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Globalization and interdependence: integration of the economies in transition into the world economy

Integration of the economies in transition into the world economy**

Report of the Secretary-General

Summary

The present report is an overview of the progress in integrating economies in transition into the world economy during the period 2004-2005. It examines the advances made in integration through the main channels — trade in goods and services, capital flows and labour migration. Particular attention is paid to the role that the enlargement of the European Union has played in the progress of some countries. Advances in restructuring the markets of economies in transition and in building market-support institutions are discussed as important factors in increasing the benefits of further integration of these economies into the world economy.

In 2004-2005, significant progress has been achieved in further integrating countries with economies in transition into the world economy. This progress has been accompanied by a more stable and predictable economic environment throughout the region but its pace and pattern varied widely across countries. Despite the overall progress achieved, further efforts are needed to broaden and deepen institutional reforms to diversify the economies of those countries and shift to a sustainable path of development in all economies in transition, in particular in some of the countries in South-Eastern Europe and the Commonwealth of Independent States region. The United Nations should continue to give its support in meeting those challenges.

* A/61/150.

** In the present report economies in transition include the countries of Central Europe and the Baltic States, South-Eastern Europe and the Commonwealth of Independent States. In strict terms, eight of these countries — the new European Union member States — have evolved from the group of countries with economies in transition since May 2004. For the purposes of the present report, however, covering 2004-2005, and in the spirit of General Assembly resolution 59/243, a broader interpretation has been adopted to assess the integration of the economies in transition into the world economy.

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I. Introduction

1. In its resolution 59/243 of 28 February 2004, the General Assembly reaffirmed the need for the full integration of the countries with economies in transition into the world economy. While welcoming the progress they had made towards greater stability and growth, and noting the need to sustain such positive trends into the future, the Assembly recognized the need to enhance the capacity of these countries to respond to the challenges of globalization, ensuring favourable market access for their exports and securing the foreign direct investment (FDI) necessary for their ongoing development.

2. In the same resolution, the General Assembly requested the Secretary-General to submit to it, for consideration at its sixty-first session, a report on the implementation of the resolution. The present report has been prepared in response to that request. Also in resolution 59/243, the Assembly called upon the organizations of the United Nations system to continue to provide policy advice and technical assistance to the Governments of the countries with economies in transition in order to strengthen the social, legal and political framework for completing the necessary market-oriented reforms. Previous reports have covered the activities of the United Nations system in pursuance of these goals (see A/59/301, A/57/288, A/55/188, A/53/336 and Add.1 and A/51/285). An updated report on these activities, based on contributions from 12 funds, agencies and organizations of the United Nations system as well as other relevant international institutions, is available on the United Nations website at www.un.org/esa/policy.

3. The present report analyses the current process of integration of the economies in transition into the world economy by assessing their progress through the channels of trade in goods and services, capital flows and labour migration. Particular attention is paid to the role that the enlargement of the European Union (EU) has played in the progress of some of these countries. In addition, advances in restructuring and in building market-supporting institutions are discussed as important factors in increasing the gains of these economies from further integration into the world economy. The remainder of the report is divided in two parts. The first part describes the major economic trends and indicators of trade and financial integration. The second part describes the progress in policy and institutional reforms undertaken by the economies in transition in support of their integration into the world economy.

II. Trends in economic and trade performance in 2004-2005

A. Macroeconomic trends[1]

4. A favourable international environment, including robust world economic growth, buoyant trade, high commodity prices and low cost of international financing, has supported a strong economic performance of the economies in transition during 2004 and 2005, thus reinforcing their integration into the world economy as a whole. In 2004, as the economic recovery gained momentum

[1] A detailed analysis of the current economic situation and prospects in the world economy, including economies in transition, is presented in *World Economic Situation and Prospects 2006* (United Nations publication, Sales No. E.06.II.C.2).

worldwide, the aggregate gross domestic product (GDP) of these economies expanded rapidly by 6.6 per cent. That rate of economic growth was not only the highest since the start of the transition, but was unusually widespread and balanced: all three subregions, namely Central Europe and the Baltic States, South-Eastern Europe and the Commonwealth of Independent States (CIS), posted higher growth than in 2003 (see table 1 in the annex to the present report). During 2005 world economic growth slowed noticeably. Growth in the economies in transition also decelerated, but at 5.5 per cent it preserved its dynamism and remained much faster than in the developed countries. Both strong export growth and expanding domestic demand have underpinned the robust growth performance.

5. The economic performance of the new EU members has been uneven. Average GDP growth in the EU-8 picked up in 2004, reaching 5.2 per cent, but decelerated to 4.4 per cent in 2005. Most of the growth slowdown for the EU-8 average was due to the weakening of the Polish economy. Economic dynamism in the Baltic States, however, maintained momentum and output growth was sustained at high rates, significantly outpacing that in Central Europe. Growth in the EU-8 was supported by strong consumption and investment demand in 2004 and by external demand in 2005. Increased FDI inflows facilitated by the accession to the European Union and export diversification helped to sustain high rates of export growth.

6. South-Eastern Europe also saw strong economic expansion in 2004, partially driven by exceptional growth in Romania, and some slowdown in the following year. In 2005, economic moderation was due to base-year effects and the impact of floods on the agricultural sector. The prospect of EU accession for the EU candidate countries Bulgaria, Croatia and Romania supported economic performance as it induced a rise in FDI and a related expansion of export–oriented production and motivated improvements in the functioning of the banking sector. For other countries in the subregion, successful macroeconomic stabilization and the completion of post-conflict reconstruction were conducive to strong growth performance.

7. Growth continued at a strong pace in the CIS countries in 2005, reaching 6.7 per cent GDP growth and prolonging the strong rebound of their economies since 2003 (see annex, table 1). Growth performance was somewhat uneven in the region as economic growth strongly decelerated — from 12.1 per cent to 2.6 per cent between 2004 and 2005 — in one of the two largest economies, Ukraine, as a consequence of a sharp deterioration in export performance and political uncertainties. Growth also slowed in the Russian Federation, but was still over 6 per cent in 2005. The other CIS countries sustained high growth rates. Kyrgyzstan was the notable exception with GDP growth falling in 2005 as a result of a sharp decline in the production of gold, the country’s major export commodity, and political turmoil. Much of the economic buoyancy in the CIS region in 2004 was attributable to higher international commodity prices, in particular for oil, natural gas and metals, but export volumes were also up. In contrast, growth in 2005 was largely driven by domestic demand. Household consumption increased strongly, fuelled by rising real wages and pensions in almost all countries. Investment demand also picked up in many CIS countries, primarily in the hydrocarbon sector and construction.

8. Despite strong economic growth performance, high unemployment rates and low labour force participation rates persist in many of these countries (see annex,

table 1), hinting at a low employment-output elasticity. Empirical evidence suggest that labour markets have been more responsive to GDP growth in those countries where enterprise and labour market reforms have advanced more, such as Bulgaria, Estonia, Lithuania and Slovakia.[2] In the CIS region, in particular in Kazakhstan and the Russian Federation, the booming oil sectors contributed to increased labour force participation and to some reduction in unemployment rates, but these changes were marginal as the oil sector is not a main contributor to employment generation.

9. The strong economic growth has helped to improve living conditions in the economies in transition in recent years. In a number of countries, continued growth for a number of years has made up for income losses suffered in the initial years of the transition and has pushed per capita GDP to above pre-transition levels. This is particularly so for the new EU member States and the accession countries, and has enabled them to make considerable progress in reducing poverty, ensuring gender equality and promoting better health and education.[3] The Czech Republic and Slovenia managed to eliminate extreme poverty altogether. Strong recent growth in many of the economies in South-Eastern Europe and the Commonwealth of Independent States, in contrast, has not yet been sufficient in 12 out of 19 countries to compensate for income losses during the initial years of transition. Nonetheless, in most of these countries the poverty incidence has fallen in recent years, but to a lesser extent than in the new EU member States. Despite this progress, poverty remains high in many of the South-East European countries such as Albania, the former Yugoslav Republic of Macedonia, Bosnia and Herzegovina, Serbia and Montenegro. In the Russian Federation, the share of population below the poverty line declined from 17.8 per cent in 2004 to 15.8 per cent in 2005. Some poverty reduction was also achieved in other CIS countries, including Armenia, Kazakhstan, Kyrgyzstan and Tajikistan, but absolute poverty is still widespread in these countries, particularly in the rural areas. Widespread income poverty is most severe in The Republic of Moldova and Georgia.

B. Integration through trade

10. Robust world merchandise trade in 2004-2005 — growing at about 7 to 8 per cent per annum — stimulated strong export growth. Market shares of the economies in transition increased in trade with both developed and developing countries. These trends were further supported by the ongoing process of liberalization of the trade regime[4] and strong commodity prices for the primary-exporting countries. Import demand also expanded, driven by increased demand for investment goods and buoyant household expenditures and lower import costs reflecting the appreciation of the real exchange rate in many countries. As a result, the rate of growth of merchandise trade of the economies in transition outpaced GDP growth and trade openness — measured by the ratio of exports and imports to

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[2] Labour markets have been relatively more responsive to GDP growth in countries, where active restructuring of inefficient firms has been implemented, and governments have been proactive in removing, or reducing existing labour market rigidities. *World Economic Situation and Prospects 2006*, note 1 above, pp. 102-103, box IV.2.

[3] See *National Millennium Development Goals: A Framework for Action — Europe and CIS Regional MDG Report*, United Nations publication, Sales No. E.06.III.B.21.

[4] For an overview of the progress made in the integration of economies in transition into the world economy by 2004, see the predecessor to the present report, document A/59/301.

GDP — increased (see annex, figure I). Trade patterns showed important differences, however, among the economies in transition.

11. Trade growth in the CIS countries was fuelled in particular by the continued rise in world oil prices. Export growth accelerated further in 2004 and maintained a robust pace in 2005, mainly on account of the continued boost to export values of the Russian Federation (see annex, table 2). In the other CIS countries, export value growth slowed in 2005. This trend reflects a divergence of trade patterns, with exports to non-CIS economies outpacing intraregional export growth in some countries, especially Kazakhstan, the Russian Federation and Belarus, while most trade within the Commonwealth of Independent States was with Ukraine and Azerbaijan. Meanwhile, exports to the European Union continued to increase. Here also, rising oil prices are an important factor in the rising market shares of CIS exports, particularly from the Russian Federation, in the European Union as well as in Central and South-Eastern Europe. The continued reliance on a few primary commodities and natural resource-based intermediate products as major export groups is highlighted in figure II in the annex to the present report. Real exchange rate appreciation eroded the competitiveness of other manufacturing exports and hampered export diversification.

12. The EU-8 countries had already started a process of creating new trade specialization patterns towards the EU-15 in anticipation of their accession to the European Union. A continuous process of relocation of production from the EU-15 to Central Europe and the Baltic States has led to a growing complementarity in the trade structures between these groups of countries. A growing share of trade between the EU-8 and EU-15 is now related to intra-industry and intra-firm trade. Subcontracting and outward processing explain much of this trend. The changing trade pattern also involves a shift towards higher value added production, showing comparative advantages in the production of motor cars and their components, industrial equipment, electrical machinery and other high-tech products, especially in the Czech Republic, Hungary, Slovakia and Slovenia. The process of outward processing trade also generated a related growth of FDI and import demand, particularly for machinery and intermediate manufactures (see annex, figure II). Strong credit growth further induced a strong growth of imports of durable consumer goods from the European Union. The prevailing trend of strong growth in services trade was sustained in 2004-2005 after the EU accession. Growth in services trade is concentrated in the areas of information and communication technology, commercial and financial services and activities generating royalties and license fees.

13. In contrast to the EU-8, exports of most of the South-Eastern European countries show a greater reliance on more labour-intensive manufactures. Significant inflows of FDI in 2004-2005 are facilitating a process of technological upgrading and there are signs of shifts towards higher capital intensity in export production, especially in Bulgaria and Romania. Since the beginning of the transition process, the structure of exports from the countries of Central Europe and South-Eastern Europe has gone through significant changes. The shares of food and agricultural products and raw materials in total exports have declined drastically in favour of the shares of manufactured exports, reflecting increased integration of these economies into the manufacturing and distribution networks of transnational

enterprises. This has helped to diversify South-Eastern European exports.[5] The EU-15 remains the largest trading partner for the South-Eastern European countries, but most of the trade growth in recent years has been with the EU-8, inside the region itself and with the CIS countries.

C. Integration through flows of capital and labour

14. Despite some upheavals, as evidenced by the Russian financial crisis of 1998, capital flows have played an important role in the development of the economies in transition and in their transformation into functioning market economies. In recent years, capital inflows increased as macroeconomic stability gained momentum and reforms advanced in many countries. The surge in foreign investment was further helped by sustained favourable conditions in international financial markets and robust world growth. Net private capital flows, particularly in the form of FDI, increased strongly in 2004 but moderated somewhat in 2005. The pattern and magnitudes of these flows varied however, by subregions and countries.[6] Net FDI inflows amounted on average to almost 5 per cent of GDP of the economies in transition (excluding the Russian Federation), up from 3 per cent in 2003 but on a par with the average level sustained since 1999 (see annex, figure III). This share of FDI in GDP is substantially higher than the average for developing countries. This is not the case in the Russian Federation, where net FDI inflows represent an almost negligible 0.2 per cent of GDP.

15. Rising inflows of both FDI and portfolio capital strengthened the further integration of the new EU member States into the global economy during 2004 and 2005. Most of these flows originate from the EU-15. Following a sharp drop in 2003, FDI flows to the EU-8 recovered in 2004 and reached a record high in 2005 (see annex, table 3). The increase was driven by the completion of sales of former State enterprises, and greenfield investments in Central Europe, and by generally strong FDI to the fast-growing Baltic States. In absolute terms, most of FDI flowing into the EU-8 in 2004 — about $11.8 billion — went to Poland, owing largely to the expansion of existing production facilities and greenfield investment. In 2005, in contrast, most FDI — over $10 billion – went to the Czech Republic, and was related to the sales of State-owned telecommunication and steel enterprises, as well as some banking firms and other service firms. In Hungary most of the privatization process was completed in earlier years. Current FDI is mostly in the form of reinvested earnings of existing foreign firms in the country and some small new FDI projects originating from the European Union. Slovakia and the Czech Republic have attracted large FDI flows in the automotive industry, and are becoming a regional industrial base for automotive production in Eastern Europe.

16. The substantial increase in FDI to the new EU members in 2004-2005 is explained by the further deepening of the internal market, growing bilateral trade, cheaper labour costs and the availability of skilled labour in the EU-8. In the

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[5] See Vitalija Gaucaite Wittich, "Some aspects of recent trade developments in South-East Europe", United Nations Economic Commission for Europe, Discussion Paper Series, No. 7, December 2005.

[6] For an overview of recent developments in FDI and policies both globally and at regional levels, see *World Investment Report 2005: Transnational Corporations and the Internationalization of R&D* (United Nations publication, Sales No. E.05.II.D.10).

pre-accession period, the EU-8 had lower nominal corporate income tax rates than the EU-15, even though according to some estimates effective rates were close to those of the EU-15. Nonetheless, there were apparent tax incentives for foreign investors which had to be abandoned following EU accession, as EU principles do not allow some forms of tax competition. Some incentives such as training grants are still in place, however, in the new EU member States in order to stimulate investment in areas with high rates of unemployment. As an indication of a maturing corporate sector in the new EU member States, FDI outflows from the EU-8 have increased, particularly to South-Eastern Europe.

17. The EU acceding countries, Bulgaria and Romania, attracted strong inflows of FDI in 2004-2005 as they completed some major privatization projects, but also owing to greenfield investment. FDI also increased in other Balkan countries, in particular in Serbia and Montenegro, where a large number of privatization deals were completed in 2005.

18. FDI into the CIS region continued to increase largely driven by high prices for oil and gas in 2004 and 2005. In absolute terms this was comparable to the growth rate of FDI in the other two subregions of economies in transition, but as a share of GDP the inflows tend to be much less important (see annex, table 3). The picture is strongly determined by the Russian Federation, which — as indicated — has a very low share of FDI in GDP. The ratio is also relatively low in Belarus, Kyrgyzstan and Uzbekistan. For many of the other CIS countries, the FDI-to-GDP ratio is as important as that for the new EU member States. In the resource-rich countries, most FDI went into the energy sector, as in Azerbaijan, Kazakhstan and the Russian Federation.

19. FDI inflows and strong export growth have kept external debt at sustainable levels in most of the economies in transition. External debt ratios in Central Europe and South-Eastern Europe were 62 per cent and 52 per cent of gross national income (GNI), respectively, for 2004. Most of the external debt in Central Europe, the Baltic States and South-Eastern Europe is owed to private creditors. External debt conditions are much more heterogeneous among the countries of the CIS region with the debt-to-GNI ratio varying from 16 per cent in Belarus to almost 100 per cent in Kyrgyzstan in 2004. Most external debt is held by the Governments of the CIS countries and originates from official creditors. Strong export growth and improved debt management have eased the high debt burdens of the low-income CIS countries in recent years (see annex, figure IV).[7] In some of these countries, though, such as Kyrgyzstan and the Republic of Moldova, reducing the degree of external indebtedness remains an important policy challenge both for national policymakers and the creditors. While assistance through concessional financing and possibly rescheduling of the external debt will meliorate liquidity problems in the Republic of Moldova, a recently approved debt reduction strategy in combination with a request for debt relief under the enhanced Heavily Indebted Poor Countries Debt Initiative will lessen the debt burden in Kyrgyzstan.

20. With the reintegration of Central and Eastern Europe and the Commonwealth of Independent States into the global economy there has been increase in international migration from and to those countries as a result of changes in

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[7] A review of debt sustainability in the low-income CIS countries is presented in *Economic Survey of Europe 2005, No. 1* (United Nations publication, Sales No. E.05.II.E.7, pp. 88-89.

population policies,[8] shifts in labour demand driven by the reshaping of multinational firms' production chains and the emergence of the knowledge economy, and other demographic and social factors. Three of the CIS countries — the Russian Federation, Ukraine and Kazakhstan — continue to rank among the 20 countries in the world with the highest number of international migrants in 2005, with migrant populations accounting for 6.4 per cent, 3.6 per cent and 1.3 per cent, respectively, of total migrants in the world.[9] However, only in the Russian Federation was the number of migrants greater in 2005 than in 1990. Most migrants continue to originate from the CIS region (see annex, table 4). Net migration to Ukraine and Kazakhstan has declined. Despite increasing inflows of migrants, the population of the Russian Federation, as in many of the other countries in transition, is declining.

21. As part of the European Union, the new member States saw some restrictions on labour mobility to the European Union being lifted, leading to faster integration as compared with the rest of the economies in transition. However, labour migration increased at a slower pace than expected before the accession. Following the EU enlargement in 2004, a transitional period split into three phases of two, three and two years' duration was established before labour markets will be fully opened for the EU-8. The EU-8 countries themselves opened their labour markets for each other (as well as for Cyprus and Malta). In the two years following the EU enlargement, there was a moderate increase of migrant workers from the EU-8 only in Austria, Ireland and the United Kingdom of Great Britain and Northern Ireland, which may be partially attributed to the "legalization" of an already significant number of workers from the EU-8. EU-8 nationals in 2005 made up about 1 per cent of the working-age population of the EU-15, with the exception of Austria (1.4 per cent) and Ireland (3.8 per cent). The overall proportion of resident EU-8 nationals in the EU-15 working-age population, at about 0.4 per cent in 2005, is below the percentage of workers from non-EU countries.

22. The integration of economies in transition into the global economy through labour movements can bring economic benefits to the countries of origin, among other things by reducing the pressure on domestic labour markets and generating remittances. In 2004, remittances amounted to $19.1 billion, or 1.3 per cent of the aggregate GDP of the economies in transition. The relative importance of remittances varies strongly, ranging — according to available data — from 0.2 per cent of GDP in Romania to 27 per cent in the Republic of Moldova.[10] In the case of the Russian Federation remittances constitute a net outflow of resources, but in countries such as the Republic of Moldova, Tajikistan, Albania, Bosnia and Herzegovina, Serbia and Montenegro remittances are an important source of foreign exchange earnings and have boosted household consumption levels. To a lesser extent, remittances have been used to finance investments and the creation of new enterprises in these countries. Migration has helped to mitigate pressure on domestic labour markets in some countries, particularly in the Commonwealth of Independent States where many emigrants are unskilled and unemployed workers. Elsewhere, there is a pattern of highly skilled workers moving to low-skilled jobs (particularly

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[8] See *World Population Policies 2005* (United Nations publication, Sales. No. E.06.XIII.5).

[9] See United Nations, *Trends in Total Migrant Stock: the 2005 Revision*, data in digital form.

[10] See European Bank for Reconstruction and Development, *Transition Report Update May 2006*, London, 2006.

from the EU-8 to the EU-15), undermining the quality of human capital in the countries of origin.

III. Progress in economic policies promoting integration of economies in transition in 2004-2005

A. Macroeconomic policy

23. During 2004 and 2005, all economies in transition made considerable progress in macroeconomic and financial stabilization, which in turn contributed to strengthening the integration of economies in transition into the world economy. Inflation continued to decline in 2004 in many countries (see annex, table 1). Most new EU members formed an exception to this pattern, as a one-off price hike was experienced following the EU accession. Value added tax unification, abolishment of remaining price controls, increased energy prices and higher domestic import demand contributed to a reversal in the trend towards decelerating inflation in this group of countries. In 2005, headline inflation rates were on a downward trend again in the EU-8, but they were up in the Baltic States and in many CIS countries, owing largely to the effects of higher oil prices and domestic credit expansion. Core inflation, excluding prices of energy and food, remained low, allowing authorities in many economies in transition to preserve their generally accommodative stance of monetary policy in 2004-2005. Those policies supported economic growth through private credit expansion and domestic demand growth, particularly in the CIS countries. High oil prices are increasingly posing a monetary policy dilemma in these countries, especially those exporting oil and amassing growing international reserves. The dilemma is between giving priority to price stability or to avoiding of a further appreciation of their real exchange rates. In the recent practice of the monetary authorities, de facto policies favouring more price stability have prevailed. In contrast, further tightening of the macroeconomic stance continued in South-Eastern Europe in response to escalating external imbalances and strong domestic credit growth. The goal of eventual adoption of the euro has become a new anchor for macroeconomic policies for the new EU members, and a number of them, namely Estonia, Latvia, Lithuania, Slovakia and Slovenia, have already formally joined the second European Exchange-Rate Mechanism.

24. Faster growth has helped boost Government revenues in general, but more prudent fiscal policies have also led to improved public finances in several of the economies in transition. Fiscal deficits in the new EU member States either declined or remained stable in 2004-2005, mostly owing to higher revenues (and in some cases higher inflation), reflecting reliance on cyclical factors. The structural deficits remained about the same and in some cases enhanced revenues were offset by continued subsidies to loss-making enterprises and the costs of state loan guarantees. Fiscal imbalances in the countries in South-Eastern Europe were redressed with the help of greater discipline set by International Monetary Fund (IMF) programmes. Fiscal balances strengthened in the resource-rich countries of the Commonwealth of Independent States on the back of increased revenues boosted by high oil and gas prices, strong growth and streamlining of tax administration. The management of the booming oil revenues through the stabilization funds in

Azerbaijan, Kazakhstan and the Russian Federation has been reasonably prudent, thus containing the expansionary effects of high oil prices on domestic liquidity.[11]

B. Role of the European Union in integrating economies in transition

25. Accession to and relations with the European Union have played a crucial role in shaping a wider and deeper process of integration of the economies in transition. The EU enlargement process has directly benefited the countries in Central Europe and the Baltic States, but the European Union's active strategy of post-conflict reconstruction, support to regional integration processes and other economic assistance has benefited the region as a whole.[12]

26. In May 2004, eight formerly centrally planned economies (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia) became new EU members. Following their accession, trade in the enlarged European Union was liberalized further, as virtually all of the remaining duties and quotas were abolished, including restrictions on agricultural trade. Further progress was made by the new members regarding the implementation of the EU internal market directives, as the percentage of implemented directives was raised from about 94 per cent to over 98 per cent between 2004 and 2006. In principle, all provisions of the EU's *acquis* were supposed to be implemented by the acceding countries. However, because a too rapid implementation could pose certain risks, a transition period ranging from six months to 12 years was established for a number of directives.

27. In addition to full trade liberalization and direct financial assistance, the European Union played a key part in the harmonization of taxation; the adoption of modern regulatory frameworks in financial markets, corporate regulations and accounting standards; and enforcing intellectual property rights. The EU institutional framework thus enabled these countries to integrate further into the global economy and to gain from this process. An area of special importance, as a factor affecting directly the process of integration is the increased use of information and communication technologies, the upgrading of infrastructure and the development of competitive skills, which is included in the 2005 national reform programmes of the EU-8. Overall net transfers to the EU-8 in 2004 ranged from 0.25 per cent of GNI for Hungary to 2.1 per cent for Lithuania, averaging about 1 per cent of GNI. Funds were allocated for support to the agricultural sector for structural actions and internal policies, and also for "compensation" payments to keep the new EU members' net transactions balance with the European Union positive. Assuming full absorption of the EU funds, average net transfers to the EU-8 are expected to increase to 3 per cent of GNI within the next EU budget cycle.

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[11] See Yelena Kalyuzhnova and Michael Kaser, "*Prudential management of hydrocarbon revenues in resource-rich economies*", United Nations Economic Commission for Europe, Discussion Paper Series, No. 5, December 2005.

[12] For an overview of the European Union's role in the period preceding enlargement in 2004 and the assistance it provided to the region, see A/59/301.

28. The process of EU accession has worked as a catalyst for the candidate member States in South-Eastern Europe (Bulgaria, Croatia and Romania)[13] to push forward with the necessary reforms towards a market-based economy and the development of reliable state institutions. The EU raised pre-accession assistance to Bulgaria by 30 per cent in 2004-2006, bringing it to 2 per cent of GDP. For Romania assistance reached 1.4 per cent of GDP in 2005. From January 2007, the European Union will replace existing assistance programmes with one unified Instrument for Pre-accession Assistance in order to streamline and simplify its assistance to current and prospective candidates.

29. For those countries of South-Eastern Europe which are not accession candidates, relations with the European Union are defined by the Stabilization and Association Process for South-Eastern Europe. The European Union has already concluded stabilization and association agreements with Croatia and The former Yugoslav Republic of Macedonia, which became EU candidates, and most recently with Albania. In order to encompass more countries and promote trade and investment in the subregion, stabilization and association agreements are currently under negotiation with Bosnia and Herzegovina, Montenegro[14] and Serbia. In June 2005, the European Council reiterated its support for an eventual European perspective for those countries, noting significant progress in the region.

30. The European Union has maintained its aim to expand integration beyond its borders, including to the economies in transition which are not currently contemplating EU membership. In particular, there has been progress in widening the policy space through the European Neighbourhood Policy, which covers four main areas: energy, migration, security and stability.[15] After the launch of the Policy in 2003, implementation started in 2005 following the European Commission strategy paper and country reports for a first group of seven neighbouring countries, including the Republic of Moldova and Ukraine, for which action plans have been negotiated and finalized. In addition, the European Union granted Ukraine the status of market economy. With advances in the preparation of the European Neighbourhood and Partnership Instrument, which is the financial tool of the Policy that will replace the Technical Assistance to the Commonwealth of Independent States (TACIS) programme in 2007, the relationship between the European Union and the economies in transition from the CIS region is likely to move from traditional trade and cooperation towards closer political, social and economic integration of those countries. On the economic side, the European Neighbourhood Policy entails enhanced preferential trade relations, a stake in the EU internal market, improved interconnection with the European Union in such fields as energy, transport and telecommunication, the possibility of participating in some EU programmes and increased financial and technical assistance.

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[13] Accession negotiations with Bulgaria and Romania started in February 2000 and it is expected that both countries will join the Union in January 2007 (final decision on this matter will be taken by the European Commission later in 2006), while Croatia was granted EU candidate country status in 2004 and accession negotiations started in October 2005. The former Yugoslav Republic of Macedonia was granted candidate country status in December 2005, but no date has yet been set for the beginning of negotiations.

[14] Montenegro became an independent State on 3 June 2006.

[15] See “*European neighbourhood policy: economic review of ENP countries*”, European Commission, Directorate General for Economic and Financial Affairs, Occasional Paper No. 18, April 2005, at http://europa.eu.int/comm/economy_finance.

31. The adoption of a package of road maps for the creation of four “common spaces” — a common economic space; a common space of freedom, security and justice; a space of cooperation in the field of external security; and a space of research and education — between the European Union and the Russian Federation on 10 May 2005 is a further step towards integration. In particular, the ongoing work on the common economic space will make it possible to reduce barriers to trade and investment and to promote reforms and competitiveness on the basis of the principles of non-discrimination, transparency and good governance. In addition to the Partnership and Cooperation Agreement with Armenia, Azerbaijan, Georgia, Kazakhstan, the Republic of Moldova, Ukraine, Uzbekistan and most recently Tajikistan, the European Union is expanding its integration policy through sector-specific agreements such as the steel agreement between the European Union and the Russian Federation for 2005-2006.

C. Other trade policies

32. Many of the economies in transition are integrated into the multilateral trading system through membership in the World Trade Organization (WTO) (see annex, table 5). The remaining countries, with the exception of Turkmenistan, are in the process of accession. In 2004-2005, bilateral negotiations on market access advanced for several countries, thus accelerating the harmonization of domestic legislation and commercial practices between the CIS countries and their trading partners and speeding up reforms in the customs code and changes in the tariff system in some countries such as the Russian Federation, Kazakhstan and Ukraine. To support the WTO accession process, more progress is needed in market-supporting reforms in economies in transition, as well as further cooperation with current WTO members. At the same time, the lack of progress in the Doha-round negotiations will likely adversely affect the development prospects of economies in transition, in particular those specializing in agriculture, a sector which has been already severely hit by changes in production and uncertainties surrounding property rights and ownership. It may also affect the long-term welfare of those economies in transition which are currently in the process of accession.

33. Bilateral and regional trade agreements, which form part of the trade liberalization reforms, undertaken by economies in transition, continued to facilitate the integration of these economies into the world economy. The EU Stabilization and Association Process has promoted free-trade agreements in South-Eastern Europe in line with the WTO provisions. Within this framework, a number of asymmetric trade preferences were granted to these countries. In addition, a network of bilateral trade agreements envisaged by the stabilization and association agreements has been completed in the subregion, including currently Bulgaria, the Republic of Moldova and Romania and covering over 55 million customers. Various free trade agreements among the CIS countries, such as the Commonwealth of Independent States Free Trade Area, the Euroasia Economic Community and the Central Asian Cooperation Organization, are largely focused on the exchange of trade preferences. Aspects of transit facilitation and liberalization of services remain

beyond the scope of these agreements and are an important challenge for the region's trade cooperation.[16]

D. Capital account opening

34. In 2004-2005, in addition to direct investment flows into the real sector of the economy, further integration of the new EU-8 continued through financial markets and portfolio capital flows. As in the case of trade, the EU enlargement implied lifting most of the remaining restrictions on capital movement. Some countries, however, negotiated transitional arrangements in the area of financial services.

35. From May 2004, the EU-8 implemented a number of directives of the EU financial services action plan, aimed at improving the quality of financial services. Significant progress was achieved in the EU-8 in prudential regulation and supervision. Since a large share of the largely bank-based financial system of the EU-8 countries is foreign-owned, the transfer of innovations in contemporary financial management and the use of information technology products have improved the quality of services. In the pre-accession period, most domestic credit was given to large companies operating in the region. In 2004-2005, domestic credit to small businesses and individual households strongly expanded. Easy access to foreign capital and the ability to borrow in foreign currency compensated for the limited credit-creating capacity of still underdeveloped domestic financial markets. In addition, there is an ongoing process of integration of the equity markets of the EU-8 with the EU-15, facilitating the improved functioning of the region's stock exchanges.

36. Capital account liberalization continues in the CIS region, contributing to the further opening of financial markets to the world economy. In a number of countries, the elimination of capital controls started after the August 1998 crisis in Russia and proceeded in stages, such as the abolishment of obligatory sales of foreign currency revenues in 2005 in Ukraine and the removal of all limitations on the movement of capital as of 1 July 2006 in the Russian Federation. The benefits of capital account opening are heavily dependent, however, on the further development of the domestic financial system, including the quality of regulatory and supervisory frameworks. Therefore, in order to gain from efficiency and portfolio diversification, these economies are facing the challenge of continuing with institutional reforms and putting more effort into managing risks resulting from capital movement liberalization.

E. Continuing economic restructuring and improvement in business environment

37. The recent progress in integration of the economies in transition into the world economy has been accompanied by further structural and institutional reforms in many of them and supported by macroeconomic policies sustaining stability in the region. The sequencing, scope and depth of these reforms, however, have varied across countries. While loose and unpredictable macroeconomic policies in the first

[16] See *From Disintegration to Reintegration: Eastern Europe and the Former Soviet Union in International Trade*, ed. by Harry Broadman, The World Bank, 2005.

phase of transition have given way to more prudent macroeconomic policies throughout the region, microeconomic reforms and the setting up of legal and regulatory systems promoting competition, intellectual and other property rights, the rule of law, good governance and financial services vary in scope and speed across countries.[17]

38. In 2005, only 3 out of 27 economies in transition had shares of the private sector in the country's GDP under 50 per cent (see annex, table 6). This outcome reflects the almost completed privatization in the EU-8, although a number of privatizations took place in 2005 in the Czech Republic, Hungary and Lithuania. Small-scale privatization advanced in a few economies in the Commonwealth of Independent States, namely in Armenia and Tajikistan, while large-scale privatization moved ahead in Armenia, Georgia and some countries in South-Eastern Europe such as Bosnia and Herzegovina and Serbia and Montenegro (see annex, table 7). In the Russian Federation, owing to re-establishment of State ownership over significant assets in the oil and gas sector, privatization retracted.

39. During 2004-2005, the reforms aiming at building market-support institutions accelerated and outpaced the reforms related to market liberalization, such as price and trade liberalization.[18] In particular, there has been quite some progress in regulating the financial sector, in governance and in enterprise restructuring and large-scale privatization. In the financial sector, most progress was recorded in Central Europe and the Baltic States, with a special emphasis on improvements in supervisory and prudential regulation institutions and interest-rate liberalization. Progress was also achieved in security market regulations, in particular in Lithuania and Slovakia. In the Czech Republic, Estonia and Lithuania, procedures were adopted to resolve conflicts between majority and minority shareholders. In Poland, the role of the State-owned banks diminished in 2005, and stronger supervision was introduced. Stock markets in the region are maturing, and market capitalization increased in many countries. Banking reforms advanced in some CIS countries as well — namely Armenia and the Russian Federation — accompanied by improvements in competition policy in the former and the setting up of a deposit and insurance system in the latter. In addition, there were improvements in the regulatory and supervisory institutions in the banking sector of Ukraine. In Hungary, Poland and Slovakia, further improvements in corporate governance, institutions and enterprise restructuring accelerated as part of commitments to institutional reforms related to the EU accession.

40. Progress in economic governance continued in South-Eastern Europe, though at a moderate pace. Bulgaria, Croatia and Romania advanced further in meeting their EU accession requirements, improving their legal framework for competition policy. While the pace of market-oriented reforms slowed somewhat in the subregion in 2005, Serbia and Montenegro remained an exception, as a number of large-scale privatization deals were completed in the country, significant progress was achieved in enterprise governance and competition policies, and further steps

[17] For an overview of the progress in the business environment of the economies in transition in 2004-2005, see European Bank for Reconstruction and Development, *Transition Report, 2005: Business in Transition* (London, November 2005).

[18] Progress in transition reforms in the economies in transition is assessed on the basis of a set of nine transition indicators, which have been estimated by EBRD every year since the beginning of transition to monitor reform developments in all 27 countries. For a recent update on these indicators see *Transition Report, 2005*, note 17 above.

were taken towards trade and capital account liberalization. A number of privatization deals were also completed in Bosnia and Herzegovina.

41. Notwithstanding the overall improvement in economic governance throughout the region, progress in various areas — institutions and property rights, the fight against corruption and crime, judicial reform and business regulation, including licensing, taxation, customs and trade, infrastructure, and labour regulation — remains diverse. According to the most recent survey by the European Bank for Reconstruction and Development (EBRD) and the World Bank of perceptions of the business environment in transition economies,[19] business leaders perceive that the judiciary system has improved in Estonia and Slovakia, while the effectiveness of contract enforcement was highest in Poland and Slovenia. In contrast, contract enforcement deteriorated in South-Eastern Europe, in particular in Albania and Bosnia and Herzegovina. In the CIS region, the business environment is seen to have improved in general in some countries during 2005 — most significantly in Belarus and to a lesser extent in Tajikistan — but the survey also reports worsening conditions in other cases stemming from inadequate functioning of the judiciary and perceived corruption. Generally though, business leaders perceive that the burden of state regulation in several areas, such as tax administration and customs and foreign trade regulation, declined in the region.

IV. Policy challenges and conclusions

42. **In sum, in 2004 and 2005 the economies in transition have advanced in integrating their markets into the global economy. This progress was greatly helped by favourable conditions such as growing world trade, high commodity prices and the low cost of international finance. At the same time, it was achieved in a more stable and predictable political and economic environment, underpinned by prudent fiscal policy and a stable monetary stance in several countries of the region. Against this background, some economies succeeded in moving ahead with reforms creating the institutions needed for an effectively functioning market economy. This, in turn, has reinforced their integration into the world economy. Adaptation to EU institutions, transfers from the European Union and the setting up of legal and regulatory systems promoting competition, intellectual and other property rights, the rule of law, good governance and financial services have promoted the broadening of the growth process in the countries of Central Europe and the Baltic States. In contrast, the economies that lag behind in economic governance and economic restructuring have done less well in attracting FDI inflows and diversifying their economies. Continued efforts to improve the business environment and advance with institutional reforms, combined with further economic restructuring are necessary to fully benefit from integration into the world economy and sustain economic growth**.

43. **The pace and pattern of integration of economies in transition into the world economy vary widely across countries. The resource-rich countries, particularly in the CIS region, are currently benefiting from high commodity prices, but their growth performance remains vulnerable to the volatility in world commodity prices. Those countries which specialize in a handful of**

[19] World Bank, *Doing Business 2006: Creating Jobs*, Washington, D.C., 2005.

primary commodities, such as crude oil, natural gas, oil products, aluminium, gold and cotton, need to diversify their economies, particularly into manufacturing and services, which will increase their prospects of gaining from trade and sustaining higher long-term economic growth rates.[20] **To do so countries need to invest in infrastructure development and in building up human capital, which will also contribute to reduce poverty in the region**.

44. **Most of the countries of Central and Eastern Europe are integrated in producer-driven trade networks in high value added sectors such as the automotive industry, electronics and information technology, which are associated with longer-term investment projects, research and development and less volatile FDI flows. On the other hand, South-Eastern Europe is integrated in buyer-driven trade networks in low value added sectors such as textiles, clothing and agriculture, which are more vulnerable to demand fluctuations and more volatile investment flows in terms of relocation. The challenge for these countries is to find the adequate policy mix in order to gradually move their trade structures from low value added to higher value added sectors**.

45. **Further integration of the capital markets of transition economies led to strong credit growth, both in the new EU members and in South-Eastern Europe. GDP growth at levels higher than in the countries of the Organization for Economic Cooperation and Development attracted large inflows of speculative capital, combined with further development of the banking sector, increased consumer confidence and remonetization in South-Eastern Europe. The number of bank loans to corporations and households increased sharply during 2004-2005. Shares of loans in foreign currency to corporations and households ranged from 10 to 75 per cent, and although most of the foreign currency loans were traditionally given to multinational firms, the number of such loans to households also increased. This can pose certain risks, especially for the countries with fixed exchange rate regimes**.

46. **Increased mobility of people from the EU-8 and from South-Eastern Europe and CIS countries led to a growing role for remittances as a source of external financing, mitigating pressure on the balance of payments, alleviating poverty and potentially contributing to the financing of small and medium-size businesses. There is, however, a number of downside risks associated with the increased flow of remittances to economies in transition, such as vulnerability to economic downturns in the receiving countries and the effects of brain drain on the countries of origin. The concentration of migrant workers in only a few countries makes remittance flows vulnerable to any economic downturn. By exporting their labour force, the countries of origin might have difficulties in developing their own productive base. Those countries that experience massive outflows of workers, such as the Republic of Moldova, may even face constraints in their labour markets**.

47. **The macroeconomic policies of the new EU members are anchored to the adoption of the single currency as a further step in economic integration, together with fostering growth in order to sustain real convergence and**

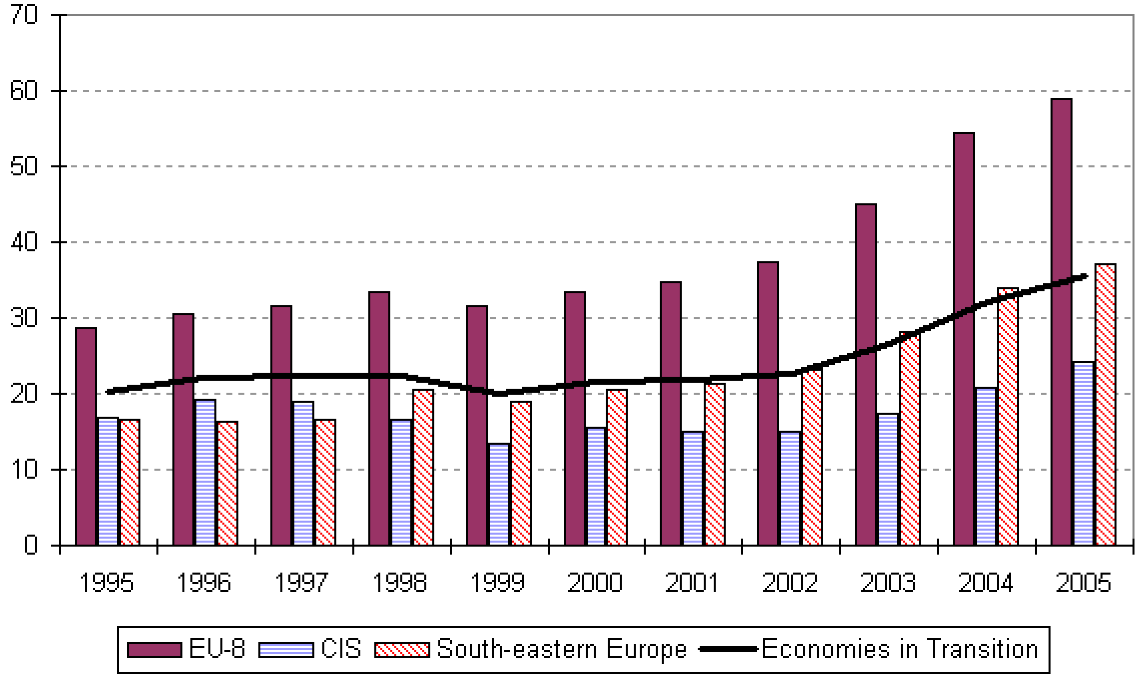
[20] See *World Economic and Social Survey 2006: Diverging Growth and Development* (United Nations publication, Sales No. E.06.II.C.1) for an elaborate discussion of the links between diversified export structures with strong links to the domestic economy and long-term economic growth.

creating employment. Still, in the short run, fast adoption of the euro may lead to a slowdown of GDP growth and loss of income, both before and after the adoption. Rapid fiscal consolidation for those countries would require austerity measures, including cuts in social spending and forfeited public investment. Adopting tighter monetary policy aimed at disinflation may harm growth, and fixing a nominal exchange rate may harm price competitiveness either by initial overvaluation of the exchange rate or later by real appreciation not based on productivity growth. Although demand-side shocks in the EU-8 are correlated with the euro zone, the degree of congruence of supply-side shocks is weaker, justifying a need for independent monetary policy. Low mobility of labour is another argument against the fast adoption of the euro.

Annex

Figures and tables

Figure I
External trade[a] in relation to GDP for economies in transition, by subgroup, 1995-2005
(Percentage)



Source: IMF, World Economic Outlook database, April 2006.
[a] Total of exports and imports.

Figure II
Growth and commodity structure of exports and imports in economies in transition, 2000 and 2004

EXPORTS **IMPORTS**

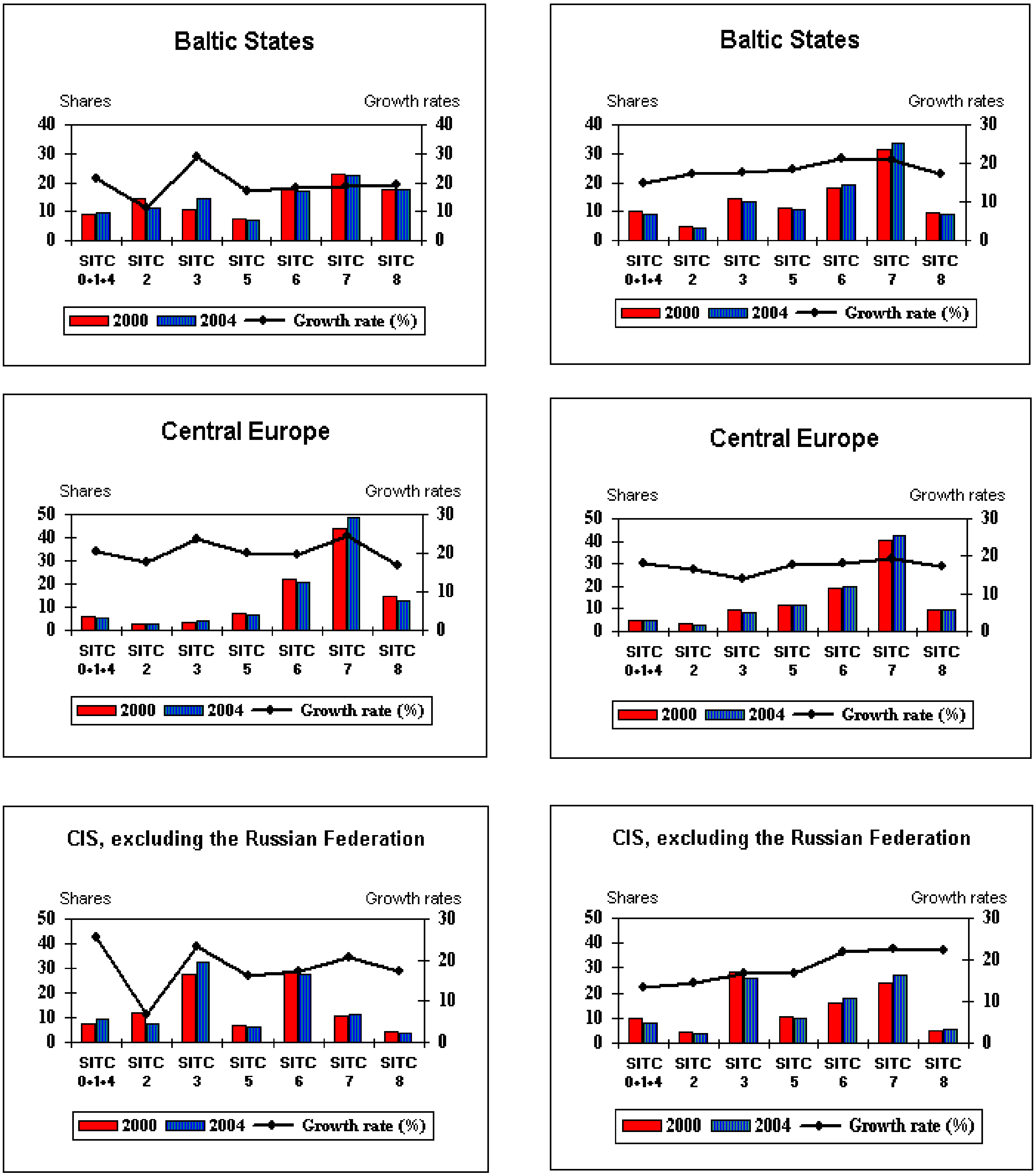
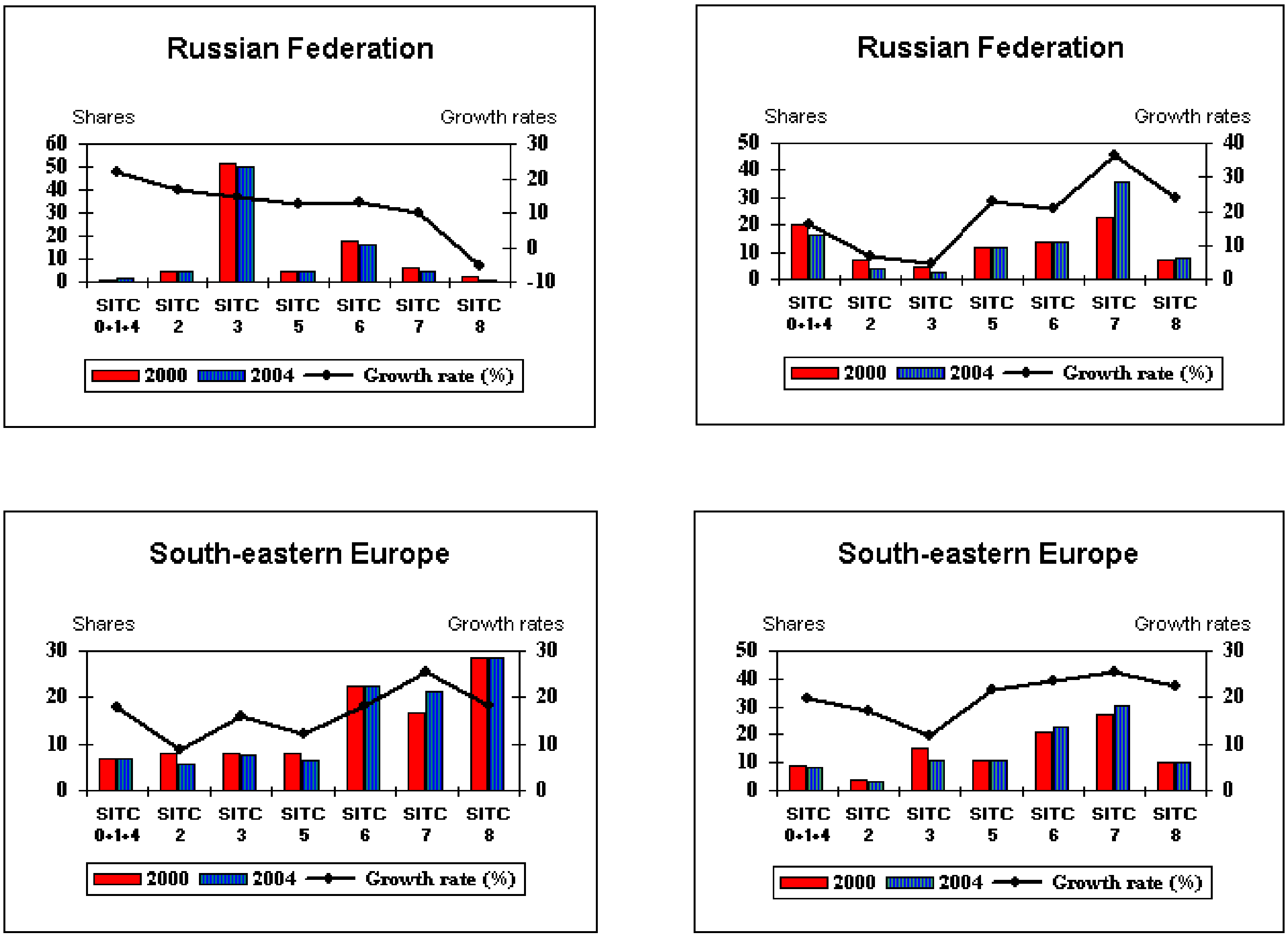
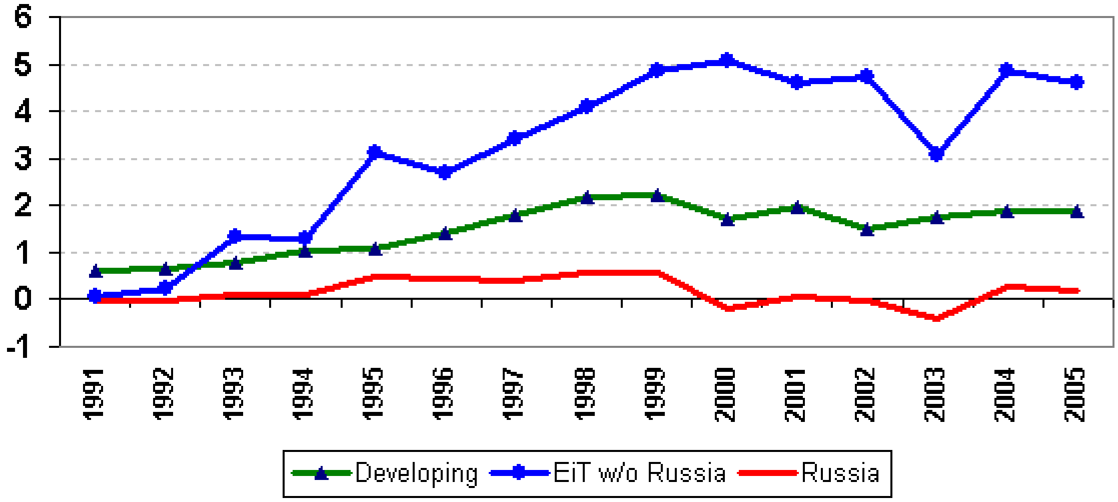


Figure II (cont.)



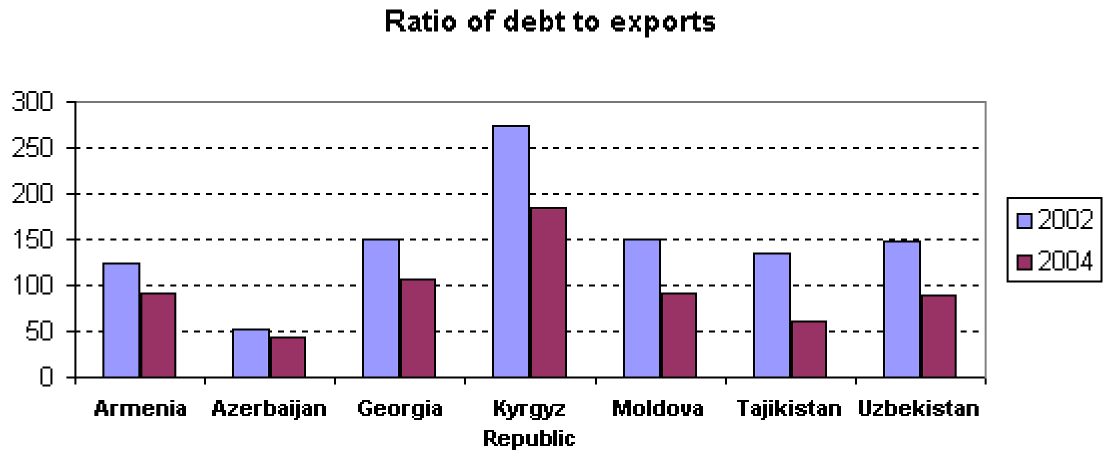
Source: United Nations Commodity Trade Statistics Database. Commodity groups are sections of the United Nations Standard International Trade Classification (SITC Rev. 3).

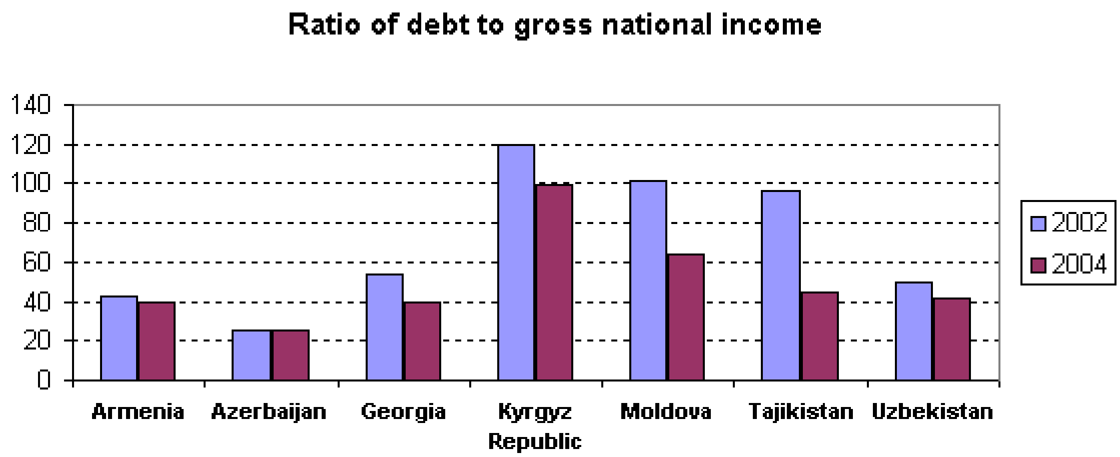
Figure III
Economies in transition: ratio of net FDI to GDP
(Percentage)



Sources: UNCTAD, *World Investment Report 2005*; IMF, *International Finance Statistics*; World Bank, *Global Development Finance*.

Figure IV
External debt ratios for the CIS-7 countries, 2002 and 2004
(Percentage)





Sources: World Bank, *Global Development Finance*; IMF, World Economic Outlook database, April 2006.

Table 1
Macroeconomic indicators for economies in transition, 2003-2005

	Growth of real GDP (annual percentage change)			*Consumer price inflation (average annual percentage change)*			*Unemployment rate (percentage)*		
	2003	*2004*	*2005*	*2003*	*2004*	*2005*	*2003*	*2004*	*2005*
Economics in transition	5.7	6.6	5.5	7.5	7.5	7.4			
New EU members	4.0	5.2	4.4	1.9	4.1	2.5			
Czech Republic	3.2	4.7	6.0	0.1	2.8	1.8	7.8	8.3	7.9
Estonia	6.7	7.8	9.8	1.3	3.0	4.1	10.0	9.7	7.9
Hungary	3.4	4.6	4.1	4.4	6.8	3.6	5.9	6.1	7.2
Latvia	7.2	8.5	10.2	2.9	6.2	6.8	10.5	10.4	9.0
Lithuania	10.5	7.0	7.5	-1.2	1.2	2.7	12.4	11.4	8.3
Poland	3.8	5.3	3.2	0.8	3.6	2.1	19.6	19.0	17.7
Slovakia	4.2	5.4	6.1	8.6	7.6	2.7	17.6	18.2	16.4
Slovenia	2.6	4.2	3.9	5.6	3.6	2.5	6.7	6.3	6.3
South-Eastern Europe and Commonwealth of Independent States	7.0	7.7	6.3	11.9	10.0	11.2			
South-Eastern Europe	4.7	6.7	4.7	8.1	7.5	7.0			
Albania	5.7	6.7	5.5	2.6	2.3	2.4	15.0	14.4	14.2
Bosnia and Herzegovina	4.0	5.7	5.3	0.2	-0.4	2.5	44.0	44.9	46.6
Bulgaria	4.5	5.7	5.5	2.2	6.4	5.0	13.7	12.0	9.9
Croatia	5.3	3.8	4.3	1.5	2.1	3.3	14.3	13.8	12.7
Romania	5.2	8.4	4.1	15.3	11.9	9.0	6.8	7.6	7.7
Serbia and Montenegro	2.1	8.3	6.2	9.6	10.4	15.4	28.0	30.6	32.0
The former Yugoslav Republic of Macedonia	2.8	4.1	4.0	1.1	1.0	0.0	36.7	37.2	37.3
Commonwealth of Independent States	7.6	7.9	6.7	12.8	10.7	12.3			
Armenia	14.0	10.1	13.9	2.7	8.1	0.6	10.1	9.0	7.6
Azerbaijan	11.2	10.2	26.4	2.1	6.7	10.5	1.4	1.4	1.4
Belarus	7.0	11.4	9.2	28.5	18.3	10.4	3.1	1.9	1.5
Georgia	11.1	5.9	9.3	4.8	5.7	8.2	11.5	12.6	13.8
Kazakhstan	9.3	9.6	9.4	6.4	6.9	7.6	8.8	8.4	8.1
Kyrgyzstan	7.0	7.0	-0.6	3.0	4.1	4.4	2.9	2.9	3.3
Republic of Moldova	6.6	7.4	7.1	11.7	12.5	11.9	7.9	8.1	7.3
Russian Federation	7.3	7.2	6.4	13.7	10.9	12.7	8.2	7.9	7.2
Tajikistan	11.0	10.3	6.7	16.3	7.2	8.0	2.3	2.0	1.8
Turkmenistan	3.3	4.5	9.6	15.3	10.0	12.0	[a]	[a]	[a]
Ukraine	9.6	12.1	2.6	5.2	9.0	13.5	9.1	8.6	7.2
Uzbekistan	4.4	7.7	7.0	19.0	14.2	15.0	0.3	[a]	0.4

Sources: United Nations Department of Economic and Social Affairs, based on data of the Economic Commission for Europe; *World Economic Situation and Prospects 2006* (United Nations publication, Sales No. E.06.II.C.2); Interstate Statistical Committee of the Commonwealth of Independent States, www.cisstat.com.

[a] Data unavailable.

Table 2
Foreign trade in economies in transition by direction, 2003-2005
(Value in billions of dollars; growth rate as percentage)

	Exports			*Imports*		
	Value	*Growth rate*[a]		*Value*	*Growth rate*[a]	
Country or country group	*2003*	*2004*	*2005*	*2003*	*2004*	*2005*
***Baltic States**, to and from:*						
World	15.7	22.3	28.2	23.0	20.7	22.5
Eastern Europe and CIS	5.0	26.1	39.9	7.8	41.7	33.1
CIS	2.4	2.1	38.0	4.6	20.3	36.4
Baltic States	2.1	35.8	42.9	1.6	96.8	30.2
Central Europe	0.5	93.3	36.5	1.6	50.4	30.1
South-Eastern Europe	0.0	45.5	31.4	0.1	11.3	5.2
Developed market economies	10.0	20.4	19.6	13.0	15.5	15.6
European Union	8.2	22.9	20.3	11.2	24.2	14.1
Developing countries	0.6	14.7	95.4	2.0	-26.2	30.4
***Central Europe**, to and from:*						
World	177.7	32.5	16.3	208.9	29.6	12.8
Eastern Europe and CIS	37.4	40.4	26.7	43.1	34.0	26.9
CIS	7.0	47.7	37.1	17.1	22.4	35.3
Baltic States	2.5	10.5	16.0	0.6	59.8	57.8
Central Europe	20.8	45.2	23.5	22.9	40.8	19.7
South-Eastern Europe	7.1	29.6	28.5	2.5	44.8	33.2
Developed market economies	132.3	28.8	12.3	138.7	30.5	10.5
European Union	122.4	29.0	11.8	123.2	32.1	12.4
Developing countries	7.7	59.0	27.6	26.6	18.2	-0.4
***South-Eastern Europe**, to and from:*						
World	35.7	30.9	13.8	62.8	28.8	20.3
Eastern Europe and CIS	6.2	40.6	28.6	16.5	29.3	30.3
CIS	0.8	44.4	19.4	5.9	30.8	31.0
Baltic States	0.0	44.1	-12.8	0.0	53.0	18.1
Central Europe	2.2	41.3	38.3	7.4	22.7	31.9
South-Eastern Europe	3.1	39.1	24.7	3.2	41.7	25.9
Developed market economies	24.4	25.5	7.6	38.1	27.0	15.4
European Union	22.8	25.6	4.8	35.0	26.6	17.0
Developing countries	4.6	41.9	26.4	7.8	36.2	23.0
***Eastern Europe**, to and from:*						
World	229.1	31.6	16.6	294.7	28.7	15.1

Country or country group	Exports			Imports		
	Value	*Growth rate*[a]		*Value*	*Growth rate*[a]	
	2003	*2004*	*2005*	*2003*	*2004*	*2005*
Eastern Europe and CIS	48.7	39.0	28.1	67.4	33.7	28.4
CIS	10.2	36.8	35.8	27.5	23.8	34.5
Baltic States	4.6	22.2	29.1	2.2	85.5	36.9
Central Europe	23.6	46.0	25.2	31.9	37.1	22.8
South-Eastern Europe	10.3	32.6	27.3	5.7	42.8	28.9
Developed market economies	166.7	27.8	12.0	189.8	28.7	11.8
European Union	153.4	28.2	11.2	169.4	30.4	13.4
Developing countries	12.8	51.0	29.4	36.4	19.6	6.4
CIS countries, *to and from:*						
World	189.2	30.1	32.7	114.0	28.7	43.2
Intra-CIS	38.5	11.6	28.2	41.9	21.8	17.4
Non-CIS countries	150.7	34.8	33.6	72.1	32.7	57.0
Russian Federation*, to and from:*						
World	131.5	26.5	40.9	56.7	21.8	59.4
Intra-CIS	20.3	-10.9	53.5	13.3	-15.1	32.9
Non-CIS countries	111.1	33.4	39.4	43.4	33.1	64.6
Eastern Europe	18.8	21.3	43.0	4.6	30.2	55.8
Baltic States	4.6	25.4	17.1	0.7	21.8	111.2
Central Europe	11.8	15.6	49.3	3.6	30.5	49.1
South-Eastern Europe	2.4	42.2	62.2	0.3	45.1	22.2
Developed market economies	61.0	37.7	45.5	27.8	34.1	62.9
European Union	50.6	35.9	48.6	21.7	30.9	71.7
Developing countries	26.7	33.6	31.0	10.9	31.0	74.9
CIS excluding Russian Federation*, to and from:*						
World	57.7	38.1	15.4	57.4	35.5	28.8
Intra-CIS	18.2	36.8	9.7	28.7	38.8	13.0
Non-CIS countries	39.5	38.7	18.0	28.7	32.2	45.4

Source: IMF, *International Financial Statistics.*

[a] Calculated on the basis of value expressed in dollars.

Table 3
Foreign direct investment in economies in transition, 1995-2005

	Cumulative FDI inflows	*Cumulative FDI per capita*	*FDI inflow per capita*			*FDI inflow as share of GDP*		
	(1995-2005)	*(1995-2005)*	***2003***	***2004***	***2005***	***2003***	***2004***	***2005***
	($ millions)	*($)*	*($)*	*($)*	*($)*	*(%)*	*(%)*	*(%)*
EU-8	**18 2692.0**	**2 493.0**	**112.0**	**310.1**	**363.3**	**1.7**	**4.0**	**4.1**
Czech Republic	49 587.0	4 852.1	185.1	387.1	991.7	2.1	3.7	8.3
Estonia	5 848.6	4 398.4	568.9	585.0	1 691.0	8.3	7.0	17.2
Hungary	35 636.8	3 529.2	47.2	349.9	516.7	0.6	3.5	4.8
Latvia	3 885.7	1 684.3	109.9	257.1	215.3	2.3	4.3	3.2
Lithuania	4 812.1	1 402.5	41.1	148.1	198.2	0.8	2.3	2.7
Poland	67 624.0	1 755.1	111.0	306.7	162.7	2.0	4.9	2.2
Slovakia	12 535.0	2 320.9	101.6	233.1	305.5	1.7	3.1	3.6
Slovenia	2 762.7	1 404.7	-70.7	140.8	-36.7	-0.5	0.9	-0.2
SE Europe	**54 545.4**	**1 018.3**	**154.6**	**201.9**	**217.5**	**5.7**	**6.0**	**5.6**
Albania	1 585.4	506.6	57.5	110.2	82.6	3.0	4.5	3.2
Bosnia and Herzegovina	2 082.0	532.9	97.5	156.3	76.5	5.4	7.1	3.3
Bulgaria	11 903.9	1 540.8	264.2	356.9	297.4	10.4	11.4	8.6
Croatia	10 653.1	2 340.7	447.8	198.0	318.4	6.8	2.5	3.8
Romania	20 894.0	962.3	98.6	230.4	240.9	3.6	6.6	5.3
Serbia and Montenegro	6 173.0	587.7	133.6	98.1	192.3	7.2	4.5	9.7
The former Yugoslav Republic of Macedonia	1 254.0	616.5	47.4	76.8	47.7	2.1	2.9	1.7
CIS	**67 168.1**	**242.0**	**18.9**	**47.0**	**47.4**	**0.9**	**1.7**	**1.3**
Armenia	1 309.3	434.1	39.8	71.7	82.3	4.3	6.1	5.1
Azerbaijan	10 264.2	1 220.4	283.4	281.4	54.6	32.1	27.5	3.9
Belarus	2 417.5	247.8	17.2	16.6	31.0	1.0	0.7	1.0
Georgia	2 309.3	516.1	73.4	111.3	120.1	8.4	9.7	8.3
Kazakhstan	21 652.1	1 460.5	149.0	362.8	116.1	7.2	12.5	3.1
Kyrgyzstan	608.0	115.5	8.9	25.2	15.8	2.4	5.9	3.4
Republic of Moldova	1 044.5	248.3	16.8	35.1	53.6	3.6	5.7	7.7
Russian Federation	8 438.3	58.9	-12.2	11.5	10.3	-0.4	0.3	0.2
Tajikistan	502.0	77.1	5.0	42.3	5.5	2.1	13.1	1.6
Turkmenistan	2 093.0	433.0	48.1	74.3	62.1	2.1	2.9	2.2
Ukraine	15 306.0	329.3	29.7	36.4	162.1	2.8	2.6	9.2
Uzbekistan	1 224.0	46.0	2.7	7.1	9.4	0.7	1.6	1.8

Sources: IMF, *International Finance Statistics*; United Nations Department of Economic and Social Affairs, *World Population Prospects: The 2004 Revision.*

Table 4
International migration in the Russian Federation

	Migration inflows			*Migration outflows*		
	2002	*2003*	*2004*	*2002*	*2003*	*2004*
Total	**184 612**	**129 144**	**119 157**	**106 685**	**94 018**	**79 795**
Of which to and from:						
CIS countries	**177 314**	**119 661**	**110 374**	**52 969**	**46 081**	**37 017**
Armenia	6 802	5 124	3 057	1 114	1 098	654
Azerbaijan	5 635	4 277	2 584	1 704	1 771	1 336
Belarus	6 841	5 309	5 650	8 829	7 016	5 671
Georgia	7 128	5 540	4 886	964	939	740
Kazakhstan	55 706	29 552	40 150	13 939	14 017	12 504
Kyrgyzstan	13 139	6 948	9 511	1 080	959	656
Republic of Moldova	7 562	6 391	4 816	1 385	1 234	907
Tajikistan	5 967	5 346	3 339	827	922	549
Turkmenistan	4 531	6 299	3 734	272	251	168
Ukraine	36 806	23 418	17 699	20 585	16 744	13 115
Uzbekistan	24 951	21 457	14 948	1 400	1 130	717
Non-CIS countries	**7 298**	**9 483**	**8 783**	**53 716**	**47 937**	**42 778**
Germany	1 962	2 692	3 117	42 231	36 928	31 876
Israel	1 670	1 808	1 486	2 764	2 048	1 733
United States of America	455	484	518	3 134	3 199	2 919

Source: Federal State Statistics Service (Rosstat), *Russia in Figures, 2005: Statistical Handboook*.

Table 5
Status of economies in transition vis-à-vis the World Trade Organization, December 2005

	General Agreement on Tariffs and Trade (GATT)/World Trade Organization Date joined
Eastern Europe	
Albania	September 2000
Bosnia and Herzegovina	Negotiating
Bulgaria	December 1996
Croatia	November 2000
Czech Republic	January 1995
Estonia	November 1999
Hungary	January 1995
Latvia	February 1999
Lithuania	May 2001
Poland	July 1995
Romania	January 1995
Serbia and Montenegro	Negotiating
Slovakia	January 1995
Slovenia	July 1995
The former Yugoslav Republic of Macedonia	April 2003
Commonwealth of Independent States	
Armenia	February 2003
Azerbaijan	Negotiating
Belarus	Negotiating
Georgia	June 2000
Kazakhstan	Negotiating
Kyrgyzstan	December 1998
Republic of Moldova	July 2001
Russian Federation	Negotiating
Tajikistan	Negotiating

	General Agreement on Tariffs and Trade (GATT)/World Trade Organization Date joined
Turkmenistan	Not negotiating
Ukraine	Negotiating
Uzbekistan	Negotiating

Source: World Trade Organization (see www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm).

Table 6
Private sector activity in economies in transition, mid-2005

Share of GDP	*Countries*
75 per cent or over	Albania, Armenia,[a] Bulgaria, Czech Republic, Estonia, Hungary, Kyrgyzstan,[a] Lithuania, Poland, Slovakia
50-74.9 per cent	Azerbaijan, Bosnia and Herzegovina, Croatia, Georgia, Kazakhstan, Latvia, Republic of Moldova, Romania, Russian Federation, Serbia and Montenegro,[a] Slovenia, Tajikistan, The former Yugoslav Republic of Macedonia, Ukraine
Less than 50 per cent	Belarus, Turkmenistan, Uzbekistan

Source: EBRD, *Transition Report, 2005: Business in Transition* (London, November 2005), p. 4.
[a] Moved to the next group as compared to end of 2003.

Table 7
Selected indicators of progress in transition, 2005[a]

Rating	*Small-scale privatization*	*Large-scale privatization*	*Trade and foreign exchange system*	*Banking reform and interest-rate liberalization*
Less than 3	Belarus, Turkmenistan	Azerbaijan, Belarus, Bosnia and Herzegovina, Serbia and Montenegro, Tajikistan, Turkmenistan, Uzbekistan	Belarus, Turkmenistan, Uzbekistan	Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Georgia, Kyrgyzstan, Republic of Moldova, Russian Federation, Serbia and Montenegro, Tajikistan, Turkmenistan, The former Yugoslav Republic of Macedonia, Ukraine, Uzbekistan
Between 3 and 4	Azerbaijan, Bosnia and Herzegovina, Bulgaria, Republic of Moldova, Romania, Serbia and Montenegro, Uzbekistan	Albania,[b] Armenia,[b] Croatia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Republic of Moldova, Poland, Romania, Russian Federation, Slovenia, The former Yugoslav Republic of Macedonia, Ukraine	Bosnia and Herzegovina, Kazakhstan, Russian Federation, Serbia and Montenegro, Tajikistan, Ukraine	Bulgaria, Czech Republic, Kazakhstan, Latvia, Lithuania, Poland, Romania,[b] Slovakia, Slovenia

Rating	*Small-scale privatization*	*Large-scale privatization*	*Trade and foreign exchange system*	*Banking reform and interest-rate liberalization*
4 or over	Armenia,[b] Albania, Croatia, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Poland, Russian Federation, Slovakia, Slovenia, Tajikistan,[b] The former Yugoslav Republic of Macedonia, Ukraine	Bulgaria,[b] Czech Republic, Estonia, Hungary, Lithuania,[b] Slovakia	Albania, Armenia, Azerbaijan,[b] Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Kyrgyzstan, Latvia, Lithuania, Republic of Moldova, Poland, Romania, Slovakia, Slovenia, The former Yugoslav Republic of Macedonia	Croatia,[b] Czech Republic,[b] Estonia,[b] Hungary

Source: EBRD, *Transition Report, 2005: Business in Transition* (London, November 2005), p. 4.

[a] EBRD classification is based on a 1-4+ scale, where 1 signifies an economy with no reforms and 4+ a developed market economy. For more details, see EBRD, *Transition Report, 2005*, p. 5.

[b] Upgraded to the next group.