

Introduction

Extrême absolute poverty in Central Asian countries was not considered to be a serious problem during the former Soviet Union period.² Guaranteed employment, social safety nets and subsidies from the State provided food and other basic necessities to almost all the population. However, the standards of living in Central Asian republics in general were low as compared with other republics in the former Soviet Union. After the Central Asian countries gained independence in 1991, their transition to market economies resulted in severe economic hardships for most of the population.

Many of the economic privileges enjoyed by the people under the former Soviet Union were removed as such privileges appeared to be an obstacle to the transformation process and could not be provided by scarce government resources. The outset of the economic transition was characterized by fully fledged recession and an erosion in living standards in all the Central Asian countries. At the same time, the sharp output declines were aggravated by hyperinflation resulting from price liberalization and the monetization of large fiscal deficits. The drop in output and the resulting high unemployment led to significant increases in poverty levels in the subregion.

Since 1995, however, the Central Asian countries have pursued anti-inflation policies and initiated the implementation of macroeconomic reforms which led to economic recovery and greater price stability. Annual inflation rates fell from their hyper levels during the mid-1990s to relatively modest rates in recent years. The economies of Central Asia also managed to display strong performances in recent years. However, despite a return to positive economic growth rates since 1996, real output in most countries in the region still remained 10-30 per cent below that of 1989. Job opportunities have not grown in parallel as the transition process has yet to create a conducive environment for private sector businesses to emerge.

The main objectives of this paper are to review the poverty situation in selected countries of Central Asia, analyse development policies and

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² The countries included within the scope of the analysis in this paper are Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.

*Poverty is considered
a new phenomenon
in Central Asia*

programmes adopted since independence, identify the remaining challenges and suggest policy options for reducing poverty.

The socio-economic profile of Central Asia

Central Asia still enjoys favourable social indicators

The population of the Central Asian countries stood at 74.5 million in 2003, reflecting an increase from 66.1 million in 1990 owing to high population growth rates. Kazakhstan is the largest country in area and the second most populous. However, the population of Kazakhstan fell from 16.7 million in 1990 to 15.1 million in 2003 owing mainly to the emigration of Russians. The share of Russians in the total population of Kazakhstan fell from about 38 per cent in 1989 to 15 per cent in 2003. The most populous country in the subregion is Uzbekistan with more than 26 million people. The least populous and the smallest country is Armenia (table 1).

Table 1. Geographic and social indicators

	<i>Population (thousands)^a</i>	<i>Surface area (thousands of sq km)</i>	<i>Adult literacy</i>	<i>Life expectancy (at birth)^b</i>	<i>Infant mortality (per 1,000 live births)^b</i>
Armenia	3 799	30	99 ^c	75	30
Azerbaijan	8 117	87	..	65	76
Georgia	5 126	70	..	73	24
Kazakhstan	15 154	2 725	99	62	76
Kyrgyzstan	5 138	200	..	65	52
Tajikistan	6 245	143	99 ^d	67	90
Turkmenistan	4 867	488	..	65	70
Uzbekistan	26 093	447	99	67	55

Source: ESCAP, *ESCAP Population Data Sheet 2004* (ESCAP, Bangkok, 2004); and World Bank, *World Development Indicators 2004* (CD-ROM).

^a 2003.
^b 2002.
^c 2001.
^d 2000.

Natural endowments are a strength for Central Asia

The Central Asian subregion is richly endowed with agricultural, mineral and fuel resources. Reflecting these conditions, the agricultural, industrial and manufacturing sectors account for a sizeable share of GDP. For example, agriculture accounts for over 20 per cent of GDP in Central Asian countries except Azerbaijan and Kazakhstan, reflecting the naturally ideal conditions for agriculture (table 2).

The share of industry and manufacturing in GDP in Azerbaijan, Kazakhstan and Turkmenistan is high, reflecting significant oil and gas deposits as well as large deposits of coal and many rare and precious metals, including gold. Central Asian countries were among the main producers of electric power, some machine building, heavy industry and building

materials in the former Soviet Union. The services sector accounted for more than half of GDP in Georgia, Kazakhstan and Tajikistan in 2002. All the Central Asian countries have highly specialized, trade-dependent economies based largely on natural resources and agricultural production, which account for the bulk of their total exports. In foreign trade, the Central Asian countries were more oriented to inter-republic trade within the former Soviet Union. Trade as a percentage of GDP ranged from 66.5 per cent in Georgia to 130.1 per cent in Tajikistan in 2002.

Table 2. Economic indicators for Central Asian countries

	GDP per capita (current US\$) ^a	Economic sectors (value-added % of GDP) ^b				Trade (% of GDP) ^b
		Agriculture	Industry	Manufacturing	Services	
Armenia	725	26	37	23	37	77
Azerbaijan	887	16	52	20	32	95
Georgia	769	21	23	..	56	67
Kazakhstan	2 001	9	39	16	53	93
Kyrgyzstan	350	39	26	11	35	82
Tajikistan	240	24	24	21	52	130
Turkmenistan	2 266	..	..	..	..	..
Uzbekistan	341	35	22	9	44	72

Source: IMF, *World Economic Outlook Database September 2004*, < <http://www.imf.org/external/pubs/ft/weo/2004/02/data/index.htm> >, 25 October 2004; and World Bank, *World Development Indicators 2004* (CD-ROM).

^a 2003.
^b 2002.

All the Central Asian countries had high birth rates and large families, especially in rural areas, and a resulting low per capita income except in Turkmenistan and Kazakhstan. Reflecting the universal coverage of education under the Soviet Union, the literacy rates remained high at over 99 per cent in most countries in the subregion.

Poverty situation

As mentioned earlier, absolute poverty was not considered a serious issue during the former Soviet Union period. Research documentation from the World Bank and IMF provides some indication of the levels of absolute poverty that prevailed in Central Asian countries prior to independence. The poverty estimates prepared for Central Asian countries for 1988 were based on national poverty lines, which were set around US\$ 2 (in purchasing power parity terms).³ The setting of the poverty line at a somewhat higher level was necessitated by the cooler climate of Central Asian countries, requiring additional expenditure on heating, winter clothing and food. The

Poverty levels rose sharply in the early phase of transition to a market economy

³ For more details, see IMF and World Bank (2002).

results indicate that poverty levels were quite pronounced even in 1988 (table 3). In Tajikistan, the incidence of poverty stood at 59 per cent, followed by Kyrgyzstan (37 per cent), Azerbaijan (33 per cent) and Armenia (18 per cent). Although not too much should be read into the precise magnitudes because of the limitations of the data,⁴ these results show not only that absolute poverty existed in 1988 but also that it was quite significant in some Central Asian countries.

Table 3. Percentage of the population below the national poverty line in selected countries, 1988-2003

	1988	1995	1996	1997	1998	1999	2000	2001	2002	2003
Armenia	18.0	..	54.7	..	55.0	..	..	50.9	..	..
Azerbaijan	33.0	62.0	..	..	..	..	..	49.0	46.7	43.0
Kazakhstan	..	..	34.6	43.0	43.4	34.5	31.8	28.4	24.2	..
Kyrgyzstan	37.0	..	..	51.0	..	64.1	52.0	47.6	44.4	..
Tajikistan	59.0	..	..	..	..	83.0	..	..	..	68.0

Sources: ESCAP, based on IMF and World Bank (2002), and country studies on Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan and Tajikistan prepared for national seminars on strengthening income and employment generation programmes for poverty eradication in Central Asian and Caucasus countries held in the respective countries during April-May 2004.

The incidence of poverty increased rapidly after the Central Asian countries gained independence and embarked on the process of transition to a market economy. During the second half of the 1990s, more work was carried out on estimation of poverty levels in these countries. Further estimates of poverty levels based on national poverty lines are reported in table 3. The incidence of poverty reached 55 per cent in Armenia in 1998, 62 per cent in Azerbaijan in 1995, 43.4 per cent in Kazakhstan in 1998, 64.1 per cent in Kyrgyzstan in 1999 and 83 per cent in Tajikistan in 1999.

Severe contraction of GDP and high inflation contributed to sharp increases in poverty

A number of factors contributed to the steep rise in poverty in Central Asian countries during most of the 1990s. Prominent among those were a severe contraction of GDP, galloping inflation, widespread unemployment and falling real wages and incomes. Gross domestic production fell on average by 2.9 per cent per annum in Uzbekistan and by as much as 15.4 per cent per annum in Georgia during 1991-1996 (table 4), thus dragging a large number of people into poverty. Real output in most countries in the region still remained below the 1989 level. For example, the GDP levels of Georgia and Tajikistan in 2003 were 61 and 52 per cent lower than in 1989, respectively. Turkmenistan and Uzbekistan were the only two countries which managed to raise production in excess of their 1989 GDP levels in

⁴ There was hardly any tradition of monitoring income poverty levels in Central Asian countries. The concept of income poverty is becoming clearer over time in these countries and the estimation of poverty levels is improving. Therefore, strict comparison of poverty results over time and across countries is not advisable.

2001-2002. Meanwhile, average inflation during 1991-1996 ranged from 330 to 3,317 per cent per annum.

Table 4. GDP growth, inflation and human development index in selected countries

	Average annual GDP growth rate		Average annual inflation rate		Human development index		
	1991-1996	1997-2003	1991-1996	1997-2003	1990	1995	2002
Armenia	-10.1	8.0	1 687.6	4.5	0.756	0.709	0.754
Azerbaijan	-12.8	9.4	707.3	0.4	..	..	0.746
Georgia	-15.4	5.3	3 316.6	7.0	..	..	0.739
Kazakhstan	-7.6	6.4	894.1	9.6	0.781	0.738	0.766
Kyrgyzstan	-8.9	4.6	329.5	13.8	..	..	0.701
Russian Federation	-10.0	4.3	543.1	27.7	0.809	0.766	0.795
Tajikistan	-14.2	7.0	807.0	35.0	0.736	0.665	0.671
Turkmenistan	-8.5	13.6	1 468.2	23.7	..	..	0.752
Uzbekistan	-2.9	3.7	536.0	29.5	0.728	0.712	0.709

Sources: ESCAP, based on national sources; IMF, *International Financial Statistics*, vol. LVI, No. 12 (Washington, IMF, December 2003); ADB, *Key Indicators of Developing Asian and Pacific Countries 2003* (Manila, ADB, 2003) and *Asian Development Outlook 2003 Update* (Manila, ADB, 2003); Economist Intelligence Unit, *Country Reports and Country Forecasts*, various issues (London, 2003 and 2004); web site of the CIS Inter-State Statistical Committee, < www.cisstat.com >, 4 February 2004; and UNDP, *Human Development Report 2004* (New York, Oxford University Press, 2004).

Official data on unemployment rates are available for some years only. Generally, the open unemployment rates are reported to be low with the registered unemployment rate in Tajikistan, for example, being around 3 per cent in 2003. A similarly low figure was reported for Kyrgyzstan for 2000 in unemployment rates, Azerbaijan was even less than 2 per cent in recent years. All these figures capture only the registered unemployed, while actual unemployment rates might have been over 10 per cent.⁵ Moreover, the problem of disguised unemployment has been much more serious as a very large number of people are only partially employed. Data on disguised unemployment rates are generally not available; in Kyrgyzstan, the rate stood at around 22 per cent in 1998.

The transition to a market economy was expected to increase income inequality within the countries of Central Asia. However, the observed deterioration in income distribution was very fast and, in some countries, the Gini coefficient doubled its value from the pre-transition level.⁶ In Kyrgyzstan,

Guaranteed employment gave way to serious unemployment problems

Income inequality rose sharply and aggravated the poverty situation

⁵ This impression comes from country studies on Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan and Tajikistan prepared for national seminars on strengthening income and employment generation programmes for poverty eradication in Central Asian and Caucasus countries held in the respective countries during April-May 2004.

⁶ This point has also been raised by ECE in a recent publication. For details, see ECE (2004, pp. 165-167).

for instance, the value of the Gini coefficient increased from 26.0 in 1988 to 53.1 in 1993. It came down to 40.5 in 1997 and the downward trend has continued since then (table 5). In Uzbekistan, the Gini coefficient was 25.0 in 1988 and 45.4 in 1998 but it went down to 27.0 in 2000. The increase in income inequality in Kazakhstan was relatively moderate but Turkmenistan saw the value of its Gini coefficient rise from 26.4 in 1988 to 40.8 in 1998. Despite various problems with the quality of distributional data, it can be concluded broadly that income distribution became much worse in most countries of Central Asia after 1990 although some improvements have been recorded in more recent years. Worsening income inequality coupled with the sharp decline in aggregate output not only aggravated the poverty situation in countries of the region, these developments also had a negative impact on the human development index (table 4).

Table 5. Gini coefficient in selected countries, 1988-2001

	1988	1993	1995	1996	1997	1998	1999	2000	2001
Armenia	..	..	..	44.4	..	37.9	..	..	..
Azerbaijan	..	..	34.7	..	..	..	..	..	36.5
Georgia	..	..	..	37.1	36.1	36.0	38.1	38.9	36.9
Kazakhstan	25.7	32.7	..	35.3	..	..	..	..	31.3
Kyrgyzstan	26.0	53.1	..	..	40.5	36.0	34.6	30.3	29.0
Tajikistan	..	..	..	..	..	34.7	..	..	..
Turkmenistan	26.4	35.8	..	..	..	40.8	..	..	..
Uzbekistan	25.0	33.3	..	..	..	45.4	..	27.0	..

Source: World Bank, Global Poverty Monitoring web site, < <http://www.worldbank.org/research/povmonitor/> > , 14 September 2004.

Poverty levels have started to come down in recent years

As the economies in the region started to recover in the late 1990s, poverty levels started to drop. Along with the implementation of economic reforms have come positive growth and relatively low inflation rates in all Central Asian economies. The latest available poverty data show that all the countries have registered a notable reduction in poverty in recent years (table 3). It appears that the worst is over as far as the poverty situation is concerned.

Difficulties in measuring progress in achieving the Millennium Development Goals

Regarding the achievement of the Millennium Development Goals, there is a need to rethink the time frame for evaluating the progress in these countries. The base year for the Goals is 1990 and these countries had a very good record in terms of many goal indicators at that time. The situation started to get worse after that. Under the Goals, extreme poverty is to be reduced by half in 2015 as compared with 1990. Extreme poverty is defined as the percentage of population with income below the poverty line of one dollar per capita defined in terms of purchasing power

parity.⁷ Data on extreme poverty for these countries are not available for 1990. For some countries, the available data for 1988 show that extreme poverty defined in terms of the one dollar poverty line was non-existent (table 6). Extreme poverty increased only after 1990. Therefore, it is not appropriate to expect a reduction in extreme poverty by one half from the very low levels prevailing prior to 1990. One option would be to move the base year for these countries to a subsequent year when there were higher poverty levels. In this context, there is thus a need for serious debate on how the targets should be interpreted and their progress measured in the case of the countries in Central Asia.

Table 6. Percentage of the population below the one dollar poverty line in selected countries, 1988-2001

	1988	1993	1995	1996	1997	1998	1999	2000	2001
Armenia	..	..	..	7.8	..	12.8	..	..	..
Azerbaijan	..	..	< 2.0	..	..	..	..	..	3.7
Georgia	..	..	..	..	..	..	2.6	..	2.7
Kazakhstan	0.0	1.1	..	1.5	..	..	..	..	0.1
Kyrgyzstan	0.0	23.0	..	..	1.6	..	0.7	2.0	0.9
Tajikistan	..	..	..	..	..	10.3	..	..	..
Turkmenistan	0.0	20.9	..	..	..	12.1	..	..	..
Uzbekistan	0.0	3.3	..	..	..	19.1	..	21.8	..

Source: World Bank, Global Poverty Monitoring web site, < <http://www.worldbank.org/research/povmonitor/>> , 14 September 2004.

Policies and programmes adopted for poverty reduction

The countries in Central Asia, while implementing structural reforms to support the transformation to a market economy since independence, have adopted various measures aimed at poverty reduction. A number of countries in Central Asia⁸ have introduced Poverty Reduction Strategy Papers (PRSPs) as a vehicle for reducing poverty; others have initiated their own policies outside the PRSP process to tackle poverty problems. Strategies for poverty reduction will take centre stage in Central Asia for two reasons. First, poverty in Central Asian countries is the result of structural changes that have taken place in their transition to a market economy system. Secondly, wide disparities could arise in newly established, market-driven economies.

PRSPs could be an efficient vehicle for reducing poverty

⁷ As the cold climate of these countries requires extra spending on food, clothing and heat, a higher poverty line such as two dollars is considered more appropriate. For details of this argument, see World Bank, "The Millennium Development Goals in Europe and Central Asia", available at < [http://Inweb18.worldbank.org/eca/eca.nsf/MDG+Booklet/\\$File/MDGs.pdf](http://Inweb18.worldbank.org/eca/eca.nsf/MDG+Booklet/$File/MDGs.pdf)> , 7 September 2004.

⁸ These include Armenia, Azerbaijan, Georgia, Kyrgyzstan and Tajikistan.

This could disrupt the growth process, thus dragging more people into poverty and making it more difficult to tackle poverty on a sustainable basis.

Rural infrastructure development, capacity-building of the poor and provision of social safety nets gained priority in PRSPs

Of the three main areas of focus under PRSPs,⁹ infrastructure development serves to develop and maintain rural road networks and basic utilities in Kyrgyzstan and Tajikistan. However, improving irrigation systems has received priority attention in Armenia, Azerbaijan and Tajikistan. Meanwhile, Georgia focuses more on establishing rural markets and improving their linkages to urban markets. Agriculture being the dominant sector in all economies in Central Asia, the establishment of distribution networks and storage facilities, land reforms to overcome the small size of land holdings and related productivity losses, and initiatives to increase agricultural productivity to compensate for falling prices will be necessary if such strategies in rural infrastructure development are to make a meaningful contribution to poverty reduction.

Among the capacity-building measures are training of farmers in management practices and agricultural inputs and the provision of technical support in Azerbaijan and Tajikistan. Government support is aimed at encouraging school attendance in Armenia, Azerbaijan, Kyrgyzstan and Tajikistan while microcredit facilities are made available for the poor in Armenia and Kyrgyzstan. Meanwhile, social safety nets have become a major support system especially for the most vulnerable, including the internally displaced people in Azerbaijan and Georgia. Improving efficiency, including through better targeting, would be needed to make such initiatives sustainable. Rehabilitation of institutions for invalids, the elderly and mentally retarded children has also become a major component of social safety nets in Kyrgyzstan and Tajikistan. Meanwhile, food for work programmes in Georgia provide support for idle men and women during off seasons by utilizing their labour for productive purposes.

Policy challenges ahead

The challenges faced by the Central Asian countries in their transition to a market economy and economic development with equitable distribution of the benefits of growth are manifold.

A properly functioning institutional set-up is crucial for sustaining growth

- The Central Asian countries need to continue undertaking broad areas of reform. The agenda includes completing the creation of market structures, developing the private sector, restructuring industries and SMEs to increase job opportunities and accelerating output growth. All these should lead to improved living standards and poverty reduction. In this context, a stable macroeconomic environment with a set of consistent policies geared to accelerating economic growth would be of paramount importance. This

⁹ For a detailed analysis, see ESCAP (2004). PRSPs for Central Asian countries are available at < <http://www.imf.org/> > .

should be supported by an efficient institutional set-up which includes a properly functioning regulatory mechanism.

- Good governance with clear and transparent signals would be required to foster investor confidence, among other stimuli to economic production and trade. Monetary, fiscal and exchange rate policies would play a critical role in growth and development and as such should be appropriately exercised taking account of the lessons learned from the Asian financial crisis.
- As discussed earlier, worsening income inequality coupled with a sharp decline in aggregate output aggravated considerably the poverty situation in countries of Central Asia. Therefore, it is a major challenge for these countries to continue to ensure broad-based progress towards a full market economy and at the same time prevent a deterioration in the distribution of income among various social and economic groups. The economic recovery together with some improvement in income distribution in recent years augurs well for future efforts at poverty reduction.
- As shown by table 5, high economic growth may itself reduce inequality in the medium term. Nevertheless, policies and programmes for broad-based growth should be strengthened on an ongoing basis so that the poor are not left out of the progressive economic restructuring and recovery to come as in many transition economies, including China and Viet Nam. Employment generation and provision of social and basic services, particularly to the poor, including through agricultural extension services and the development of SMEs, should be integral components of such programmes.
- The public sector still plays a major role in Central Asian economies.¹⁰ The growth of the private sector is most visible in the informal sector as the lack of employment opportunities has forced people of working age to become self-employed by starting small businesses for survival. There is a need for rapid development of formal sector activities so as to generate much-needed employment opportunities and economic diversification in a more efficient way.
- Countries in the subregion still face the challenge of how to foster, unleash and sustain entrepreneurship and private sector activities. In these connections, there is a clear need for more effective institutions, policies and basic infrastructure to promote and facilitate building of the private sector. In this regard, a change in

Broad-based growth is important for reducing income disparities

Rapid development of an efficient private sector is needed

¹⁰ Many inefficient public sector firms are kept alive through government budgetary support. While this may be necessary to protect the employment and livelihood of those working in these firms, it makes it hard for new firms trying to gain entry and delays the evolution of competitive firms.

mindset away from a centrally planned economic setting to a more dynamic private sector entrepreneurial setting and understanding that there is a trade-off between heavy public intervention and growth will be critical.

More resources need to be allocated to maintain achievements in human resources development

- During the former Soviet Union period, countries in Central Asia had a good record of human resources development. In particular, educational indicators in terms of literacy rates and school enrolment rates have been comparable to those in developed countries. However, the same cannot be said for the quality of education. Health indicators show considerable deterioration. Infant and child mortality rates increased, for example, in Armenia, Kazakhstan, Turkmenistan and Uzbekistan between 1980 and 2001¹¹ and life expectancy fell in Azerbaijan and Kazakhstan over the same period. A major challenge for these countries, therefore, is to restore and maintain their achievements in human resources development. More financial resources will be needed in the education and health sectors, particularly for rural areas and poor people who have suffered most from the reduction in public expenditure during the early phase of economic transition.

Social support for vulnerable groups should be strengthened

- Investment in human capital is essential not only to transform the private sector into an engine of growth and diversification. It is also necessary as a measure to counter the negative impact on development arising from the migration of educated and skilled people, particularly those of Russian origin, out of Central Asia. Educational reforms with particular emphasis on the needs of the society at large, including those of private enterprises, would play a critical role in this respect. Such initiatives should be accompanied by efforts to foster employment generation, particularly in labour-intensive sectors.
- Development efforts must also go hand in hand with the provision of social support for vulnerable socio-economic groups. The main reform measures implemented so far have included direct social transfers to poor families, targeted social benefits and privileges and the granting of other incentives and payments. However, countries in the region need to adopt comprehensive poverty reduction strategies which focus on growth, equity and social protection, particularly for the rural population.

Sustaining high growth and creating jobs requires economic diversification

- Diversification of the production and trade base of Central Asian countries is another challenging, but essential, policy option to promote growth and generate employment. Most countries are currently heavily dependent on a limited range of products, which in turn exposes them to vulnerability in terms of external price fluctuations. As such, diversification into labour-intensive sectors would be necessary for broad-based growth in employment and

¹¹ ESCAP (2004, p. 251).

income as well as to reduce the high levels of vulnerability to unexpected swings in the price of oil and other primary commodities and to relatively inelastic external demand for these commodities. However, individual countries need to prioritize their sectoral development needs taking account of domestic and external trade-offs.

- The subregional economies have an advantage in power generation, agricultural production and mineral resources extraction. Productivity improvements in those sectors should be considered on a priority basis. The means used could be privatization and the formation of public-private partnerships and community-based programmes.
- The Central Asian subregion is richly endowed with mineral and fuel resources and Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan have significant oil and/or gas deposits. These countries produced more than 7 per cent of crude oil and 18 per cent of gas in the former Soviet Union in 1989. They also have significant deposits of coal and many rare and precious metals, including gold. Appropriate management and exploitation of such resources, in particular oil reserves, will be crucial in securing sustained investment and growth.
- Additionally, a revival of the agricultural sector would be another key to generating employment in Central Asia, where fertile land is abundant. For example, the countries of the subregion accounted for 21 per cent of the total agricultural production of the former Soviet Union in 1989, about equal to their share of the population. Indeed, the cotton, fruit and vegetable production of the former Soviet Union was mainly concentrated in Central Asia. Kazakhstan was one of the main producers of grain and wool in 1989. Productivity improvement and the re-establishment of an extensive distribution network within the subregion would be necessary to exploit the advantageous conditions and economies of scale in agriculture.
- In the above context, poverty reduction strategies would greatly benefit from the formation and strengthening of regional cooperation and cross-border ties. The landlocked nature of Central Asian economies and their abundant natural resources make regional cooperation an effective vehicle for economic development in the subregion. This would enable them to overcome the locational disadvantage of being landlocked, limited internal markets and other bottlenecks to development, and high transport costs.

The strengths of Central Asian countries need to be exploited

Re-establishing/deepening linkages which existed under the former Soviet Union

Conclusions

Poverty has become a serious problem in Central Asian countries

In their transition to market-based economies since independence, Central Asian countries experienced sharp increases in poverty levels due to output contraction, high inflation, increase in income inequality and a deterioration in social services and infrastructure. Annual GDP dropped as much as 50 per cent in some countries following independence, with severe repercussions on poverty and employment. Despite a reversal of asset depletion in most Central Asian economies since 1996 as a result of wide-ranging reforms, the growth in job opportunities has not been adequate and economic gains have yet to be translated into a broad-based improvement in living standards.

Policies as well as regional cooperation to promote growth and reduce poverty need to be strengthened and sustained over the long term

The problems encountered by Central Asian economies are numerous. Adjusting to a market-based system from centrally planned economies is a daunting task in itself. Fundamental changes that are needed to support the operation of a market economy efficiently have not always properly in place in many Central Asian economies. While economic policies have yet to be pursued in a consistent manner, many integral elements of an institutional set-up required for the efficient functioning of markets are still missing. Among other things, it is essential to devise and implement a consistent macroeconomic framework that would support economic growth, particularly with enhanced private sector participation; an institutional mechanism, including a regulatory system, that would ensure the efficient functioning of markets; good governance, including adequate transparency and accountability rules; adequate investment in human capital and measures to increase employment generation, particularly in labour-intensive sectors; and extensive social protection for vulnerable groups. Regional cooperation for better and more sustainable exploitation of the inherent strengths and complementarities of the countries of the subregion is crucial for promoting growth and reducing poverty.

Central Asian countries are receiving technical and financial assistance from various sources regarding the measurement of poverty and the implementation of poverty reduction strategies. However, understanding of poverty implications and issues needs to be enhanced among policy makers and high-level officials, a precondition for the effective and timely design of appropriate policies for poverty reduction. To achieve all this, all stakeholders including international organizations have to enhance their assistance to the subregion and monitor pertinent developments in it on an ongoing basis.

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