
Regional Cooperation in Central Asia: Promises and More Promises

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The newly independent republics of Central Asia¹ have had to implement strategies for economic development since becoming independent of the Soviet Union in 1991. Despite their rhetorical acceptance of regional cooperation with neighboring Turkic countries, all have chosen an external strategy which might be called "export globalism."² Export globalism implies dealing on world markets for the sale of raw materials and the purchase of capital and some consumer goods. No particular trading partner in the region is given preference. Rather, they seek most-favored-nation treatment and membership in the World Trade Organization, along with loans, technical aid, and investments from national and multilateral sources. Indeed, the Central Asian countries have recently taken *ad hoc* protectionist measures against each other. Lack of convertibility of the Uzbek currency has complicated small-scale trade with the region. In practice, a true regional strategy has not yet emerged, though it would contribute much to the common economic development.³ This essay tries to explain why these closely related neighbors have been unable to cooperate in significant ways.

Regional cooperation has been a long-standing theme of official proclamations. President Islam Karimov of Uzbekistan has called for a "single Turkestan," though the majority of his speeches stress national independence. Presidents Askar Akayev of the Kyrgyz Republic and Nursultan Nazarbaev of Kazakhstan have also recognized an ethnic kinship with their neighbors. The countries' languages are closely related, though not mutually intelligible, except for Tajik, related to Persian. Their Muslim religious and customary practices are similar. Rural Kyrgyz and Kazaks are traditionally nomadic pastoralists; the Uzbeks and Turkmen have been settled agriculturists. But even the most urbanized of these countries, Uzbekistan, had not been a modern nation-state before 1991. As khanates, they were all incorporated into the Russian Empire in the middle third of the 19th century and were forced to adopt a Russian educational system. Following disruptions of Revolution and Civil War, the Bolsheviks reasserted Russian hegemony in the mid-1920's. Much in their history, therefore, would seem to bring them together.

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Soviet-period History

Soviet practice imposed from the 1920's until 1991 did in some ways develop intra-regional cooperation. Central Asia was treated as a single economic subdivision within the "unified economic complex of the USSR." Major plants and industries were subordinate to all-Union ministries, their production plans determined from Moscow. Only minor activities were under dual (Union-republic) or republican control, which might have allowed a more regional focus. In Kyrgyzstan, for example, over a third of enterprises were administered directly from the center. All-Union ministries habitually took little notice of regional authorities and their needs. New investments of any size had to be approved in the five-year or one-year plans set forth by the Communist Party of Soviet Union (CPSU). For the most part, then, Central Asian production was run from Moscow for the benefit of the Union, as determined by CPSU authorities. Moscow decided the trade amounts and direction for the Central Asian republics; the USSR Ministry of Foreign Trade and internal supply agencies made these deals on behalf of all the 15 constituent republics, mostly to assure priority industries adequate supplies. The system resulted in exceptionally high levels of intra-Union trade--89 % for Kazakstan's trade turnover (=exports + imports), 86% for Kyrgyzstan, and 89% for Uzbekistan.⁴

Though the CPSU made decisions for the entire Union, its Central Committee and Politburo always included representatives of the non-Slavic nationalities. Occasionally these minority members were personally influential at the center - for example, Sharif Rashidov (first secretary in Uzbekistan for more than two decades), Eduard Shevardnadze (formerly Foreign Minister, now President of Georgia), Nursultan Nazarbaev, and several others. Reportedly, they had influence in succession struggles and over nationalities policy. Although Russians were disproportionately represented in the CPSU leadership, Moscow's policy was hardly one-sided exploitation for the benefit of Russia. Rather, the Party hierarchy took a long-run view of the benefits for the entire Soviet Union, assuming as they did that it would last indefinitely. Massive subsidies of strategic industries in non-Russian areas and of social supplements were part of the deal, leading one observer to call it "welfare colonialism," similar to that of the USA in Puerto Rico.⁵ In the extreme case of Kyrgyzstan, for instance, the center supplied at least 10-12% of GNP as subventions, additions to the republican budgets, and investments in defense and other industries.

Integration of the Central Asian economies into the Soviet system for over sixty years and even their inclusion in a common administrative region did not, however, create sufficient infrastructure to facilitate their trade with each other once independence was achieved. Railroads and pipelines had been built primarily to take fiber, fuels, and ores to their processing plants in the Russian republic (RSFSR) or Ukraine. Little had been spent to integrate the national republics within themselves or with each other. For example, Kyrgyzstan lacked direct rail connection from its capital, Bishkek (then called Frunze) to

its second largest city (Osh) or to its nearest neighboring city, Almaty, (then called Alma-Ata). Kazakhstan's metallurgical and energy base was linked primarily northwards, towards the Russian Republic. Gas pipelines had different pressures, complicating interrepublican supply. The tourist industry was run from Moscow, with flights and hotels were booked by Intourist from the Russian capital. Hence, local officials in this important industry, like manufacturers, had little direct contact with foreign decision makers.

Notwithstanding some regional planning, especially under the CPSU leadership of Nikita Khrushchev from 1962-64, Moscow had decided in the 1920's and 1930's to maintain political control over Central Asia by creating five independent union-republics, with irregular and sometimes economically and ethnically irrational borders, rather than permitting a single Turkestan entity. When the Soviet Union was dissolved in late 1991, these union-republics became the successor states. Whatever their degree of ethnic homogeneity - fairly high for Tajikistan, Turkmenistan, Kyrgyzstan, and even Uzbekistan - the former, now internationally recognized borders cut up natural economic areas. The Fergana Valley, fed by river systems rising in the mountains of Kyrgyzstan and Tajikistan, is divided among Kyrgyzstan, Uzbekistan, and Tajikistan. Moreover, the Leninabad region of Tajikistan and the Osh region of Kyrgyzstan are both separated by snow-covered mountains from their countries' respective capitals. Both of these areas have a high admixture of ethnic Uzbeks, a situation which has already led to violent confrontations over land and water rights in these border regions. Recently Uzbekistan has erected a barbed wire fence on its frontier with Kyrgyzstan; this has impeded, but apparently not altogether prevented, Uzbeks from crossing over and back to trade with their relatives.

Part of Moscow's "divide and rule" strategy was to appoint ethnic representatives of each titular nationality for most honorific posts in each republic, with only a few Slavic viceroys as second secretaries of the republican Parties. Over the years, the titular nationalities came to assume that this situation, however symbolic, would persist. In the late 1980's Mikhail Gorbachev attempted to replace a native Kazakstani leader with a Russian, prompting bloody riots in Alma-Ata. This CPSU appointments policy means that each Central Asian republic now has a cadre of officials of the titular ethnic background. Most were on the same career track in Soviet times, though their office doors now bear the title "state holding company," instead of "ministry." Only a few officials from Central Asia, as contrasted with Ukraine and Belarus, were called to Moscow for all-Union careers. Though many were trained in Moscow or Leningrad, very few had any foreign education or experience. Thus, the Central Asian republics now have a shortage of statesmen with the linguistic and diplomatic experience to deal with the outside world. Nor do these economies have senior commercial cadres with the skills to develop markets in Western Europe or elsewhere beyond the CIS.

As a natural result of their colonial past, interviews with current Central Asian officials and economists reveal the prejudices and modes of thought reminiscent of Soviet Marxism without, of course, any explicit or even conscious reference to past dogma. Their preferences for self-sufficiency over "dependence," for manufacturing over agriculture or services, for a stable exchange rates over market-determined flexible ones, and for administrative direction of investments over profit criteria are all a result of past personnel and educational policies, which can be overcome only with decades of educational contacts.

The common legacy of Russian and Soviet rule is, of course, beginning to show signs of exhaustion. Use of Russian as the *lingua franca* in regional affairs is an important example. In Uzbekistan, though, Russian is being gradually but perceptibly rejected in favor of Uzbek written in Latin letters--mostly unintelligible to other Central Asians, not to mention most Uzbekistan-born Russians. When Tashkent subway signs are no longer in Cyrillic, one is reminded daily that this is no longer a Russian colony. Among the less nationalistic Kazak and Kyrgyz elites, Russian remains the most common language, but English is gaining as the foreign language of choice among the younger generation.

Regional Initiatives

One of the first regional initiatives of the post-Soviet period was establishment of the Commonwealth of Independent States (CIS), formed in 1991 by Boris Yeltsin and 11 other heads of former Soviet states (excluding the three Baltic states of Latvia, Lithuania, and Estonia). This institution, however, has shown little vitality in the military, political, or economic areas. Early efforts to preserve economic unity were destined to fail. Divisive reactions were only to be expected during 1991-93 with the collapse of the Russian economy and currency. Various protective measures were taken everywhere at that time to prevent the flow of necessary food, energy, materials, and consumer goods to higher price areas. By 1993 the common ruble zone collapsed as Moscow could no longer prevent the former republics from expanding their ruble credits and contributing to the zone's hyperinflation.

Another abortive attempt at cooperation was the Eurasian Customs Union (*Tamozhennyi soiuz*), a free-trade area which included Belarus, Russia, and Ukraine. Kazakhstan and Kyrgyzstan became members in early 1995, but Uzbekistan has not. President Nazarbaev was especially keen on this association. Nonetheless, practical considerations have prevented the Eurasian Customs Union from operating well. Russia unsuccessfully insisted on setting the tariff rates and standards. The Central Asian states may soon withdraw officially from this association as a condition for entering the World Trade Organization.

Despite the apparent conflict with other commitments, both Kyrgyzstan and Kazakhstan have been enthusiastic proponents of the Central Asian Free Trade Area (CAFTA). Their presidents signed agreements in 1993 and 1996 to allow completely tariff-free trade among the three countries, only to find Uzbekistan, which had acceded formally, holding out for restrictions in important categories. Since 1996 the inconvertibility of the Uzbek som has prevented much expansion of mid-level trade between Uzbekistan and its near neighbors. As of mid-1999 the three presidents have again postponed hard decisions on creating any single economic zone, but Uzbekistan has promised to return to convertibility during the year 2000. Meanwhile, continual petty disputes have occurred among the Central Asian neighbors over non-payment of bills for fuel, transit fees, and water.

The Case for Regional Cooperation

Central Asian economists generally recognize that regional cooperation would be favorable for the regeneration of Central Asian industry and ultimate growth renewal. After all, in the Leninist version of Marxism, the international division of labor was a principal tenet and supposed advantage of socialism over monopolistic-imperialistic capitalism.

As of early 2000 no Central Asian country has recovered the level of GDP it had achieved in 1989, though Uzbekistan is close. Besides exploiting natural resources for export, renewed growth in Central Asia will depend in some greater part on local manufacturing for local needs. But efficient production requires a minimum assured output to achieve reasonably low costs. For example, assembly of automobiles or farm machinery is subject to economies of scale that cannot be fully exploited at the scale of Kyrgyzstan, or even Uzbekistan. Similarly for electronics goods and probably consumer appliances, formerly provided by Russian factories to Central Asia. VCR's, digitally controlled machine tools, automatic production lines, computer equipment, microwaves, and similar products were once produced in Kyrgyzstan for the large, if unselective, Soviet market. That trade has ceased altogether. Revival of civilian machine-building would make sense in Central Asia only with access to nearby markets. In view of accumulated technical skills in all these countries, the potential for development is considerable if trade outlets can be assured.

A free trade area in Central Asia would constitute a much larger market than any of the isolated countries. An economic union allowing free movement of factors of production as well as goods would be even better. Foreign investors would be attracted by the prospect of operating in this larger market. While the market for Coca-Cola, Snickers candy, cigarettes, and personal communications already seems to be large enough in each of these countries--and monopoly privileges or exclusive franchises actually increase the profitability of exclusive access--the market seems too small and fragile for big ticket items with substantial after-sale service.

So-called gravity models of international trade, whose parameters have been estimated by the World Bank, indicate that in view of the closeness of the Central Asian markets, Soviet-era trade therein was sub-optimal, particularly if high costs of transport are taken into account.⁶ Newly built capacity could mean lower costs because of economies of scale, hence lower and greater domestic demand for indigenous production.

Even if less than optimal, considerable intra-regional trade in the area is already based on different factor endowments. Many otherwise well-informed sources have erred in stating that Central Asian states have no natural complementarity⁷. Kyrgyzstan supplies electricity, hides and wool, and non-ferrous ores to its neighbors. Kazakhstan is a supplier of coal, chemicals and fertilizers, as well as non-ferrous minerals. Uzbekistan supplies natural gas and cotton. All these rely on specific factor endowments. Furthermore, the complementarity that exists could be enhanced by regional cooperation in manufacturing investment. After all, intra-industry trade is the fastest growing type of trade among advanced countries around the world.

To assure efficiency and progressiveness, industrial structures in Central Asian area must have several competing manufacturers in each product market. As shown by the experience of Japan, Western Europe, and the United States, it is mainly competition that spurs innovation, cost-reduction, and management efficiency. Insulated as they are to some extent by the natural barrier of distance, needed competition must come in large part from within the Central Asian region. Without salt-water ports within easy reach, Central Asia must create a large enough arena to accommodate workably competitive industries that can survive and thrive without budgetary subsidies. But ensuring competition by fostering small- and medium-sized enterprises is a neglected aspect of economic reform in all these countries. Even in free-market Kyrgyzstan, enterprises with more than 500 employees still produce more than half of all industrial output. Only social functions have been spun off. There has been little or no horizontal deconcentration of market structures to increase competition. The governments have preferred to regulate monopolies with stifling price controls rather than encourage free entry from domestic and nearby foreign sources.

Openness across regional borders would increase competition; it would also tend to reduce petty government interference in the market, an endemic problem in authoritarian Uzbekistan and a temptation everywhere in the region. To counter such interferences and related corruption without a vigorous parliamentary opposition and court system is quite difficult. Experience of the EU and other mature economic unions has shown that the legal and practical requirements of these supranational institutions limits ill-advised sovereign attempts to prop up stagnant industries, such as steel, or to protect infant industries unduly.

Economic history of 19th century empires, including the Tsarist one, indicates further advantages from regional integration.⁸ Transfer of capital becomes easier, and there is a tendency towards equalization of incomes and conditions. Furthermore, a large economic area, if it is united politically for foreign policy purposes, can negotiate better prices on certain imports and preferential loan rates. To gain access to the regional market, foreign equipment suppliers would be forced to lower prices and improve terms. All these advantages would seem to apply to Central Asia, were it to move towards economic union in the future.

New Regional Institutions

As demonstrated in Europe, supranational institutions can catalyze the fusion of national economies into regionally integrated blocs and encourage reform in prospective candidates. Central Asia is just at the earliest stage of initiating several institutions that have the legal standing and potential to further this cooperation. The prime ministers of the Central Asian states meet regularly to negotiate and agree on drafts dealing with such issues as railroad and transit rates, immigration, tax integration, customs inspections, joint investment projects, and so forth.⁹ The Intergovernmental Council-Executive Committee, a small organ headquartered in Bishkek, coordinates their regular intergovernmental meetings and prepares materials for adoption by unanimous consent of the members.

Despite repeated proclamations of intent, agreements to promote intra-regional trade by preferential tariffs have yet to be executed fully. Actually, because of low tariff schedules and inability to collect whatever tariffs exist over their long borders, tariffs are relatively insignificant as barriers to trade among the Central Asian countries. Tariffs and specific trade taxes are reasonable by GATT standards, and bribes and other unofficial payments are often in place of tariffs, not in addition. Moreover, there are still substantial non-tariff obstacles to trade. It is indirect impediments to trade which disadvantage commerce—such as poor roads, hijacking, and unofficial police stops. Direct observation on six occasions indicated that truck and car traffic between Almaty and Bishkek is usually not stopped for customs inspection, much less tariffs. It is practically difficult to collect very much from “shuttle traders,” mostly middle-aged women traveling with large packs on buses from the emporium on the outskirts of Almaty. On the other hand, control points do provide opportunity to revive inspection and even harassment of lorry traffic.

With all the problems, informal trade among the Central Asian countries appears to be working reasonably well, although the use of shuttle-traders and street and bazaar methods is very labor-intensive. These petty traders use cash - mostly US dollars—to make settlements, even though this is illegal in Uzbekistan. This author observed the Almaty emporium—an area of about 2 kilometers on each side - a veritable warren of small stalls

selling mostly consumer goods, but also small hardware, machine parts, and so forth. Buses pull up late in the morning and leave in the afternoon for Bishkek (about four hours west) and Tashkent (another few hours), loaded with traders and their packs. By actual count late in the afternoon, there were interurban buses passing on the road out of Kazakhstan in the direction of Bishkek and Tashkent about once every three minutes. These buses are full of shuttle traders, mostly women of modest means but obvious energy. Such trading methods probably would not be efficient were these Central Asian republics able fully to employ their labor force in agriculture, manufacturing, and higher-value services. As things stand now, trade represents a viable employment for older women, young men, and others displaced by the sharp dislocations of the 1990's. However, intra-regional trade is not advancing as much as trade with the "far-abroad" (non-CIS), at least according to official estimates.

In the mid-1990's Uzbekistan, Kazakhstan, and Kyrgyzstan also created the Central Asian Bank for Cooperation and Development, with offices in Bishkek and Almaty. This small bank has financed some modest projects (\$500,000 up to \$5 million) in the three member states. The CABRD has received grants from some foreign governments and multinational banks for its work and has correspondent relationships with several important overseas and regional banks. A small staff at the Bank helps firms from the member states prepare business plans preparatory to loans. Income from all banking operations during 1996 was more than \$3 million, with profit of \$600,000. The Asian Development Bank has recently endorsed and provided more finance for this promising start.

Regional Non-cooperation

Not all the legacies of the Soviet period are favorable to regional cooperation. State trading is an impediment to the kind of decentralized commerce that would naturally flow across borders in the area. Most trade in energy (gas, petroleum, electricity) is state-to-state, but when the customer fails to pay, as often happens, there is no recourse but to shut off supplies, provoking a minor diplomatic crisis and sometimes retaliation. The same applies to "trade" in water, essential to Uzbekistan's irrigated agriculture and also important in Kazakhstan and Turkmenistan. The Syr Darya, Amur Darya, and several smaller rivers flow from Kyrgyzstan and Tajikistan to irrigate much of the arable land of Uzbekistan and Turkmenistan before dribbling into the much-reduced Aral Sea. When the downstream states refuse to help Kyrgyzstan maintain the dams on the Naryn headwaters, the Kyrgyz have the option of releasing water at their own convenience, not during the hot growing season.

Individual businessmen in the Central Asian states understand the necessity of normal commercial relations, but statesmen who control major resources have other motives

which often rank above profit. Particularly in Uzbekistan and Turkmenistan, they value order and stability above economic growth. Active trading across borders—for example, by Uighurs living in Sinkiang and Kazakstan—might threaten the political status quo in China's northwest border area and hence the national security of Kazakstan. Suppression of opposition parties and candidates notwithstanding, all the governments of the area appear to enjoy broad support for their main policies, especially when they can assure law and order and gradual economic improvement. More radical measures would, most feel, only encourage further corruption and inequality. According to many observers, Uzbek president Karimov believes that Uzbekistan should be the hegemonic power in the area, owing to its greater size, central location, and cultural advantages. Naturally, his brother presidents do not agree, and such disagreements often break up their frequent meetings before real progress can be made.

To an American visitor, there is also surprising degree of ethnocentrism towards other Central Asian nationalities. This may also dampen enthusiasm for regional cooperation. In a 1993 survey of 2067 people, only about one in ten Uzbekistanis or Kazakstanis felt their countries should rely on other Central Asian countries. Roughly half preferred to "go it alone." Quite a few others preferred to turn to Western Europe, Japan, the USA, or even Russia in preference to fellow Muslim or Central Asian countries. "More people said they would prefer not to work with another Central Asian" than with a Russian."¹⁰ Only 10% said nationality would make no difference in working with a colleague. Asked from which country their own should keep the greatest distance, one-third of Kazakstanis named China. Russia was far down the list.

State trading in staples and energy, together with export globalism and very slow privatization of medium-size or large enterprises, mean that the indigenous business class, those with a natural interest in trade with neighboring countries and the greatest need for liberalization of currency and banking practices, is growing only very slowly in Central Asia. The state obtains most of its revenue from centralized sale of staples, such as cotton, gold, or petrochemicals—or leases for exploration. Taxation of petty traders and craftsmen is pretty difficult and is complicated by a corruption-prone and backward bureaucracy. To encourage foreign-financed business, monopolies are created, which in turn discourage domestic competition from arising. Elaborate facilities would invite requests for bribes or jobs for relatives. Hence native entrepreneurs prefer to remain small and mobile, holding their assets in cash, precious metals and jewelry, or real estate.

Conclusion

Recent developments demonstrate that regional cooperation has not increased in Central Asia despite a number of factors favoring it. Common cultural and historical experiences are acknowledged. Economic logic and the Marxist-Leninist training of most regional

economists both point to the advantages of regional cooperation. Insofar as the Central Asian states are retaining influence over trade and production, their actions so far do not for the most part conform with their many verbal commitments to regional cooperation. Financing for truly cooperative projects is small, and petty interferences at the border do occur. The two most promising regional institutions, the Intergovernmental Commission and the Central Asian Bank, are still finding their place and influence. Economic policy in these countries discourages mid-sized businesses that would most benefit from a free regional market. Political frictions among the states of the region and their preference for dealing with outsiders, perceived to be more capable and less dangerous, are responsible for the failure to put rhetoric into practice. 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.

Notes

¹ Kazakhstan, Kyrgyzstan, Uzbekistan, Turkmenistan, and Tajikistan. I will concentrate on the first three with some reference to the Sinkiang-Uighur Autonomous Region of the People's Republic of China, which I also visited during 1997.

² See my "Regional Cooperation in Central Asia: the Middle Road," Analysis of Current Events, 9,12 (December, 1997): 1-4 and Asian Development Bank, Regional Economic Cooperation in Central Asia (DAI, 1998).

³ Some differences in internal policy exist along with these similarities of external strategy. State ownership and direction in Uzbekistan and Turkmenistan are still predominant, as they were in Soviet days, while Kyrgyzstan and Kazakhstan have moved faster to privatize their industry and agriculture.

⁴ Constantine Michalopoulos and David Tarr, Trade Performance and Policy in the New Independent States (Washington, D.C.: World Bank, 1996).

⁵ Martin C. Spechler, "Regional Developments in the USSR," in Soviet Economy in a Time of Change, vol. 1 (Joint Economic Committee, Congress of the United States, 1979): 141-63.

⁶ Gravity models include geographic distance and transportation costs as important determinants of the expected trade between any two countries.

⁷ Boris Rumer and Stanislav Zhukov, eds. Central Asia: the Challenges of Independence (Armonk, NY: Sharpe, 1998): 142-43.

⁸ Martin C. Spechler, "The Economic Advantages of Being Peripheral: Subordinate Nations in Multinational Empires," East European Politics and Society, 3 (1989): 448-64.

⁹ Serik Primbetov, "Central Asia: Prospects for Regional Integration," in Barlomiej Kaminski, ed., Economic Transition in Russia and the New States of Eurasia (Armonk, N.Y.: Sharpe, 1998): 159-70.

¹⁰ Nancy Lubin, Central Asians Take Stock. Reform, Corruption, Identity (Washington: U.S. Institute of Peace, 1995), 21.