

# PROBLEMS OF ECONOMIC INTEGRATION IN CENTRAL ASIA

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The last three decades have seen a rapid boost in the number of multilateral agreements and critical improvements to global financial, transport and information infrastructures. These and other factors have promoted a high pace of global trade and a sharp increase in foreign direct investment (FDI) flows. Thus, regional economic integration is a natural reaction of the Central Asia countries to the new complexities of global economic and political conditions. Such regional security spaces in the form of interstate unions in their turn facilitate integration of the Central Asian countries into the real global economic system.

Tendencies towards regional integration rose sharply following the collapse of the USSR, because from its outset, the Commonwealth of Independent States (CIS) has adopted an amorphous formation. The severance of former economic ties and the lack of real management bodies caused a severe reduction in economic circulation. Tendencies of de-industrialization appeared, as existing and new businesses terminated all inefficient economic relations.

As a result, the role of the CIS in the world economy experienced a nearly two-fold decline: GDP declined from 5% to 2.5 % in 1998; industrial output fell from 7.1% to 3%, whilst exports contracted from 2.6% to 1.6% of the global total. It became obvious that without some alignment of customs, tax, payment, and currency policies it would be very difficult for any Central Asian country to develop its economy.

The economic integration of Central Asian countries is a natural process owing to many factors such as common historical experience, similarities in culture, religion, style of life, mentality of population, and so on. Common threats to the national and regional security of the Central Asian states are important factors in this concern as well. Among them: ecological problems, including the drying up of the Aral Sea, the growth in the activity of religious extremism and terrorism in the Central Asian states, social and economic tensions in

Tajikistan, civil war in Afghanistan and the fact that this state is now the largest centre of political religious extremism and terrorism, drug trafficking and weapon smuggling in Asia, if not the world.

Thus, the new independent states of Central Asia have a lot of common interests in political, social, economic and other fields. Therefore, regional economic integration and cooperation - needed to secure social, economic and political security in Central Asia - must be free from political ambitions of its participants and become a catalyst for integration both at regional and CIS levels.

Real economic integration started in April 1994 when the heads of Uzbekistan, Kazakhstan, and Kirgizstan signed the agreement on the creation of the Common Economic Space (CES). Later, on 17 July 1998, on the suggestion of the Uzbek President Karimov, the CES was transformed into the Central Asian Economic Union (CAEU) to accelerate productive regional economic cooperation. Tajikistan joined the Union in March 1998. In January 2001, the participants of the CAEU supported the suggestion of Karimov to transform CAEU into the forum of CAEU countries.

The CAEU provides for the free movement of goods, capital, and labour and for collaboration regarding payment, budget, monetary, taxation, price, customs and currency policies. For effective coordination of integration processes, the CAEU has created the Interstate Council of Union countries and Central Asian Bank for Cooperation and Development.

Today, the CAEU is a powerful union in the CIS. Its territory covers 3.4 million sq.km. and it has a population of over 50 million people (20% of the CIS population). It occupies a linking location between western and eastern parts of Eurasia and is an intermediate between the advanced North and developing South. Its location combined with an abundance of resources make Central Asia an important theater of global politics. The abundance of mineral resources, including oil and gas, attracts foreign investors. However, one should not consider Central Asia merely as a raw material appendix of advanced states. That is why the CAEU has the task of achieving a principally new international political and economical status as an industrial region capable of playing an important role in the formation of a new world order for the 21st Century.

There is no doubt that the Central Asian countries carry out

different strategies of economic development. Nevertheless, Central Asian cooperation is necessary for two reasons, firstly to ensure regional security, and secondly because mutually beneficial economic interdependence is not a precondition for integration, but its output. On the route towards deeper regional integration, the Central Asian countries perceive more and more a need for a critical improvement of the environment policies in each state, the common use of hydro-energy resources in the region, and the taking of common efforts to develop natural resources.

A prime example is the Aral Sea crisis. Even though international donors have provided financial aid, a principal solution of the problem is possible only with the efficient coordination of all Central Asia states. Another example is the water resources problem that is still on the agenda at the moment. This caused a severe imbalance of economic interests between Kirgizstan, Kazakhstan and Uzbekistan that very much impacted on the development of agriculture in Uzbekistan. However, mechanisms of regional economic integration are constantly improving and these have allowed the three Central Asian countries to achieve an accommodation on the problem. These and other examples show that the Central Asian states have open common interests on key positions and hence regional economic cooperation is strongly required for the efficient development of each country.

Uzbekistan and Kazakhstan have been more successful than other states in Central Asia in the economic and political spheres. These countries have a greater potential for expanding their foreign economic sector, have recorded a more dynamic macroeconomic development and are not burdened by a heavy foreign debt. Uzbekistan and Kazakhstan are therefore more successful in attracting FDI.

However, Kirgizstan and Tajikistan do not seek a passive role. These countries are making concerted efforts to be leaders as well. Unfortunately, Turkmenistan with its "neutrality" position still conducts a policy of adapted expectation and chose adjacent Iran and Pakistan as its integration priorities. It seems Turkmenistan will not consider itself as an active player of economic regional integration in the near future.

In transforming their economies, the countries of Central Asia are more actively turning their foreign economic policies into "open door" policies. The countries of the region are becoming today a new favourite of foreign investors. FDI stock in the region has already

reached US\$9bn (or 30% of the CIS total). Central Asian FDI policies focus on the modernised industrial sectors of the economy. Uzbekistan and Kazakhstan have shown a greater potential in this regard.

Foreign trade has increased in CAEU countries, which show a keen interest in regional trade as well. Uzbekistan conducts its foreign trade policies based on principles elaborated by the President. It has to provide:

- development of trade and economic ties regardless of ideologies;
- equal and mutually beneficial cooperation both on a bilateral and multilateral basis;
- norms of international law must take precedence over national laws, with the principles of the WTO being recognised within the context of the gradual liberalisation of the Uzbek foreign trade regime and with the aim of entering this organisation in the future;
- observance of an optimal balance between competition and cooperation, with the promotion of FDI providing an inflow of modern technologies.

Today, Uzbekistan is a permanent member of 30 prominent world economic organisations. Reforms in Uzbekistan have drastically changed the structure of foreign trade turnover, expanded the reach of foreign trade, and diversified exports. More than 140 states in the world are now foreign trade partners of Uzbekistan. Exports go to 80 of them. A favourable trade regime is provided for 38 countries; agreements "on promotion and mutual protection of investment" have been concluded with 39 countries.

The main tasks to improve the foreign economic sector in 2001 are as follows:

- further development of export potential and achievement of exports growth;
- improvement of promotion system for producers and exporters;
- development of international transport communications;

- attraction of FDI into the industrial sector of the economy.

Central Asian economies are not yet ready to introduce duty free regional trade whilst fixing firm customs tariffs for other competitors. To open foreign trade regimes, all countries in Central Asia have to strengthen their industrial base, develop export potential, increase and diversify export output of secondary industries, and make their national currencies fully convertible.

That is why thorough liberalisation of the foreign sector is a serious step for the transition economies of Central Asia. In particular, entering the WTO means the complete elimination of non-tariff barriers and a constant reduction of import duties. The experience of Kirgizstan has shown that joining the WTO will immediately require a reconsideration of many earlier approved principles. Any careless step would threaten further progress with regional economic integration.

The CAEU should be allowed to develop and evolve gradually. As the experience of the Customs Union between Russia, Belarus, Kazakhstan, Kirgizstan and Tajikistan has shown, efforts to achieve prompt integration at any cost to satisfy political ambitions cause damage to the Union itself. Participants in this Union still change accommodated tariffs not only for production from third countries but also from within the Union itself.

Differences in population, size of market and territory are strong factors that cause the inequality of states and forces in the region. Nevertheless, as the experience of South East Asia has shown, small countries such as Singapore and Malaysia have increased the integration potential of ASEAN. However, these countries have enjoyed successful economic development. The geopolitical structure of Central Asian countries cause difficulties as well. Kazakhstan has comparative advantages in this concern. At the same time, the large central territories of Kazakhstan unfortunately have unfavourable climate and natural conditions that make it difficult to fully develop its economic potential. Kirgizstan and Tajikistan are formed from wide valleys and high mountains, locations that bring about sharp differences in living standards. Uzbekistan is situated in the very centre of Central Asia. Having boundaries with all countries of the region and being a key link between West and East, Uzbekistan has the chance to become a leader of Central Asian integration. At the same time, Uzbekistan suffers from the absence of any direct access to the sea, which causes difficulties for foreign trade.

To improve territorial problems, the Central Asian states seek to attract foreign investment into transportation and communication as a strategic priority of integration. The greatest importance is being paid to the "Great Silk Road" including the realisation of the program TRASECA, which will allow those countries that are abundant with natural resources to get access to world markets. Uzbekistan, for instance, used new transport corridors for 50% of its exports in 2000. Those countries suffering from a lack of resources could receive large profits from transit operations.

The proliferation of religious extremism and terrorism may, due to a number of factors, become a long-lasting problem in the Central Asian region and hinder integration. The countries in the region are undertaking measures to prevent and counteract extremism and terrorism. In particular, they are enforcing borders and strengthening visa and customs regimes.

Despite certain successes, economic integration in Central Asia has spontaneous and contradictory elements as well. Even though integration covers over 50 projects in metallurgy, machine building, light industries, transportation and others, there are no still firm mechanisms to realise projects, whilst many projects are simply not realistic. As a result, nearly 60% of planned measures have not been realised because of various reasons.<sup>1</sup> Today, the countries of Central Asia build up bilateral relations more successfully with third countries. Uzbekistan has already realised over 50 projects with Germany alone.<sup>2</sup> It should be noted in this regard that there is a strong lack of a scientific foundation for integration processes. That is why the present colloquium is deeply welcomed.

The Central Asian countries have failed to achieve mutual convertibility of their national currencies. A legislative foundation for Central Asian economic integration is being created slowly. The coordination between customs, credit, tax, price, and budget policies is not still efficient. There are failures in solving transport communications problems. Interregional private investment flows go slowly as well. The CAEU states do not always consider regional relations as a priority in establishing relations with other countries. Thus, the slowdown in integration is mainly caused by economic problems in all Central Asian countries.

Another main problem that prevents further economic integration between the Central Asian states is finding ways to improve mutual understanding between patricians. It is natural that regional integration

should be based on principles of good neighbourhood, observance of a balance between political and economic interests, and non-interference into the affairs of other CAEU states, excepting cases set in the agreement. Uzbekistan does not welcome the creation of any supreme regional management body that would have a right to interfere directly in the integration process and thereby limit its sovereignty and independence.

The economic integration of Central Asian states is open in its nature, and is free from any tendencies towards isolation. It is possible to increase the number of CAEU states - at the expense of Turkmenistan's participation - that would expand the economic potential of the region. At the Bishkek meeting on 24 June 1999, Ukraine, Georgia, and Turkey received observer status in the CAEU. Participation in CAEU does not mean the strict following of only one direction of integration. The CAEU successfully harmonises with other integration formations in the CIS such as GUUAM<sup>3</sup> and the Customs Union. Integration at different levels should follow a principle of mutually beneficial economic cooperation, rather than separation from each other.

Uzbekistan supports the thorough and productive development of economic integration. The Uzbek President, Karimov, has emphasised that the involvement of Uzbekistan into Central Asian integration is not "an integration mode... This is our way of independence and progress in the 21st Century".<sup>4</sup> Furthermore, one should "join efforts to realise concrete economic projects, especially regarding the rich natural resources of the region, energy and water resources, transport communications, construction of gas and oil pipelines, and solving the ecology problems of the region."<sup>5</sup>

Central Asian countries aim to further deepen economic and financial ties, seek civilized solutions to payment problems, and to activate mutual relations at macro and micro levels, in particular SME development. Joining enterprises in the high technology sectors to realise the latest achievements of scientific progress should also serve as a foundation for integration. Moreover, joint forecasts of development in Central Asian economies should also foster economic integration. This may promote the implementation of interstate investment projects developed at the micro or enterprise level.

In conclusion, one could say that ideas of regional integration are being realised. In spite of the many difficulties outlined above, the process of regional economic integration is accelerating. Given

efficient macroeconomic policies in every country in Central Asia, their abundant human and natural resources, and the productive coordination of interstate economic efforts, the region will undoubtedly become one of the strongest regions in the world in the 21st Century. Solving economic difficulties alone will encourage integrationalist tendencies.

The main aim for economic integration should be the achievement of balanced economic growth in every country of the region, striving to equal the distribution of productive forces based on principles of comparative advantage. This will provide economic and ecological security for Central Asia. One should also, naturally, pay attention to the monitoring of agreements to help ensure their realisation.

1. Saidazimova G. "Integration in Central Asia: realities, challenges, opportunities". Central Asia and Caucasus, No.3, 2000.
2. Narodnoe slovo No. 64, 2001
3. GUUAM-integration formation consisting of Georgia, Ukraine, Uzbekistan, Azarbaijan and Moldova.
4. Karimov I.A. "Uzbekistan at the eve of XXI century: threats to security, conditions and guarantees of progress". Uzbekistan, volume 6, 1998, (Russian language) p .244.
5. Speech of Karimov at the first session of Oliy Majlis of the second calling, "Our supreme aim is independence and prosperity of Nation, freedom and prosperity of the population of Uzbekistan". Uzbekistan, volume 8, 2000, (Uzbek language) p .348-349.