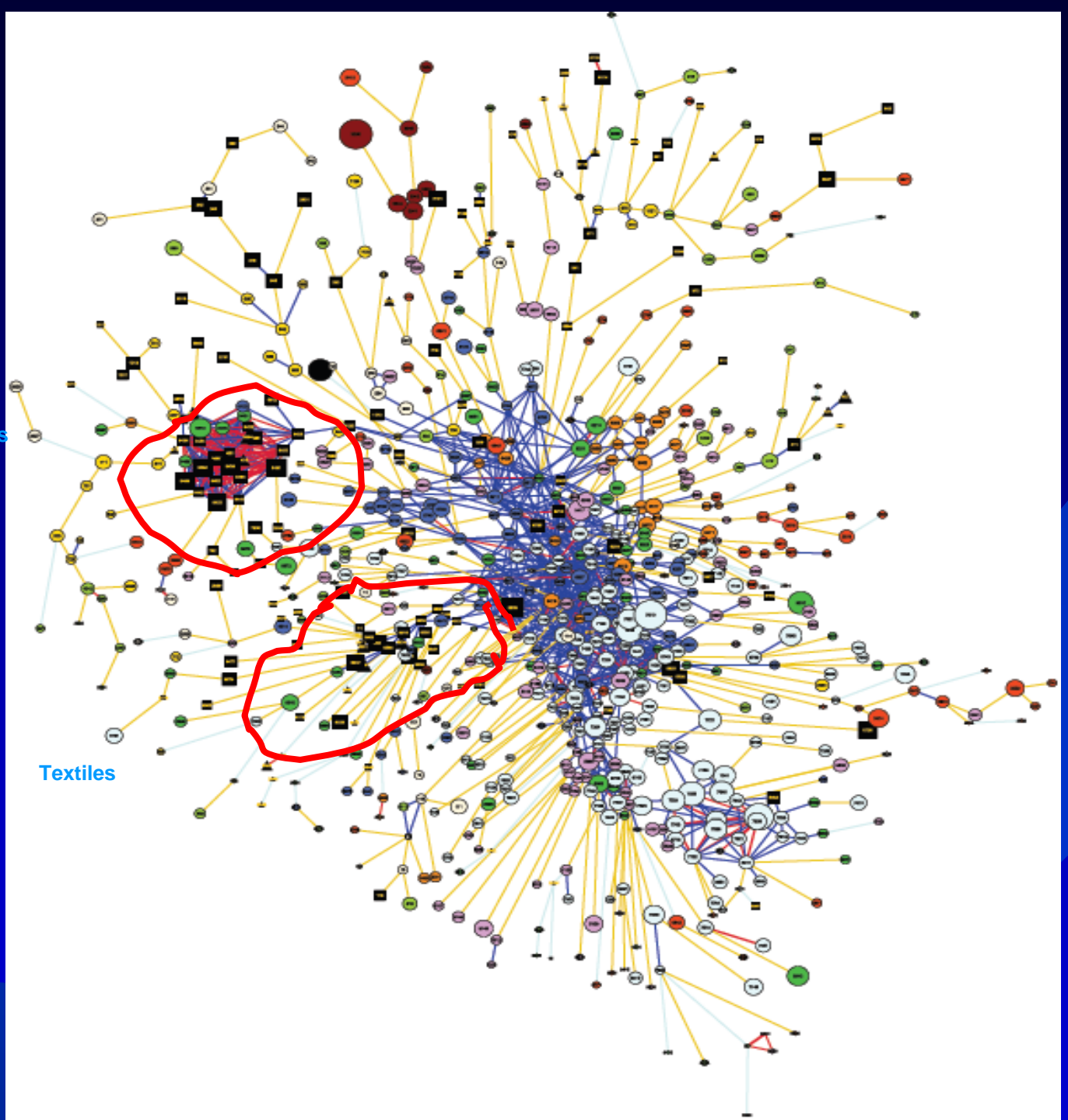


Pakistan

Garments and Textiles

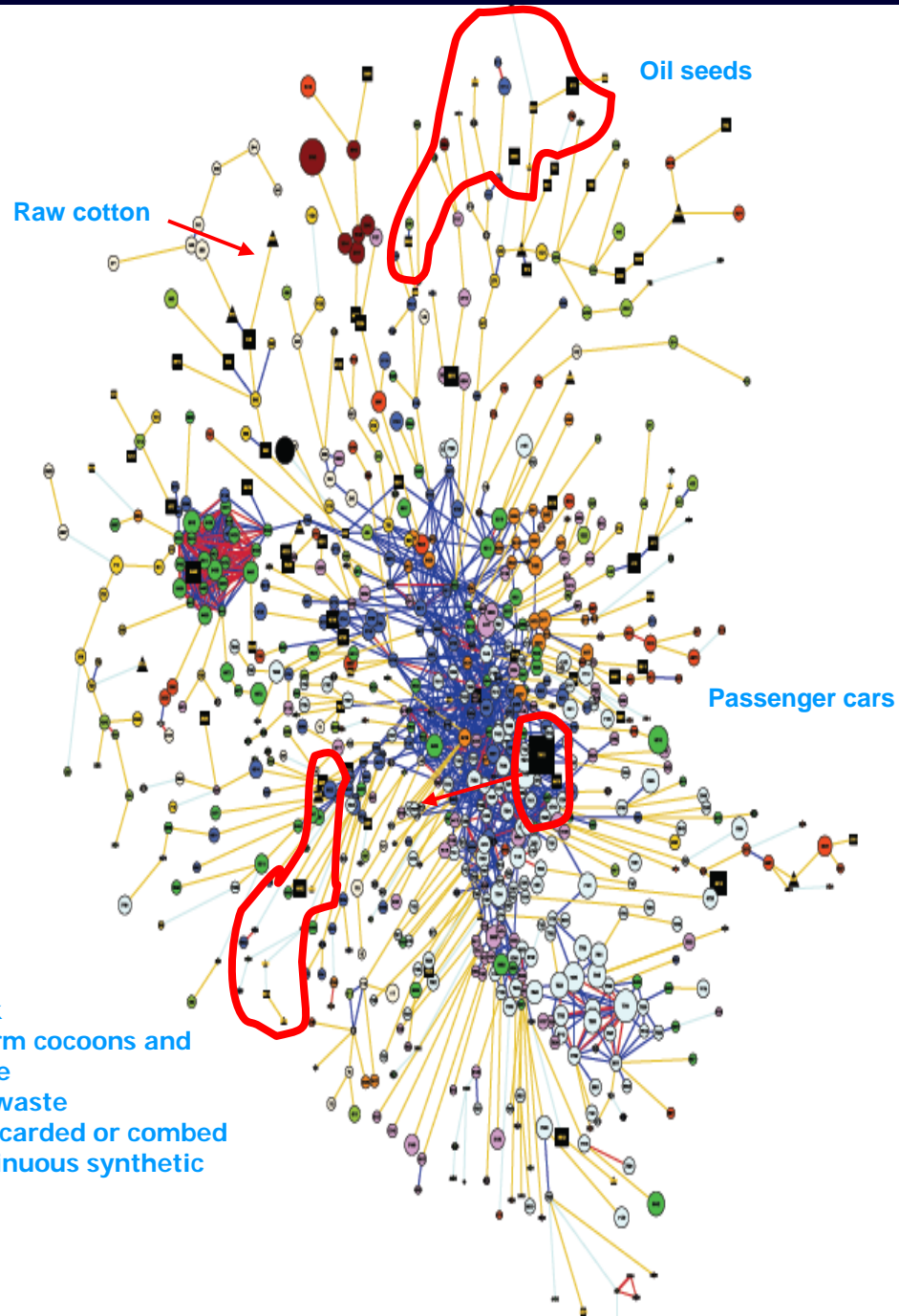
Garments

Textiles



Uzbekistan

Cars,
Crude
Materials
(not metal
ores)



Policy implications

- To get rich, countries need to change what they produce and export
- C&W Asian countries export products located in the periphery of the product space
- Some of these products require very specialized inputs
- Develop capabilities that can be transferred
- Market, alone, will not induce structural transformation

POLICY MATTERS

Country space 2003-2005

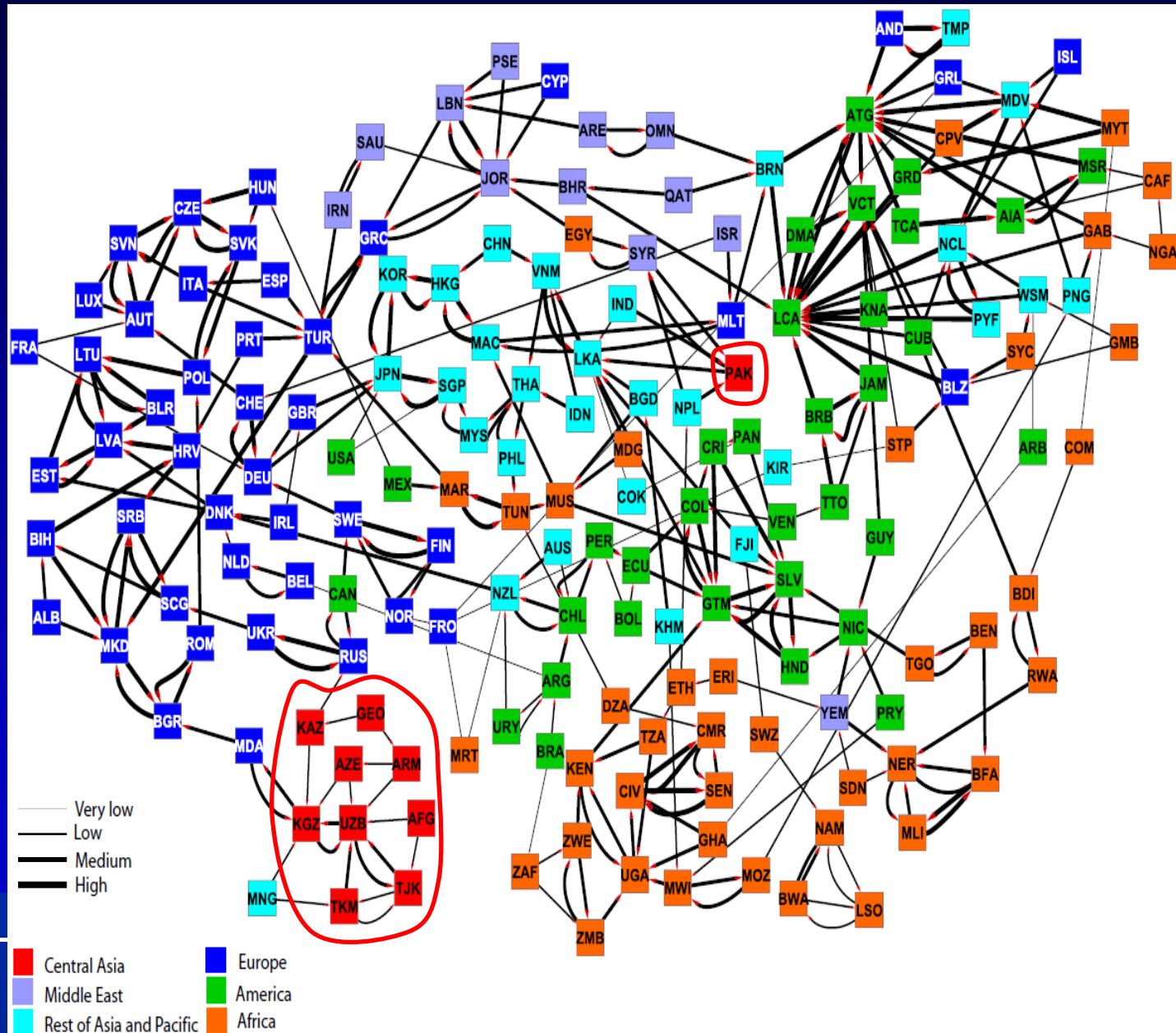
Similar endowments

Scope to increase trade: **regional integration**

Shared border increases trade 1.4%

Same language increases trade 1.13%

Trade in differentiated products and intra-regional trade



Conclusions: New Development Model

- Where in 25 years?; Jobs in what sectors?
- Geographic and economic constraints
- Role of policy: soften constraints
- Structural transformation (growth);
Employment creation (best use of resources)
- Go for regional integration
- Smart policies important

GOOD NEIGHBORS GOOD PARTNERS GOOD PROSPECTS

