



ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC

**Expert group meeting on structural economic transformation
in North and Central Asia****29 April 2019, Almaty, Kazakhstan****REPORT**

Economic growth in North and Central Asia has slowed down in recent years due part to falling commodity prices and their less diversified and relatively small domestic economies. Further growth will require diversification of their economy through continued structural economic transformation, identified as Priority 5 of the Vienna Programme of Action for Landlocked Developing Countries for the Decade 2014-2024.

In 2018, the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) facilitated discussion on structural economic transformation during the Economic Forum of the United Nations Special Programme for the Economies of Central Asia (SPECA). As a result, the Economic Forum recognized that “structural economic transformation is a fundamental condition to implement the 2030 Agenda for Sustainable Development” and called upon ESCAP to provide support to the efforts of the SPECA participating countries in accelerating structural economic transformation.

ESCAP, in response, is developing a holistic framework to support further structural economic transformation so that the countries of North and Central Asia can benefit from better access to consumer markets through improved connectivity, spurred by ongoing regional integration processes.

At the expert group meeting on 29 April 2019 in Almaty, Kazakhstan,¹ experts reviewed a draft publication, which developed the holistic framework on, reviewed the current state of, and proposed policy recommendations for structural economic transformation in this subregion. Consolidating experts’ comments, ESCAP would finalize the publication and launch it in the 2019 SPECA Economic Forum, scheduled in Ashgabat on 21 and 22 November 2019.

CONCLUSIONS AND RECOMMENDATIONS

1. The following conclusions and recommendations were agreed at the expert group meeting on structural economic transformation in North and Central Asia on 29 April 2019 in Almaty, Kazakhstan.

Current state of structural economic transformation in North and Central Asia

2. Structural economic transformation refers to **a shift in sectoral shares of industrial outputs and exports from primary goods, such as agricultural and natural materials, to manufactured products and services**. This involves diversification of products and services, as well as processing of agricultural and natural materials, through innovation, technology adaptation and entrepreneurship. This also entails increased value addition

¹ The programme of the meeting is attached in Annex I and the list of participants in Annex II.

and competitiveness in existing products and services, through product sophistication, quality upgrading, increased productivity, cost reduction and learning-by-doing in external markets with higher technical standards for hygiene, health and safety.

3. In this sense, **structural economic transformation in North and Central Asia is on slow progress**. For the last two decades, the manufacturing share of value added has declined while the extractive sector has expanded. Even though the number of products exported has increased, the export revenue of North and Central Asia still depends on few goods, mainly crude petroleum and natural gas. The process of export sophistication in North and Central Asia is still slow, or even reversed, because of its less integration into the global value chain.

Infrastructure development and trade facilitation

4. **Regional processes to enhance infrastructure and market connectivity are going on at a higher speed and in an unprecedented scale**: the Belt and Road Initiative can improve connectivity in infrastructure between Asia and Europe; the Eurasian Economic Union is creating a single market for the unrestricted movement of goods, people, money and information within its territory; the Shanghai Cooperation Organization can stimulate trade, transport and economic cooperation between North and South Asia given accession of India and Pakistan.
5. However, **the economic structure of North and Central Asia is not ready to adapt to this changing economic landscape**. Exports from this subregion are predominantly natural resources and agricultural goods. Natural gas and oil are traded through established pipelines but to a limited number of countries, where the bargaining power of these countries tends to be restricted. Minerals and agricultural goods tend to be bulky, thus transport costs reduce competitiveness in international market. Main manufactured products of this subregion, such as textiles, are less diverse and value added, and not price competitive. Development of transport and business services is lagging and they cannot compete with international services providers.
6. **Promoting the participation of North and Central Asian countries in the global value chain will help diversify its economic base** through export sophistication by trading to external markets with higher technical standards for hygiene, health and safety, as well as technical spill over from foreign direct investment. Given its geographical and political constraints, North and Central Asia needs to upgrade its physical infrastructure – roads, railways, dry ports, border control facilities and the information and communication technology (ICT) network – and expand it toward South and East Asia. Build on the robust and resilient infrastructure, this subregion also needs to improve its institutional arrangements for trade and transport facilitation, including through upgrading its preferential trade agreements beyond mutual tariff reduction and implementing trade facilitation measures recommended by the international community: e.g. paperless trade.
7. **Further development of transport service sectors is extremely important given increased volume of trading and transportation through this subregion**. High-speed and high-capacity backbone ICT infrastructure is required to offer ubiquitous and durable mobile communication to freight forwarders and truck drivers. Creating dry ports also fosters logistical centres along economic corridors which are now developing under several integration initiatives. This can be done with international standards and practices

under the ESCAP Intergovernmental Agreement on Dry Ports, which half of North and Central Asian countries have yet to sign. Road safety is another area to be considered for fostering safe transportation in this subregion.

8. **Power generation from renewable resources – solar, wind and hydro power – and its export is another way to diversify the export revenue of North and Central Asian countries.** With its rich endowment of renewable resources and the recent technical advancement, North and Central Asia has high potential to export electricity to energy-scarce Asian countries. In this sense, the Central Asia South Asia 1000 project (CASA-1000), which has to connect Afghanistan, Kyrgyzstan, Pakistan and Tajikistan in the 220 kV lines, would open the opportunity to export electricity to South Asia if the line is integrated with the energy link of the South Asia Association for Regional Cooperation (SAARC).
9. **Externality from infrastructure development, including business development and tax revenue increase, should be considered and promoted,** as confirmed by the positive examples of Japan and the Philippines. However, some experts argued that such effects are materialized only when there are demands. Given low-density of population in the subregion and substantive role of the State in the economy, there may be a limited spill over effect from infrastructure. Further studies on whether the effect is applicable to North and Central Asia is required.

Human capital accumulation and development

10. **Human capital accumulation and development is fundamental in harnessing science, technology and innovation for enhanced productivity and quality upgrading, as well as translating it into business opportunities and ideas, toward more economic diversification and higher value addition.** Governments should support the private sector, a primary source of innovation, through policies nurturing entrepreneurship and innovation and enhancing their scientific research and technological capacity by increasing the number of workers and expenditure in R&D, which is currently inadequate in North and Central Asia.
11. **Quality education plays an important role in increasing research workers and entrepreneurs.** In this light, national education system at all levels should be strengthened through upgrading education facilities with access to the Internet, granting scholarship for enrolment in higher education and increasing quality teachers. Especially, preschool education should be developed and granted to all boys and girls in rural and urban areas, given that it has the highest economic return to children's later life. Given that high proportion of their young population has limited opportunities for education, employment or training, North and Central Asian countries need more investment in the system tertiary and vocational education for young people to acquire skills and transversal competencies for employment, decent jobs and entrepreneurship. Women's enrolment into Science, Technology, Engineering and Mathematics (STEM) should also be promoted.
12. **Forming well-functioning labour markets can provide incentives for people's investment in education and skill development, especially among young people.** It involves achieving full and productive employment, reducing the proportion of youth not in employment, education or training and protecting labour rights and promoting safe and secure working environment contributes to markets. At the same time, labour mobility

within and across the borders should be ensured so that people can move from low productivity to high-income sectors based on their own incentives, which in turn promote labour reallocation. Given a high volume of migration in North and Central Asia, orderly, safe and regular migration should be facilitated along with granting labour rights to migrants and lowering barriers in remittance flows. Sustainable urbanization policies should also support international and domestic migrant workers to settle in their destination cities by providing housing and basic services. Provision of social protection can also foster an environment where potential entrepreneurs can take risks and learn from their failures. In this light, social protection system for all and universal health coverage should be considered and promoted.

13. **People's perception on unfairness or exclusion, stemming from inequality in any forms, hinders prospect for upward mobility and acts as a disincentive to invest in education and skill acquisition at the individual level, affecting the aggregate level of productivity and innovation.** Promoting human development and strengthening individual capabilities will help overcome such challenge, accelerating human capital accumulation and ultimately forming more innovative and inclusive society. This can be done through ensuring good health for all through improving water quality, sanitation and hygiene and air quality, as well as preventing mental disease and suicide, alcohol abuse and road traffic injuries; reducing inequality of outcomes and opportunities regardless of gender; promoting the rule of laws and ensuring equal access to justice for all; and reducing corruption and bribery in all their forms.

Further structural economic transformation for sustainable development

14. **Strategy for (sub-)regional industrialization may be a way forward.** Currently, trade within the countries of North and Central Asia is limited due to relative similarity in their structure of the economy and absence of technological specialization. Strategic specialization in selected industries would generate more exchanges of goods and more efficient production through the economies of scale, thus redrawing the balance of powers from that of competition to regional partnership.
15. **The impact of structural economic transformation on social development and climate change to be considered in the publication.** For example, structural transformation would facilitate the reallocation of productive factors and enhance product diversification and sophistication, resulting in higher productivity of the economy as a whole. This would lead to income increase and job creation, eventually reducing poverty. For another example, the electricity trade from Central to South Asia would address energy security, air pollution and greenhouse gas emissions in Asia.
16. **State's intervention is central in structural transformation.** This publication should consider industrial policies, including economic special zones and intellectual property protection, as the main instruments of the State's interventions.
17. Interlinkage among the three pillars of the holistic framework – infrastructure development and trade facilitation, human capital accumulation and development and private sector development – should be deepened.

Annex I. PROGRAMME

Time	Session
08:30 – 09:00	Registration
09:00 – 09:30	Opening Session: <ul style="list-style-type: none"> – Welcome remark by Mr. Nikolay Pomoshchnikov, Officer-in-charge, Subregional Office for North and Central Asia, ESCAP – “Private Financing into infrastructure and Sustainable Growth” by Dr. Naoyuki Yoshino, Dean, Asian Development Bank Institute (video presentation)
09:30 – 11:00	Session 1: Structural economic transformation in Asia and the Pacific Moderator: Mr. Nikolay Pomoshchnikov <ul style="list-style-type: none"> – “Structural economic transformation in Asia and the Pacific: findings and perspectives from ESCAP Countries with Special Needs Development Report 2019” by Mr. Hamza Ali Malik, Director of Macroeconomic Policy and Financing for Development Division, ESCAP – Discussant: Mr. Hans Holzhacker, Associate Director and Regional Lead Economist, European Bank for Reconstruction and Development
11:00 – 11:15	Coffee break
11:15 – 12:15	Session 2: Structural economic transformation in North and Central Asia Moderator: Mr. Hans Holzhacker , EBRD <ul style="list-style-type: none"> – “Trend and current state of structural economic transformation” by Mr. Hiroaki Ogawa, Associate Economic Affairs Officer, ESCAP – Discussant: Mr. Nadeem Naqvi, Professor, KIMEP University – Discussant: Mr. Bakhodur Eshonov, Independent consultant
12:15 – 13:30	Lunch break
13:30 – 15:00	Session 3: Infrastructure development and trade facilitation Moderator: Mr. Nadeem Naqvi <ul style="list-style-type: none"> – “Infrastructure development and trade facilitation toward structural economic transformation” by Mr. Hiroaki Ogawa – Discussant: Ms. Aradhna Aggarwal, Professor, Copenhagen Business School Denmark – Discussant: Mr. Rustem Kurmanguzhin, Associate Professor, Almaty Management University
15:00 – 15:15	Coffee break

15:15 – 16:45	<p>Session 4: Human capital accumulation and development</p> <p>Moderated by Ms. Aradhna Aggarwal</p> <ul style="list-style-type: none"> – “Human capital accumulation and development toward structural economic transformation” by Mr. Osama Rajkhan, Social Affairs Officer, ESCAP – “Gender Balance in the System of Higher Education and transition to Work” by Ms. Gaukar Kenzhegulova, Narxoz University – Presentation on education systems in Central Asia by Ms. Lina Benete, Education Programme Officer, UNESCO
16:45 – 17:00	<p>Closing session</p> <p>Closing remark by Mr. Nikolay Pomoshchnikov, ESCAP</p>

Annex II. LIST OF PARTICIPANTS

EXPERTS

Ms. Aradhna Aggarwal, Professor, Department of International Economics, Government and Business, Copenhagen Business School

Ms. Lina Benete, Chief of Education, Cluster Office for Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan, UNESCO

Mr. Bakhodur Eshonov, Independent consultant

Mr. Hans Holzhacker, Associate Director and Regional Lead Economist, Economics, Policy and Governance Department, European Bank for Reconstruction and Development (EBRD)

Ms. Gaukar Kenzhegulova, Narxoz University

Mr. Rustem Kurmanguzhin, Associate professor, Almaty Management University

Mr. Nadeem Naqvi, Professor and Chair, Department of Economics, College of Social Sciences, KIMEP University

Mr. Naoyuki Yoshino, Dean and CEO of the Asian Development Bank Institute

ESCAP SECRETARIAT

Mr. Hamza Ali Malik, Director, Macroeconomic Policy and Financing for Development Division

Mr. Nikolay Pomoshchnikov, Officer-in-charge and Senior Economic Affairs Officer, Subregional Office for North and Central Asia

Mr. Osama Rajkhan, Social Affairs Officer, Social Development Division

Mr. Ulukbek Usubaliev, Economic Affairs Officer, Macroeconomic Policy and Financing for Development Division

Mr. Hiroaki Ogawa, Associate Economic Affairs Officer, Subregional Office for North and Central Asia

Ms. Natalia Maqsimchuk, Research Assistant, Subregional Office for North and Central Asia