

Executive summary

Central Asia's economies need to diversify

Central Asia has registered **impressive economic growth** since the turn of the millennium. The aggregate gross domestic product (GDP) of Kazakhstan, Kyrgyzstan, Mongolia, Tajikistan, Turkmenistan and Uzbekistan grew at an average annual rate of 7% during 2000-16, despite a sharp slowdown following the drop in global commodity prices in 2014-15. Labour productivity growth averaged almost 5% and poverty rates halved.

Growth has been **driven mainly by exports of minerals and labour**. Their location between Europe and Asia and, in particular, proximity to China allowed Kazakhstan, Mongolia, Turkmenistan and Uzbekistan to benefit from rapidly growing demand for hydrocarbons and metals. Meanwhile, an increasing number of labour migrants to Russia and Kazakhstan generated remittance flows that supported growth and raised living standards in Kyrgyzstan, Tajikistan and, to a lesser extent, Uzbekistan.

The recent slowdown, though, has highlighted **the need for a more sustainable and inclusive growth model**, based on a diversification of economic activity. Successful diversification should bring higher incomes, more jobs and more stable growth.

This requires improvements in governance, connectivity and business environments

In addition to disciplined macroeconomic policies and prudent management of resource revenues, diversification will require reforms in three main areas:

- The Central Asian countries all face important **governance challenges** linked not only to general questions of integrity and government effectiveness but also to the specific challenges that confront largely natural resource-based economies.
- **Better connectivity** is needed to support trade, as diversification will require deeper integration in trade and global value chains. This includes upgrading both transport networks and trade policies to facilitate cross-border flows.
- Stronger, fairer and more reliable **business environments** will favour more entrepreneurship and innovation, as well as encouraging trade and investment.

Access to finance, internationalisation and skills all represent key reform challenges

This report focuses on aspects of the business environment and reflects several years of OECD work with Central Asian countries on access to finance, business internationalisation, and skills. The country-specific case studies that constitute the bulk of this volume suggest that Central Asian governments have an active role to play in addressing co-ordination failures in these areas, by implementing the following measures:

- On **access to finance**: enhance data collection on SMEs, further improve public financial instruments by involving the banking sector more, and implement financial literacy strategies for firms and entrepreneurs.
- On **business internationalisation**: formulate and implement national strategies with sector priorities, including value propositions, improve export promotion and monitor impact, while sustaining a continuous public-private dialogue.
- On **skill gaps**: further stimulate private sector involvement in public-private dialogue on skills and support the implementation of key VET instruments, including national qualification frameworks and workplace training.



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