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The prospects and problems of Central Asian integration

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INTRODUCTION

The focus of this study is the development of the relationship between the five CIS countries in Central Asia (Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan) since the disintegration of the USSR, and the reasons why their cooperation would be desirable in the future. However there are various factors that keep these countries from stepping on the road of economic integration. Instead of cooperating, the relationship of the Central Asian countries can often be characterized as tense.

All five countries in question are landlocked, and located in Central Asia. They form a strategically important region in terms of natural resources and transport routes (providing the possibility of improving transport infrastructure and making new transport routes on land between South Asia and Russia and the rest of Europe). The development of Central Asia into a safe and democratic region is in the interest of all the great powers of the world. A stable Central Asia could contribute to the curbing of the trade of illegal drugs, as a large portion of the opiates produced in Afghanistan is transported through this region to world markets (most of all to Europe and Russia). At the same time the reduction in drug trafficking would contribute to the stability of some of these countries. The region's richness in natural resources, most of all in fossil fuels increases its strategic importance.

At the same time the political regimes in these countries can be characterized as despotic and corrupt. The degree of despotism and corruption varies between the countries. Their presidents have been in office since the fall of the Soviet Union, apart from the Kyrgyz Republic, where an uprising took place in March 2005 that caused the fall of Askar Akaev.

COUNTRY CHARACTERISTICS

Kazakhstan

Kazakhstan is the largest of the Central Asian republics. It is bordered on the west by the Caspian Sea. It has enormous fossil fuel reserves as well as other natural resources. Its main export industries are sectors of metal mining industry, fuel industry and metallurgy. The chemical, light and food industry, engineering and the building materials industry are less developed and produce mainly for domestic use.

Rangelands make up a large portion of the area of Kazakhstan. More than one third of its population depends on these grasslands for a living. The main agricultural activity is grain production. On irrigated lands on the south rice and cotton are also grown. Livestock (sheep, cattle, horse) breeding is important as well. However the agricultural population mostly lives in poverty in Kazakhstan. The rangelands are scattered by radioactive and toxic chemical sites that are a legacy of former defence industries from the soviet era. There is also severe industrial pollution in some cities. The vast rangelands could gain in strategic importance due to carbon trading in the future.

Kazakhstan has been enjoying an economic upturn in recent years, due to the high world prices of fuel resources. GDP growth reached over 9 percent in 2003 and 2004. A good harvest, economic reform, and foreign investment also contributed to the economic upturn. GDP per capita reached an estimated \$7,800 in 2004 (on purchasing power parity). In the future the diversification of the economy is necessary, as the over dependence on oil is making the economy vulnerable to external shocks. More emphasis should be laid on the development of light industry. Kazakhstan participates as an observer in the WTO, and is aiming for membership.

Kyrgyz Republic

The Kyrgyz Republic is a mountainous country. Its natural resources and exports include gold, mercury, antimony, uranium, natural gas and electricity. It is mainly an agricultural country, with livestock (sheep, cattle and horse) breeding being the most important activity. Cotton and tobacco are partly grown for export, while grain, fodder, fruit and vegetables are grown for domestic consumption. Light industry (pre-processing of wool and cotton) and mechanical engineering are also present in the Kyrgyz Republic. The rate of economic growth reached 6 percent in 2003 and 2004, showing a recovery after the fall in GDP growth due to the closure of the Kumtor gold mine in 2002.

The Kyrgyz Republic has been fairly successful in adopting liberal economic policies. Its recently fallen president, Askar Akaev was the only post-soviet ruler in Central Asia, who has not been a lifelong communist, and who was eager to introduce liberal economic policies.

Market reforms, such as the land reform, and improvement of the regulatory system have been carried out. The country has been a member of the WTO since 1998. GDP per capita reached an estimated \$1,700 in 2004 (on purchasing power parity). The Kyrgyz Republic is the most reliable partner of the EU in Central Asia. There are no trade defence measures, in either direction, between the EU and the Kyrgyz Republic. At the same time their trade relations are extremely limited.

Tajikistan

Tajikistan is the poorest of the five countries in Central Asia. A civil war took place in the country between 1992 and 1997. Tajikistan is also mountainous. It has many natural resources, but only in limited quantities. These include silver, uranium and gold. The country also has hydroelectric potential. Industrial activity is carried out in Tajikistan by one aluminium plant, hydropower facilities, and some small factories in the light industry (ginning, cotton industry, and carpet weaving), and food processing. Cotton (the most important crop) growing, silk production and food growing are the key agricultural sectors producing for export. Livestock breeding (sheep and horse), as well as the cultivation of grain, tobacco and cereals supplies the internal market.

The state of the Tajik economy can be characterized as weak, with widespread unemployment, lack of structural reforms, weak governance, and a high debt burden. GDP per capita reached an estimated \$1,100 in 2004 (on purchasing power parity). Tajikistan is in the early stages of seeking WTO membership. Tajikistan has a liberal foreign trade regime. Most prices are liberalized, except for public utility services.

Turkmenistan

A large part of Turkmenistan is occupied by the Kara-Kum desert. The country lies on the shore of the Caspian Sea. It has large gas and oil reserves. There is intensive agriculture in irrigated oases. The most important crop is cotton, but grains, vegetables, melon, and fodder are also grown. The most popular livestock are sheep. Cattle, horses and camels are bred as well. The economy is based on oil and gas production, cotton fabric manufacture and light industries (chemical industry, pre-processing of cotton and wool, silk cocoons). Turkmenistan depends on oil and gas for 80 percent of its revenues.

The rate of GDP growth in Turkmenistan is uncertain, as economic statistics are state secrets. The economic outlook of the country is quite dim, as internal poverty is widespread, the foreign debt burden is high, and oil revenues are subject to mismanagement by the authoritarian government. GDP per capita reached an estimated \$5,700 in 2004 (on purchasing power parity). The degree of despotism in the Central Asian countries is the highest in Turkmenistan.

Uzbekistan

A large part of Uzbekistan is occupied by the Kizil-Kum desert, but the southern part of the country is suitable for agricultural activity. Uzbekistan is the world's second largest cotton exporter. Other export products include gold and oil. The country is an important regional producer of chemicals and machinery. Agricultural production is carried out on irrigated lands. The most important crops are cotton, wheat, tobacco, ambary and oil containing varieties of cereals (rice and corn). The country faces serious environmental problems, such as the speeding up of desertification, the drying out of the Aral Sea, water pollution from industrial waste and heavy use of fertilizers, and pesticides, including DDT.

Uzbekistan can be characterized as a largely closed economy, with tight export and currency controls. GDP growth rate reached 4.4 percent in 2004, but statistics are highly unreliable, as growth rate estimates are inflated by understating the true rate of inflation. GDP per capita reached an estimated \$1,800 in 2004 (on purchasing power parity). Uzbekistan is an observer in the WTO. The human rights situation has been deteriorating in Uzbekistan since February 1999. The authoritarian political regime of the country was challenged, but not toppled by protests in May 2005.

FORCES SUPPORTING AND FORCES STANDING IN THE WAY OF INTEGRATION

Integration would contribute to the economic stability and prosperity of the Central Asian countries. There is a large degree of interdependency between the five states, therefore cooperation would do good for all of them in the long term. Even though numerous agreements have been signed or initiated in the last decade with the aim of increasing economic and political cooperation, real achievements have not been made in this regard. Lack of political will on the part of the ruling elites has been one of the most important obstacles in the integration process.

There are a number of factors, which serve as a basis for Central Asian integration. These include the common culture, history, and mentality of these countries. At the same time there are certain economic forces and political threats, which make cooperation indispensable. 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 integration.

At present energy and water disputes are common among the five countries in Central Asia. There is high interdependency between them in this regard. 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 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.

The functioning of the Toktogul reservoir located in the Kyrgyz Republic causes the most serious disputes. It is a reservoir on the Naryn river, which is the main source of the Syr Darya. Water is released from the reservoir in the winter months to produce electricity and ensure heating in the northern regions of the Kyrgyz Republic. The excessive water supply often causes floods downstream. In addition to this, the downstream countries, Uzbekistan and Kazakhstan would need additional water release in the summer months for irrigation. When the Kyrgyz Republic does not release enough water in the summer, Uzbekistan does not provide enough coal and fuel supplies to the mountainous country in the winter. This forces the Kyrgyz Republic to release even more water from the reservoir in the winter. Therefore the lack of cooperation has detrimental effects for both countries.

In recent years Central Asian countries' bad relations reached such a level, that Uzbekistan has mined its border with the Kyrgyz Republic and Tajikistan in the Ferghana Valley (hardly a sign of cooperation and a willingness to integrate). This led to casualties, including death.

Uzbekistan has also cut gas supplies to the Kyrgyz Republic and the south of Kazakhstan numerous times. As a result Kazakhstan refused to let Uzbek goods through its territory. The relationship between Kazakhstan and Uzbekistan is also under pressure, because both countries are seeking to become leaders of the Central Asian region.

Of the five Central Asian countries Turkmenistan has been the most reluctant to cooperate with the others. Its reluctance to join regional alliances resulted in isolation. Turkmenistan is also in a dispute with Kazakhstan concerning the legal status of the Caspian Sea.

Russia is also acting against Central Asian integration, because it wants to keep its geostrategic leadership in the region. Close cooperation and integration of the five Central Asian countries would reduce Russia's influence. Therefore it is in the interest of Russia to keep its role of arbiter in the (quite often occurring) disputes between the countries. A prerequisite of this is, that disputes continue to come up and cannot be resolved by the countries themselves.

EXISTING REGIONAL TRADE AND COOPERATION AGREEMENTS AND INITIATIVES

Since the disintegration of the USSR a number of regional cooperation agreements and bilateral trade agreements were created between, or with the participation of the five Central Asian countries.

Bilateral agreements

The Partnership and Cooperation Agreements (PCAs) between the EU and Uzbekistan, between the EU and Kazakhstan, and between the EU and the Kyrgyz Republic have been operational since 1999. The PCA between the EU and Turkmenistan has been signed in 1998, but its ratification is still not complete. A PCA between the EU and Tajikistan has been initiated in December 2003.

There are various bilateral agreements between the EU and the Central Asian countries, such as the agreements operating or under ratification between EURATOM and Kazakhstan. The Textiles Agreements between the EU and the Kyrgyz Republic and the EU and Uzbekistan expired at the end of 2004.

Regarding Free Trade Agreements between the Central Asian countries, Uzbekistan is the most involved one. It has a Free Trade Agreement with all the other four countries in the region. Besides these, there is one more FTA in place among the Central Asian countries, between Kazakhstan and the Kyrgyz Republic.

Even though there are a number of Free Trade Agreements in effect between the Central Asian countries, their trade regimes cannot be characterized as liberal, because numerous non-tariff barriers to trade exist in the region. These include the lack of transparent custom valuation procedures, corruption, and other kinds of unofficial barriers.

Regional cooperation initiatives

- In 1992 the *Conference on Interaction and Confidence-Building in Central Asia (CICA)* was initiated by Kazakh president Nazarbayev, with the participation of 16 states.
- In 1992 the *Economic Cooperation and Organization* was initiated between Afghanistan, Azerbaijan, Iran, Kazakhstan, the Kyrgyz Republic, Pakistan, Tajikistan, Turkey, Turkmenistan, and Uzbekistan.
- In 1994 the *Energy Charter Treaty* was signed by all Central Asian and most European countries. Also in 1994 a *CIS Free Trade Agreement* was created, but has not been ratified by all states.

- The *Central Asian Union* was created mainly for political reasons in 1994. It was founded by Kazakhstan, the Kyrgyz Republic and Uzbekistan. Turkmenistan declared itself neutral and did not join the union. The union was created because the founding states were concerned that the CIS might turn into a means for restoring the USSR. Apart from that the developments in Tajikistan also alarmed the three founding states. Islamic fundamentalism was gaining ground in the country, drug trafficking through its territory with active help of the county's armed forces was alarming to its neighbours, as well as the problems caused in the Kyrgyz Republic by the ten thousand Tajik refugees (a civil war took place in Tajikistan between 1992 and 1997). At the time of the union's creation the relationship between the founders was friendly, with interstate presidential and prime minister-level committees. Later on Tajikistan joined as well. However the union soon became dysfunctional, as the leaders were not cooperative enough, and Russia viewed it as a threat to its influence in the region, and did everything it could to stop it from gaining real relevance.
- Uzbekistan joined *GUAM* in 1997, along with Azerbaijan, Georgia, Moldova, and Ukraine. This organisation was initially created with the goal of developing hydrocarbon pipeline projects. A proposal to create a Free Trade Area was made in 2000.
- The *Central Asia Cooperation Organization (CAREC)* was set up in 1997. It is a cooperation effort between Azerbaijan, China (focusing on the Xinjiang Uygur Autonomous Region), Kazakhstan, Kyrgyzstan, Mongolia, Tajikistan, and Uzbekistan. CAREC is supported by multilateral institutions.
- The *Silk Road agreement* was made in September 1998. The signatories were the CIS countries (excluding Russia and Turkmenistan), Bulgaria, Romania, and Turkey. The agreement provides for coordinated development of transport links between China and Europe, and the regulation of transport tariffs and custom procedures across the region.
- The *Caspian Sea Oil and Gas Agreements* were signed in November 1999. The signatories included Azerbaijan, Georgia, Kazakhstan, Turkey, and Turkmenistan. The agreement concerns pipeline projects for the export of Caspian Sea oil and gas to world markets via Turkey. It makes possible the export of these natural resources without touching Russian or Iranian territory.
- The members of the *Shanghai Cooperation Organization* in 2001 were China, Kazakhstan, Kyrgyzstan, Russia, and Tajikistan. The creation of the organization was initiated by Russia to maintain its leading role in the region. The aim of the creation of the organization was to settle border issues between its members, but later its objective became regional security. It also approved programs on the promotion of trade and investment.

- The *Central Asia Cooperation Organisation (CACO)* was set up in 2002 by Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Uzbekistan. In 2004 Uzbekistan argued by the deepening of the integration between the member states by creating a *Central Asian Common Market*.
- A draft agreement has been signed in September 2003 by Belarus, Kazakhstan, the Russian Federation and Ukraine about creating a *Common Economic Space (CES, customs union)* in 5 to 7 years time.
- *Eurasian Economic Community (EAEC)*: initiative to establish a political and economic union with the participation of Belarus, Kazakhstan, the Kyrgyz Republic, the Russian Federation and Tajikistan. The agreement entered into force in May 2001.

Some countries participate both in the EAEC and CES initiatives. The aims of the two initiatives are overlapping in some cases. These issues need to be resolved before the agreements are finalised. Ukraine's aspirations for EU membership are also not in line with its participation in the Common Economic Space agreement.

As can be seen in recent years a number of regional cooperation initiatives came to life. In addition to these, in February 2005 Kazakhstan proposed the creation of a Central Asian Union, which would be based on similar principals as the European Union.

Although since the disintegration of the USSR numerous bilateral and multilateral agreements came to life with the participation of Central Asian countries, concerning a wide range of crucial issues ranging from the management of natural resources to security issues, concrete results of these agreements have been modest. Looking at the existing agreements and groupings, it can be seen, that Central Asian countries so far seemed to have a larger propensity to integrate with countries that are outside of Central Asia.

International assistance

Two fields where international assistance has been present are transport and the improvement of transport infrastructure in the region, and the fight against drug trafficking. The Asian Development Bank supported transport infrastructure improvements on transport routes connecting Central Asia and Western China. The EU established the Transport Corridor Europe Caucasus Asia (TRACECA) program with the aim to strengthen transcontinental transport routes. The EU's Border Management Initiative for Central Asia (BOMCA) aims to make the borders of the region safer, along with the Central Asia Drugs Action Plan (CADAP), which program requires the cooperation of the region's countries. All the five Central Asian states benefited from the EU's TACIS program, through which technical assistance is provided for the beneficiaries.

SUMMARY

Central Asia is a region with high geopolitical importance. Its five countries, that this study was focusing on (Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan) are landlocked. Some of them are countries with important natural resources (fossil fuels). They face many common threats, and would gain tremendously from increased cooperation both economically and politically. However some (internal and external) factors keep them from acting in cooperation and from reaping the benefits of such cooperative behaviour.

There is a high level of interdependency between the Central Asian countries. For one thing they depend on each other in terms of transport routes. The other important cause of interdependency is the reliance on common water resources. The countries, which can influence the water resources are the upstream countries (the Kyrgyz Republic and Tajikistan) who are in need of fossil fuel imports, while the downstream countries (Uzbekistan and Kazakhstan), which need the water for irrigation, are rich in fossil fuels. Until now, no matter how many benefits the cooperation would have brought, only disputes developed between the countries. The many existing cooperation agreements and unions only exist on paper, they are not functional in effect, and no real results have yet been made by them. The Central Asian counties also face the common threat of terrorism. Drug trafficking in the region is a serious problem for all of them. There are large minorities from the surrounding nations living in the Central Asian states. The movement of these people is currently a problem, as they face complicated border controls and visa requirements. Cooperation and some level of integration between the states could ease this problem as well.

However some forces are acting in reverse to the cooperation initiatives. The interest of Russia is that the Central Asian states remain hostile to each other, so it can act as a negotiator between them and keep its influence in the region. The political regimes of the Central Asian countries also stand in the way of integration, as they are characterized by corruption, and authoritarianism.

No matter how many benefits the cooperation and the integration of the Central Asian countries would bring, at this point it looks like there is no political will to make real progress in this regard.

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ANNEX

