REGIONAL COOPERATION IN CENTRAL ASIA: PROMISES AND REALITY

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Ever since becoming independent in 1991, the republics of former Soviet Central Asia have been formulating and testing strategies for economic development [2] Despite their rhetoric of regional cooperation, the external economic strategy of all these states has been export globalism.[3] Export globalism means relying on world markets for the sale of raw materials and the import of capital goods and some consumer goods. No preference is given to any particular trading partner; most-favored-nation treatment and membership in the World Trade Organization is sought, along with foreign economic assistance and investment from OECD members and multinational sources. Despite this strategy, most of the countries have taken *ad hoc* protectionist measures from time to time. Along with these similarities exist some differences. The degree of convertibility varies significantly between Uzbekistan and its Central Asian neighbors. Their internal policies range from predominant state direction in Uzbekistan and Turkmenistan to liberal privatization in Kyrgyzstan. But a true regional strategy has not emerged, though it would contribute much to common economic development. This essay tries to explain why these closely related neighbors have been unable to cooperate in significant ways.

All countries in the area express interest in regional cooperation. President Islam Karimov of Uzbekistan has gone furthest in calling for a "single Turkestan," though the majority of his utterances on the subject stress national independence. Presidents Askar Akayev of the Kyrgyz Republic and Nursultan Nazarbaev of Kazakstan have also referred favorably to an ethnic commonality. Four of the countries' languages are closely related, though not mutually intelligible. Only the Tajik language, related to Persian, is distinct. Their religious and customary practices and mentalities are similar, though only the Uzbeks and Turkmen have been settled agriculturists for more than a generation or two. None had ever 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.

Soviet Background

The common Soviet background of these states 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," as it was called. Many of the major plants and industries were subordinate to all-Union ministries; hence their production profile and plans were ordered from the center. Only minor ministries were under dual (Union-republic) or republican control, which might have allowed a more regional focus. For example, in Kyrgyzstan over a third of enterprises were administered directly from Moscow by all-Union ministries and took little notice of regional authorities and their wishes for locally available supplies. New investments of any size had to be set forth in the Communist Party of the Soviet Union (CPSU) five-year and one-year plans. Hence, it can be said that for the most part Central Asian production and trade was run by the Soviet Union from Moscow for the benefit of the Union, as determined by CPSU authorities. Accordingly, Moscow decided the trade amounts and direction for the Central Asian republics and the Ministry of Foreign Trade in Moscow 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]

While the CPSU made decisions for the entire Soviet 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. While 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 view of the benefits from the whole Union, assuming as they did that it would last indefinitely. Massive subsidies of strategic industries and of social supplements were part of the deal, leading one observer to call it "welfare colonialism," on the analogy of Puerto Rico.[5] In the extreme case of Kyrgyzstan, for instance, the center supplied at least 10-12% of GNP as subventions.

Economic integration of the Central Asian republics within the USSR and their inclusion in a common administrative region for regional planning, however, did not provide sufficient infrastructure to facilitate their trade with each other once independence was achieved. Railroads and pipelines had been built primarily to take raw materials to their processing plants, often in the Russian republic (RSFSR). Little was spent integrating the national republics within themselves or with each other. For example, Kyrgyzstan lacked direct rail connection from its capital, then called Frunze, to its second largest city (Osh) or to its nearest neighboring city (Alma-Ata, now called Almaty). Kazakstan's metallurgical and energy base was linked primarily northwards towards the Russian Republic. Gas pipelines had different pressures. The tourist industry was run from Moscow, and flights and hotels were booked by Intourist from Moscow. Hence, local officials in this important industry, like manufacturers, had little direct contact with foreign decision-makers. Air and communication links for visitors were through Moscow. One should mention, however, that Nikita Khrushchev, first secretary of the CPSU Politburo, did attempt in 1962-64 to reconfigure Soviet planning on the regional principle to reduce wasteful cross-shipping and ministerial self-sufficiency--in other words to achieve locational efficiency, including more regional cooperation within the USSR. But this attempt was one of the "hare-brained" schemes for which Khrushchev was dismissed in 1964. The ministerial principle returned to stay with Leonid Brezhnev and Alexei Kosygin and persisted through the remainder of the Soviet period.

For purposes of political control, Moscow decided long ago (in several steps, culminating in 1936) to create five independent union-republics in Central Asia, with irregular and sometimes economically irrational borders, rather than 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 new, internationally recognized borders cut up natural economic areas. The Fergana Valley, fed by one major river system rising in Kyrgyzstan, is divided among Kyrgyzstan, Uzbekistan, and

Tajikistan. Moreover, the Leninabad region of Tajikistan and the Osh region of Kyrgyzstan were both separated by high, sometimes impassable mountains from their countries' respective capitals. Both 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.

Another consequence 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. Hence, Mikhail Gorbachev’s attempt to replacement a native Kazakhstani leader with a Russian in the late 1980's occasioned bloody riots. CPSU appointments policy meant 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 now the title "state holding company," instead of "ministry" may be found on the door. 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.

Not surprisingly in view of their past, interviews with current Central Asian officials and economists quickly turn up prejudices and modes of thought reminiscent of Soviet Marxism without, of course, any explicit or even conscious reference to past dogma. Such prejudices - such as the preference 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, to name just a few—are a result of past and present personnel and educational policies.

Some of the institutional infrastructure provided by the Soviet Union has lasted a few years but now shows signs of obsolescence. The common Russian lingua franca in economic affairs is the most important influence and perhaps the most lasting. In Uzbekistan, though, it 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 subway signs are no longer in Cyrillic, you’re reminded daily that this is no longer a Russian colony. Among the Kazak and Kyrgyz elite, to a greater degree, Russian remains the most common language, but English is gaining as the foreign language of choice among the younger generation.

Early Regional Initiatives

One of the first regional initiatives of the post-Soviet period was the 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). But this institution has shown little vitality in the military, political, or economic areas.

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.

The related Eurasian Customs Union (Tamozhennyi soiuz), a free-trade area which included Belarus, Russia, and Ukraine as an observer, was another abortive attempt at cooperation. Kazakstan 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.

Both Kyrgyzstan and Kazakstan have been enthusiastic proponents of the Central Asian Free Trade Area (CAFTA), too. Their presidents signed agreements in 1993 and 1996 to allow completely tariff-free trade among the three countries, only to find Uzbekistan 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 again promised to return to convertibility within a year.

The Case for Regional Cooperation

It is generally recognized by economists in the area that regional cooperation would be a favorable factor in 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.

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 which cannot be fully exploited at the scale of Kyrgyzstan, or even Uzbekistan. The same is true 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, but 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 Central Asia united by a working free trade area, or even an economic union allowing free movement of factors of production as well as goods, would constitute a much larger market than any of them constitute alone. Foreign investors would be attracted by the possibility of selling to 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–for big ticket items with substantial after-sale service, the market seems small and fragile.

So-called gravity models of international trade, 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 with economies of scale would mean lower costs and prices, hence greater domestic demand for indigenous production.

Much of present intraregional trade in the area is based on different factor endowments (Heckscher-Ohlin type). Thus, it is not altogether true to say, as many otherwise well-informed sources have,[7] that Central Asian states have no natural complementarity. Kyrgyzstan supplies electricity, hides and wool, and non-ferrous ores to its neighbors. Kazakstan is a supplier of coal, chemicals and fertilizers, and other non-ferrous minerals. Uzbekistan supplies natural gas and cotton. All these rely on specific factor endowments. Furthermore, the complementarity which 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.

An optimal industrial structure for the Central Asian area would have several competing manufacturers in each product market. It is mainly competition which spurs innovation, cost-reduction, and management efficiency, as shown by the experience of Japan, Western Europe, and the United States. Insulated as they are to some extent anyway 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 which can survive and thrive without budgetary subsidies. But encouraging small- and medium-sized enterprises and ensuring competition are neglected aspects 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 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.

Besides increasing competition, regional integration across political borders also has the function of reducing petty government interference in the market, an endemic problem in authoritarian Uzbekistan and a temptation everywhere in the region. To counter such petty interferences 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.

The history of the pre-Communist Russian empire 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.

Regional Institutions

Experience in Western Europe indicates the importance of supranational institutions to catalyze the fusion of national economies into regionally integrated blocs. Central Asia is, of course, just at the stage of initiating regional cooperation. It has established several institutions which have the legal standing and potential to further this cooperation. The Intergovernmental Council-Executive Committee coordinates regular intergovernmental meetings and prepares materials for adoption by unanimous consent of the members. 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]

Agreements to promote intra-regional trade by preferential tariffs have yet to be executed fully, and there are still substantial non-tariff obstacles to trade. Indeed, 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. Rather, it is indirect impediments to trade which disadvantage tradable goods. 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 an opportunity to revive inspection and even harassment, of lorry traffic.

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 in the direction of Bishkek and Tashkent about once every three minutes. Observation at frequent rest stops indicated these buses were 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. But intra-regional trade is not advancing as much as trade with the "far-abroad" (non-CIS), at least according to official estimates.

A sister institution, also created in the mid-1990s by Uzbekistan, Kazakstan, and Kyrgyzstan, is the Central Asian Bank for Cooperation and Development, with offices in Bishkek and Almaty. This small bank ($6 million in paid-in capital of $9 million approved by charter) 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 profits of $600,000. The Asian Development Bank has recently endorsed and provided more finance for this promising start. Nonetheless, the CABRD is extremely small by world standards.

Insofar as the Central Asian states are retaining influence over trade and production, their actions so far do not for the most part accord 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.

Reasons for Non-cooperation

State trading, a holdover from the Soviet period, provides both an expression of regional integration and a major irritant. 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 Kazakstan and Turkmenistan. The Syr Darya, Amur Darya, and several smaller rivers rise in the mountains of Kyrgyzstan and Tajikistan and flow westward to inland seas, notably the 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.

While individual businessmen in the Central Asian states understand the necessity of normal commercial relations, statesmen have other motives, which often rank above profit. And many ordinary Central Asians seem to agree, valuing order and stability above economic growth. 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 there are reliable reports of vituperative altercations among the presidents on their frequent private meetings over vodka.

Enthusiasm for regional cooperation among Central Asians may also be modulated by the surprising degree of ethnocentrism towards other Central Asian nationalities. 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. Only 10% said nationality would make no difference in 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.[10]

Export globalism, state trading in staples and energy, 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 will not increase spontaneously in Central Asia during the next decade or two. 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. 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

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[2]Kazakstan, 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.

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

[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), pp. 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), pp. 142-43.

[8]Martin C. Spechler, "The Economic Advantages of Being Peripheral: Subordinate Nations in Multinational Empires," *East European Politics and Society*, no. 3 (1989), pp. 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), pp. 159-70.

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