

Economic Cooperation in Central Asia

Introduction

This paper describes the perspective and developmental economic cooperation in Central Asia during transformation period and explains the role played by the region's distinctive political practices and economic structures. This report also focuses on the political and economic relations of Central Asia's states in recent years. Finally, the paper examines how deepening economic cooperation is encouraging greater political and economic cooperation across the whole of Central Asia.

After the collapse of the Soviet Union in 1991, the newly independent countries of Central Asia – Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, have faced the challenge to secure their independence by establishing proper institutional arrangements of political security and formulating testing strategies for economic development. Soon after this process, the Central Asia governments recognized that, in order to transition successfully from a centrally planned economy to one based on market institutions, the country's economy would need to integrate with region and global economy. In fact, they had to solve very difficult problem of cooperation into international political and economic structures. In order to solve this problem they needed quite clear understanding of the national economic and political interests in the long-term perspective. Economic cooperation would contribute to the economic stability and prosperity of the Central Asian countries. There is a large degree of interdependency between these five states, that is why economic and political relations between them would be essential as well as enable long-term intercommunication. From beginning many agreements have been signed (most political) or initiated in the last decade with the aim of increasing economic and political cooperation, however, real achievements have not been made in this regard. There are a number of factors, which influence the process of economic-political cooperation in the Central Asia. These factors include: the common culture, history, religion and mentality of these countries, which may be in some cases similar to each other. At the same time there are certain economic forces and political threats, which make

cooperation indispensable. In principle, the process of cooperation (integration) includes key components:¹

1. **Trade component.** By trade component we mean in fact trade regime or in practice elimination of trade barriers.

2. **Regulatory component.** This component has two dimensions – shallow and deep. By shallow dimension we mean that partners are solving issues related to trade, while deep integration means, in fact, that cooperation on regulatory issues goes beyond pure trade issues.

3. **Political component.** At the moment this component is one of the most important one. In fact this aspect refers to the problem of striking delicate balance between liberalization at the national level and reaching certain level of supranational in terms of managing different integration schemes.

On the basis of economic cooperation we also have to further develop coordinated efforts in the spheres of science and culture. These are the need to build transit infrastructure in these landlocked countries to make commerce of goods and energy possible. Terrorism threats, drug trafficking, and the use of water resources also make strong cooperation necessary. Problems with borders and visa regimes could also be solved with deepening cooperation.² In this region the minerals resource is more and also strong agricultural base. Much of the recent growth in the region has been achieved as a result of higher prices, increased production, and further investment in the minerals and agricultural sectors. These include gold mining in the, Kyrgyz Republic; gas and oil investment, production and export from Turkmenistan; petroleum exports and petrochemical production in Kazakhstan; and cotton production and exports from Uzbekistan and Tajikistan.

Economic Cooperation in the Central Asia during Transformation Period

In period of transformation to market economic the Central Asia's countries have put together a booming economic performance since 1995 (see Table 1). The result of analyzing economic situation in the Central Asia showed that from 1997 to 2001, annual GDP grew by 6.1% per year in the Central Asia as a whole compared with negative growth (–8.0) in the previous five years. If we look to the recently 3 years, growth rebounded to a spectacular 9.9%. Although from a low base, the region's performance is the highest in the post-transition period for any group of countries in the Soviet sphere and compares favorably with the fastest-growing economies in Asia and the rest of the developing world. In 2005, the region's

¹ Ye. Gaidar, Director, Lecture on the International Conference “Economic Growth: Post-Communist Times,” Moscow Institute of the Economy in Transition, 20–21 March, 2002, p. 8–9.

² V. Czakó, Report: “The Prospects and Problems of Central Asian Integration,” ICEG EC Opinion VI, 2005, p. 6.

growth was well over 9%, reflecting high commodity prices, buoyant international demand and other country-specific factors discussed below.³

Table 1. Volume indices of Gross Domestic Product (constant prices)

	As percentage of the previous year						
	1995	1997	2000	2002	2004	2005	2006
Kazakhstan	-8.2	101.7	109.8	109.8	109.6	109.7	110.6
Kyrgyzstan	-5.4	109.9	105.4	100.0	107.0	99.8	102.7
Tajikistan	-12.4	101.7	108.3	110.8	110.3	106.7	107.0
Turkmenistan	—	—	—	—	—	—	—
Uzbekistan	-0.9	105.2	103.8	104.0	107.7	107.0	107.3

Source: Interstate Statistical Committee of the Commonwealth of Independence States.

The rate of economic development was different in these countries because after getting independence in these countries the political and social-economic situation was in different condition. According to Figure 1 after 2000 the rates of economic development in Kazakhstan, Tajikistan and Uzbekistan were in the range of 5–16 per cent, making them among the fastest-growing in the world in 2001. Such growth was driven by increased levels of private domestic consumption and exports, the latter being boosted by higher prices of oil and other primary commodities, on which most of the subregion was heavily dependent. In addition,

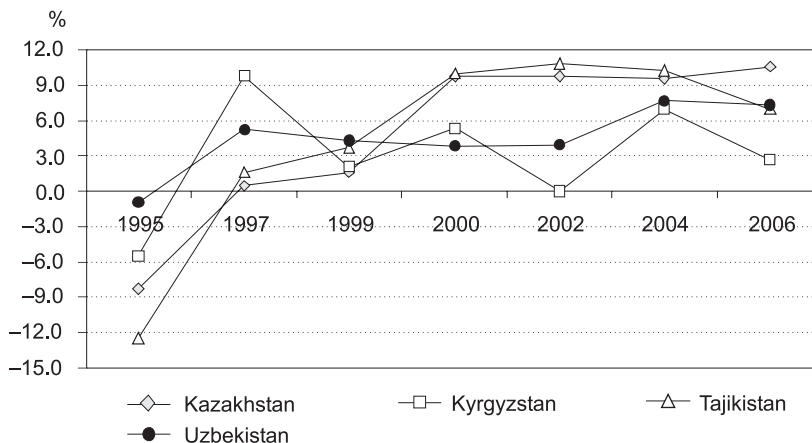


Figure 1. Volume indices of Gross Domestic Product

³ http://www.cisstat.com/eng/macro_an.htm, <http://www.cacianalyst.org/?q=node/350>; M. Dowling, G. Wignaraja, "Central Asia's economy: mapping future prospects to 2015," Silk Road Paper, July 2006, p. 7–10.

according to estimates from the European Bank for Reconstruction and Development, real GDP remained 30 per cent below the 1989 level in absolute terms. Even the preliminary analysis of these countries' foreign trade (see Table 2) gives clear indications that most Central Asian countries in their foreign trade switched to non-CIS countries with Russia retaining its positions.

Their exports consist originally of raw materials while imports include equipment and consumption of goods. Furthermore, trade growth diverse from country to country, the balance of trade with all the countries of the region being debit in Kazakhstan and, in contrast, credit in Tajikistan. This realization led almost immediately to initiatives to liberalize Central Asia's foreign-trade regime. The governments lowered tariffs significantly, reduced quotas, diminished import trade subsidies, and formally applied in June 1993 to become a member of the General Agreement on Tariffs and Trade (GATT) – the predecessor of today's World Trade Organization (WTO). When trade is restricted, a large portion of the population, specifically merchants in cross-border trade, become disgruntled with the political leadership. Even more frightening is the likely possibility that larger, wealthier business leaders that normally would not consider supporting more radical factions in Central Asia might be pushed to do so and exacerbate regional instability.⁴

Table 2. Foreign Trade of Central Asia's states (2000–2006)*

	2000			2005			2006		
	total	CIS countries	other countries	total	CIS countries	other countries	total	CIS countries	other countries
Export									
Kazakhstan	8812	2337	6475	27 849	4067	23 782	38 250	5574	32 676
Kyrgyzstan	504	207	297	672	303	369	794	379	415
Tajikistan	784	374	410	909	178	731	1399	186	1213
Turkmenistan**	2506	1314	1192	–	–	–	–	–	–
Uzbekistan**	–	v	–	–	–	–	–	–	–
Import									
Kazakhstan	5040	2732	2308	17 352	8134	9218	23 677	11 064	12 613
Kyrgyzstan	554	298	256	1101	679	422	1718	991	727
Tajikistan	675	560	115	1330	864	466	1723	1100	623
Turkmenistan	1785	678	1107	–	–	–	–	–	–
Uzbekistan	–	–	–	–	–	–	–	–	–

* http://www.cisstat.com/eng/macro_an.htm

** Information about these countries is not available.

⁴ Central Asia Strategy Paper 2002–2006, Indicative Programmes 2002–2004, Asian Development Bank 2002, p. 5–10.

In spite of their public statements, Central Asian authorities have so far proved disinclination to resolutely embark on implementing economic reforms. This is affecting the performance of the regional economy and its cooperation into the world economy. Heavy debt burdens, lack of foreign investment, underdeveloped financial and private sectors and weak fiscal and budgetary policies are common characteristics. So are widening income disparities, inefficient mobilization and use of public revenues, poorly selected public investment portfolios and deteriorating public services and infrastructure, leading to a decline in living standards, particularly in rural areas. Lagging reform of the agricultural sector and low productivity has led to widespread poverty in the countryside.

Table 3. Economic structure of the countries in the region*

Group 1	Group 2	Group 3	Group 4
1. Production of agricultural goods: cotton, tobacco, wool, grain, etc. 2. Mining and primary processing of natural resources and their derivatives (oil, natural gas, metals, ores, etc.)	3. Investment sphere: primarily mechanical engineering, instrument making, etc. 4. Consumption-based industries: food and light industries, house-building, etc. 5. Modern branches: banking, informatics, etc.	6. Infrastructure industries catering for public demands: gas and electricity supplies, other housing and communal services, communication, etc. 7. Infrastructure industries catering for the State's requirements: road construction, national health service, education, etc.	8. Family businesses, primarily personal subsidiary plots.

* S. Sleptchenko, Report: "Economic Trends in Central Asia: Integration or Disintegration," Head, Analytical Service, Bishkek Trade Development Chamber, Analytical Consortium "Perspective," Kyrgyzstan 2002, p. 3–5.

The agricultural sector in national economy of these countries take part in the basic place which provides rustic populations with sufficient income and food security due to the constraint posed by poor property rights, lack of inputs, including access to technology and processing facilities, difficult marketing conditions, and low number of investments in infrastructure. General poverty aggravates the risk of racial and social conflicts, including across borders or over issues such as water and land law. Success in the fight against poverty is of highest importance if ethnic and religious extremism is not to feed on social and economic inconstancy. The macroeconomic context, particularly the severe limits on state budgets and administrative capacity, suggests that the potential for poverty reduction through economic growth in the Central Asia lies in utilizing existing human and physical capital more efficiently and setting appropriate conditions for development of private initiatives at the local level. Economic cooperation of the Central Asian coun-

tries within the Soviet Union and their inclusion in a common administrative region for regional planning, however, did not provide adequate infrastructure to facilitate their trade with each other once independence was achieved.

After the collapse of the Soviet Union, many newly independent Central Asian countries, inherited economic and industrial structures designed to cater to the Soviet Union market but not to local (Republic) economies. As a result they realized there was a need to renew economic cooperation, as evidenced by the establishment of the Central Asia countries, however, part of various regional trade agreements (see Table 4). The ultimate goal of the project is establishing the so-called organization of regional cooperation. This Agreement envisages:⁵

- 1) establishing common economic space;
- 2) coordinating economic policy in a number of fields;
- 3) harmonization of respective legislation;
- 4) establishing “single regulatory interstate independent commission on trade and tariffs;”
- 5) coordination of WTO accession efforts.

There is a high level of interdependency between the Central Asian countries. In spite of very important cooperation, the countries are waging small-time cold wars against one another over water and energy distribution, transit and borders. Kyrgyzstan and Tajikistan have been irritated and even disillusioned by certain actions of the Uzbek authorities. Kyrgyzstan is unhappy about the regular interruptions of gas supply from Uzbekistan, Tajikistan about land mines planted by Uzbek frontier guards along the Tajik border and difficult transit through Uzbekistan’s territory. Uzbekistan, in turn, has unsettled border issues with almost all the Central Asian countries, with the exception of Kazakhstan. At present energy and water disputes are common among the five countries in the Central Asia. Uzbekistan and Kazakhstan as downstream countries depend on the upstream countries, the Kyrgyz Republic and Tajikistan for the supply of water resources for irrigation and agricultural activity. At the same time the former two countries (along with Turkmenistan) are rich in fossil fuels, while the latter two states located in mountainous regions lack of oil and gas. Instead of cooperation, disputes are more common among them. Uzbekistan and Kazakhstan are reliant on water from the Kyrgyz Republic and Tajikistan mainly for agriculture but also for electricity.

One of the main problems is transit borders which were objectively conditioned in 1924 by the Soviets, who planted “time bombs” under the foundation of the future regional security when they created the national-territorial divisions in the Central Asia. Almost every country in the region has in its territory enclaves that

⁵ S. Primbetov, “Central Asia: Prospects for Regional Integration,” [in:] B. Kaminski (ed.), *Economic Transition in Russia and the New States of Eurasia*, M.E. Sharpe, Armonk N.Y. 1998, pp. 159–170.

Table 4. Plurilateral agreements involving Central Asia countries⁶

Organization	Date of establishment	CIS States, Central Asia
Economic Cooperation Organization (ECO) (ECO Trade Agreement)	1985	Afghanistan, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan (1992)
Economic Cooperation and Organization	1992	Afghanistan, Azerbaijan, Iran, Kazakhstan, Kyrgyzstan, Pakistan, Tajikistan, Turkey, Turkmenistan and Uzbekistan
Central Asian Union	1994	Kazakhstan, Kyrgyzstan, Uzbekistan, Turkmenistan and Tajikistan (1996)
Central Asian Cooperation Organization (CACO)*	1994	Kazakhstan, Kyrgyzstan, Uzbekistan (1994), Tajikistan (1998), Russian Federation (2004)
Economic Union of the CIS	1994	Armenia, Azerbaijan , Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine, Uzbekistan
Shanghai Cooperation Organization (SCO)	1996	Russian Federation, Uzbekistan, Tajikistan, Kazakhstan, Kyrgyzstan
Central Asia Cooperation Organization (CAREC)	1997	Azerbaijan, China, Kazakhstan, Kyrgyzstan, Mongolia, Tajikistan and Uzbekistan
Agreement on the Common Agrarian Market (CAM)	1998	Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russian Federation, Tajikistan, Ukraine, Uzbekistan
Eurasian Economic Community (EEC)	2001	Belarus, Kazakhstan, Kyrgyzstan , Russian Federation and Tajikistan

Source: TACIS (2001) updated by the UNECE and UNESCAP secretariats. SPECA countries are highlighted in bold.

* On 6 October 2005 in St. Petersburg, at the Central Asian Cooperation Organization (CACO) meeting, the heads of CACO states decided to merge CACO with the Eurasian Economic Community (EEC).

belong to its neighbors, and vice versa; for example, there are four Uzbek enclaves and one Tajik enclave in Kyrgyzstan, and there is one Kyrgyz enclave in Uzbekistan. To improve their international trade and transport systems in Central Asia countries may consider undertaking the following in collaboration with UNESCAP and UNECE through the SPECA framework:⁷

1) Establishing new or strengthening existing national trade and transport facilitation coordinating mechanism involving all major stakeholders from both the public and private sector.

⁶ *Regional Cooperation Strategy and Program Update 2006–2008*, Asian Development Bank 2005, pp. 78, 123, 125, 234.

⁷ W. Byrd, M. Raiser, A. Dobromogov, A. Kitain, “Economic cooperation in the wider Central Asia region,” World Bank Working Paper 75/2006, pp. 9–28.

2) Assessing trade and transport facilitation needs and priorities; developing national strategies and action plans for implementation of trade and transport facilitation instruments and tools; and implementing trade and transport facilitation instruments, tools and best practices.

3) Analysis of major trade routes, including inter-regional land and land-cum-sea transport linkages between SPECA countries and partners using UNESCAP methodology.

4) Accession to and implementation of relevant international Conventions and Agreements, including those developed by UNECE and which are reflected in UNESCAP Resolution 48/11 on road and rail transport modes in relation to facilitation measures.

5) Considering accession to and implementation of other major UNECE Conventions and Agreement related to transport facilitation.

6) Organizing bilateral consultations on border crossing issues in the framework of SPECA meetings of the Project Working Group on Transport and Border Crossing.

7) Establishing a road-map towards the application of ICT in trade and transport facilitation in line with internationally accepted standards and recommendations.

8) Capacity-building activities to establish new or enhance existing institutional and human capacities for implementation of trade and transport facilitation.

Conclusion

The study condition and development of economic cooperation in the Central Asia demonstrate that regional cooperation will not increase suddenly in the Central Asia in the near future. Because political relations does not let to increase cooperation in all fields of these countries but economic policy discourages midsized businesses that would most benefit from a free regional market. The political conflicts among the countries of the region and their inclination for dealing with outsiders, perceived to be more capable and less dangerous, are responsible for the failure to put rhetoric into reality. If regional cooperation is to increase, with all its benefits, it will require leadership from the inside or determined and patient assistance from the outside. It must be recognized that the situation in the region is such that its countries compete with each other economically for the same limited resources, which are not evenly distributed. What could be done to increase economic cooperation in the Central Asia countries?

Towards Closer Economic Cooperation:

- 1) The benefits of economic cooperation;
- 2) Economic cooperation and trade enhance the growth;
- 3) Potential and public welfare;
- 4) Fosters economic development in less developed countries;

- 5) Advances the transfer of knowledge and technological know-how;
- 6) Cooperation among neighbors stimulates global integration;
- 7) Beneficial for economic and political security;
- 8) Common economic interest is the basis for cooperation;
- 9) Countries seeking cooperation should identify their common interest;
- 10) In the absence of common interest political initiatives may be doomed.

Forms of Economic Cooperation and Integration:

- 1) Trade facilitation;
- 2) Joint economic projects;
- 3) Liberalization of merchandise trade (free movement of goods);
- 4) Unification of technical norms and standards;
- 5) Free movement of services, capital and labor;
- 6) Harmonization of macroeconomic policy;
- 7) Harmonization of economic legislation and regulation;
- 8) WTO membership is a vital step for closer cooperation;
- 9) Provides universally accepted norms and rules of trade liberalization;
- 10) A common basis for the deepening of economic links among countries.⁸

Generally, solving these problems and promoting effective cooperation in politics, economy, science and technology, culture, education, transportation and other fields of these countries can make high level of cooperation relations in the Central Asia region.

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