ECONOMIC TRENDS IN CENTRAL ASIA: INTEGRATION OR DISINTEGRATION?

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HISTORY IN BRIEF, OR HISTORICAL BACKGROUND

Using the rhetoric of our recent history, we can briefly say – a historical era is over. The Soviet Union disappeared from the political map giving way to more than a score of new states that came out on the political arena setting sail on their own. A bipolar model of the world was replaced by a multipolar one with a new redistribution. A number of strategic and historical objectives lapsed into obscurity, such as:

- Building a communism-like better future;
- Struggle of democracy against totalitarian communism.

Behind these developments is a more fundamental situation – a transition from the industrial phase to the postindustrial phase of development. More developed countries embarked on this transition in the 1970s and 1980s.

Not all their attempts were a success, though. "In the middle and late 1980s it was extremely difficult to realize, for one, that Japan's economic growth was facing the severest crisis. This is a thing that is absolutely obvious today. Probably it has something to do with the specific features of Japan's institutions and problems of adaptation to the postindustrial phase of economic development"[1]

In such a "historical" situation virtually every economy has to review its goals and means of attaining them – some in a larger, others in a smaller degree. The late 20th century and the early 21st century is a time of choice for all.

NIS

The need to review the lines of development was more pressing for the new independent states, which is the term used to identify the post-Soviet entities. In effect, all the newly emerged countries (except the Baltic countries, to a certain degree) ended up as independent countries - a result of their historical fate. In this sense, they had to reevaluate the situation both at home and in the world arena (and, consequently, their national policies) from scratch. In many respects, this has remained true to this day.

We can conclude that the problem of choice in terms of the development pattern was very serious in the newly emerged countries. It is still on the agenda, in many respects.

1 Ye.Gaidar, Director, Institute of the Economy in Transition. International Conference "Economic Growth: Post-Communist Times", March 20-21, 2002, Moscow

Nevertheless, we could draw certain lessons from our recent past. One can say with a fair degree of assurance that all the new independent countries, including Kyrgyzstan and other Central Asian countries have, in principle, finished elaborating transition models.

On the whole, all the NIS display economic growth (we shall leave aside the qualitative aspects of this growth).

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The Russian term “ekonomika” is used to designate at least three phenomena: the economy (or national economy), a management system based on economic methods (behavioral logic), and economics, or a branch of knowledge. For this particular case we’ll refer to the first two connotations.

In this context, it is economic and technological aspects as well as behavioral logic which are of importance during decision-making where a number of alternatives (choices) are available. As regards the specific subject matter of the choice, we can formulate it in a simpler way after answering the question as to what processes are dominating within the national borders of the five Central Asian countries: integration or disintegration.

One can identify at least three groups of influences on economic relationships among the countries:

- Economic and technological
- Political and managerial
- External

Economic and Technological Factor

Prior to 1991, the national economic complex of what is known today as Central Asia was built into the integrated economic complex of the Soviet Union. In addition, it had a clear-cut specialization of its own, which can be described as agricultural. In the first place, maximum use was made of natural ‘benefits’. This circumstance was largely determined by the ideology of intensified industrial development underlying development projects launched in the Soviet Union.

The agricultural sector produces technical raw materials like cotton, wool and tobacco. Also, its includes cultivation of fruit and vegetables, although they may be recognized as a secondary goal. The mining sector was dealing with rare-earth and non-ferrous metals. “...In the former USSR, Kazakhstan, for example, was a leading producer of copper, lead and zinc with Kazakhstan’s iron ore and alloying components (manganese, molybdenum and chromium as well as a number of rare and rare-earth metals) used to make up the core of Soviet metallurgy. Kirgizia, in turn, was a monopolist in the production of metal antimony; Turkmenia produced strontium out of its rich celestine ores, while Uzbekistan was the major source of gold. The uranium ore, the basic material used to manufacture nuclear weapons and nuclear power engineering was extremely important - including for military and strategic purposes - for the former Soviet Union. According to London-based Uranium Institute estimates, Kazakhstan boasts today 25 per cent of the world’s explored uranium deposits. There are also commercial deposits in Uzbekistan (Uchkuduk, Zarafshan and Navoi), Kyrgyzstan (Kara-Balty) and Tajikistan. The first uranium mill ever built in the Soviet Union was put into operation in 1946 at the Adrasman and

Taboshar mines of Tajikistan Incidentally, CIS's largest antimony reserves also lie in Tajikistan".[2]

In this context, the region could not produce the end product in sufficient amounts. So, for production specialization and cooperation reasons, Kyrgyzstan was producing a mere 20 per cent of the end product.

World War II gave a boost to the industrial development of these countries shaping their basic industrial structure as plants were evacuated from western regions and new operations started at the same time.

The structure had taken its final shape by the mid-1970s. It should be borne in mind that productive forces distribution, choice of technologies, organizational principles and cooperation schemes were determined by the center. The republics could not handle issues regarding projects worth more than 3 million rubles independently. Large-scale operations did not report to local administrations. With this being so, the countries' specialization based on the preponderant use of mineral resources was preserved, although there is no doubt that the industrial component became more substantial by the late 1980s.

Sadly, we have to remark that by the time that the new independent states emerged there was no regional economic complex throughout what was known as Soviet Central Asia. Cooperation ties among the republics did exist but they were of secondary importance.

Economic structure of the countries in the region

Group 1

1. Production of agricultural goods: cotton, tobacco, wool, grain, etc.
2. Mining and primary processing of natural resources and their derivatives (oil, natural gas, metals, ores, etc.)

Group 2

3. Investment sphere: primarily mechanical engineering, instrument making, etc.
4. Consumption-based industries: food and light industries, house-building, etc.
5. Modern branches: banking, informatics, etc.

Group 3

6. Infrastructure industries catering for public demands: gas and electricity supplies, other housing and communal services, communication, etc.
7. Infrastructure industries catering for the State's requirements: road construction, national health service, education, etc.

Group 4

8. Family businesses, primarily personal subsidiary plots.

However, alongside legal economic activities there were illegal (shadow or underground) economic practices outlawed by Soviet laws as a criminal offence.

Destruction of a once flexible system of channeled economic relations – the result of disintegration processes – triggered depression that hit all the newly emerged independent states. According to economists, cuts in trade with CIS countries accounted for one-half and a drop in solvent demand accounted for one-fifth of economic recession in the crisis years.

All attempts to preserve a common economic framework proved abortive once and for all with the liberalization of the foreign economic sector and split of the USSR into isolated independent countries. During the period between 1992 and 1999, trade among CIS countries shrank more than three-fold. Mutual trade figures were down in almost all CIS nations, except Tajikistan and Russia.

Brisk mutual trade, observed in the mid-1990s, ended up very limited in scale and gave way to a new round of depression in the wake of the 1998 financial meltdown in Russia. In spite of the fact that the financial disarray had no devastating consequences in the Central

[2] *Valery BADOV, Journal "Metally Yevrazii"("Eurasia Metals"), Moscow*

Asian countries as it had in Russia, the post-crisis economic situation remained extremely fragile throughout 1999 in countries like Kyrgyzstan, even though it showed a slight growth of GDP. Stabilization did not begin until 2000.

Even the preliminary analysis of these countries' foreign trade (see *Appendix*) gives clear indications that most Central Asian countries in their foreign trade switched to non-CIS countries with Russia retaining its positions.

Their exports consist primarily of raw materials while imports include equipment and consumption goods.

Intra-regional trade tended to shrink, Kazakhstan and Turkmenistan being a good case in point.

Moreover, trade growth varied from country to country, the balance of trade with all the countries of the region being debit in Kazakhstan and, in contrast, credit in Tajikistan.

Single item-based export was maximal in Turkmenistan, where three items accounted for nearly 90 per cent of its export volume. The high degree of single-item export can be seen also in Kazakhstan (oil and petroleum derivatives make up almost half of its export), Uzbekistan (cotton accounts for up to 40 per cent) and Kyrgyzstan (30 per cent of export is gold). Worse, some of the countries account for a large proportion in a foreign trade structure – a circumstance that makes Central Asian economies extremely fragile as far as the external factor goes.

ECONOMIC STRUCTURE

Group four picked up the following new items:

9. Primitive branches: suitcase trade business, individual labor activity, etc.
10. Traditional branches: agricultural households.

Also, the following new groups appeared in the economic structure:

Group five

11. Criminal branches: prostitution, illegal drugs, racketeering, etc.

Group six

12. Education.

Dominating the economic structure today are the following groups:

- Group one
- Group four
- Regrettably, group five has acquired greater significance.

All the above circumstances inevitably impose limits on the probable character of economic contacts among the countries.

POLITICAL AND MANAGERIAL FACTOR

The problem of institutional transformations, their consolidation and legitimization remained high on the agenda in the new independent countries throughout the past decade. Unless the problem has been properly dealt with any talk about realistic strategies of development in these countries would be premature. The key to the issue is the elaboration of mechanisms to reconcile the interests of the elite groups and ways of strategic decision-making. Previously, this was the duty of the Center (the Moscow-based government authorities). Today, though, it is a prerogative of local elites. One of the crucial processes largely seen as capable of providing "opportunities" and influence was the creation of private property, or privatization, as it used to be referred to in CIS. In parallel, it was necessary for the elites to prevent their own countries from the disintegration inertia that swept across the Soviet Union.

This process, even if in blue print, is over now, although we believe it is still a great way off conclusion. This process and the degree of its legitimization may be seen better at a point when incumbent heads of state will have to hand their mandates over to their successors – a point that is to come in the next few years.

It should be pointed out that:

First. Nearly every new independent country has chosen its own development model, transformation pace and government system. Here one can see a variety of models, including "democratic", "neo-totalitarian or neo-Soviet", authoritarian and even civil war. Furthermore, Kyrgyzstan and Tajikistan are countries where - de facto - a more complicated and extremely intensive model is taking shape. They may count primarily on the use of their own human resources and support from the world community.

The second important aspect lies apparently in the fact that in the framework under discussion the new independent states are dominated by a myth about their enormous mineral wealth that the world badly needs and that can help them make a socio-economic breakthrough. Kyrgyzstan seems to be the only country that is getting rid of it. Also, Tajikistan is too overwhelmed by challenges of its own to harbor illusions like that. The remaining countries are still counting on this, especially Turkmenistan and Kazakhstan.

Third, the on-going historical rivalry between Almaty and Tashkent.

Fourth, all-out hopes for foreign support.

Such a variety of orientation creates the second order of handicaps for economic contacts among these countries.

External Influence

A third order of handicaps is factored by world politics. Interests of big geopolitical actors, especially those of the United States, Russia and China, are perhaps a factor to be reckoned with. It is reasonably safe to suggest that all three are extremely reluctant to lose control of this region.

Central Asia (Soviet Asia) as a "Region"

The term "Central Asian region" – a rather vague and newly coined expression – cannot be used now except under certain reservations. Therefore, we assume it to imply the entirety of five new independent countries that constitute post-Soviet Central Asia.

Both debates around the questions concerning the region's formation and nominal formation have unfolded amid the on-site formation of the "internal Central Asian colony" that existed as part of numerous "internal colonies", - a territorial government practice common in the Soviet period. These represent newly organized national states that had no historical precedents of possessing national statehood in the modern sense of the word.

The countries are pretty much the same in challenges they are confronted with. They are engaged in a struggle for economic survival and making efforts to create a self-sufficient and self-reproducing political infrastructure, with an economic component being the priority of the day.

The concept of regionalization is almost always antagonistic to global geopolitics, projects of centralized government, unification stemming from modern industrial technologies as well as to the ideology of achieving operation goals by fair means or foul. In this particular case, during the disintegration of the USSR it was inspired by the historical memory of unified Turkestan. To a greater degree, though, it was a result of policy of Russia, which didn't feel like burdening itself with financial problems of the new independent countries.

In the present situation, the concept of regionalization provides an extremely powerful conceptual foundation for both social and managerial spheres (including the economy) while its ideological potential may grow to determine a wide range of economic and political initiatives making it easier for them to put in place structural reorganization and be admitted to the world economic community with its implications and processes.

In the meantime, though, the situation in the region, as it is today, makes it impossible to launch economic and social projects or programs region wide.

What we see in the region today is the "first-and-next" logic. In reality, both regionalization phases – autonomization-cooperation – should be considered and started in parallel, so that one supports and supplements the other.

Today, further independent existence breeds ever-growing problems as differences in the rules of the game become more and more apparent.

The most likely model for the immediate future (unless the current trend changes) is as follows:

- Joint consultations and declarations on subjects of common interest;
- Necessitated (enforced) "trade";
- Isolated production-related projects and programs aimed at putting an end to dependence on Russia, if necessary production capacities are already available in the region.

The current strategy cannot see unification as a solid source of resources thus making the Central Asian countries lay emphasis on the promotion of bilateral relations. The middle-term prospects are vague. There is a need for a broader context of consideration. However, when seen in the long term and wider context the idea sounds quite plausible.

Regionalization processes cannot help overcome economic and organizational turmoil unless supplemented by more sophisticated exterritorial and international programs eliminating antagonisms among territorial, inter-territorial, regional, inter-regional and global goals –processes involving concentration of resources needed to achieve key targets, purposeful programming of development processes and getting rid of resource-oriented economic model.

PROBABLE SCENARIOS OF DEVELOPMENT

IN A FAVORABLE SITUATION

I Formation of a single water-and-energy-management policy and creation of relevant regional infrastructures. "This problem will move to the spotlight in coming years to influence the entire system of relationships in the region (reaching far beyond the limits of Central Asia) for decades in the 21st century". [3]

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[3] Emomali Sharipovitch Rahmonov, President of the Republic of Tajikistan, RESPUBLIKA TADZHIKISTAN: NA POROGE 21 VEKA. *Alternativi razumnym podkhodam ne sushstvuyet*, Nezavisimaya Gazeta, December 8, 2000 (THE REPUBLIC OF TAJIKISTAN: ON THE TRESHOLD OF THE 21ST CENTURY. *There is no alternative to sensible approaches*, Nezavisimaya Gazeta, December 8, 2000.

II. Creation of commodity-transportation axes in the east-west and south-north "transportation corridors" and appropriate infrastructures, financial, warehouse, communication and technical services.

III. Formation of regional industrial engineering of a technological and infrastructure type.

IV. Restoration of older and regionalization of new working cycles:

- Uranium processing;
- Gold processing;
- Production of electronics;
- Agricultural engineering,

In other words, large-scale industrial redistribution. Light and food industries to a lesser extent, as all actors in these sectors are involved in rivalry coupled with traditional agrarian specialization, although the light industry may have other patterns.

The first two items are the most probable as they are largely part of broader programs and projects and position the "region" in interregional processes.

IN AN UNFAVORABLE SITUATION

The same except that the actors will be different and the Central Asian countries will perform the function of operators.

In this case emphasis will be given to:

- Creation of commodity-transportation axes in "transportation corridors";

- Formation of elements of a single water-and-energy policy, creation of regional infrastructure as a key factor of regional security.

APPENDICES

Table 1. Foreign Economic Operations among the Central Asian Countries in 1996 - 2000

Country		Total of foreign Trade	Including:					Reference
			Kazakhstan	Kyrgyzstan	Uzbekistan	Tajikistan	Turkmenistan	*Russia
Kazakhstan	export	**+ 7%**		- 13%	- 14%		- 38%	- 12%
	import	**+ 2**%		- 26%	- 1%		- 45%	- 9%
Kyrgyzstan	export	- 2%	- 26%				**+ 28%**	-14%
	import	- 9%	- 13%				**+ 21%**	-14%
Uzbekistan	export	- 12%	- 1%				- 1%	- 7%
	import	- 21%	- 14%					- 33%
Tajikistan	export						- 15%	**+ 24%**
	import						- 9%	- 20%
Turkmenistan	export	**+ 54%**	- 45%	**+ 21%**		- 9%		**+ 14**
	import	**+ 18%**	- 38%	**+ 28**	- 1%	- 15%		- 12%
* Russia	export	**+ 1%**	- 9%	- 14%	- 33%	- 20%	- 12%	
	import	- 10%	- 12%	- 14%	- 7%	**+ 24%**	**+ 14%**	

Source: ITC TradeMap based on COMTRADE statistics. Kyrgyzstan and Uzbekistan have no figures for 2000 in COMTRADE database (figures for other countries)

Table 2. Balance of trade among the Central Asian countries in 2000

Country		Total of foreign trade (million $)	Including:					Reference
			Kazakhstan	Kyrgyzstan	Uzbekistan	Tajikistan	Turkmenistan	*Russia
Kazakhstan	export ---------- import	**9.116.000** ------------- 5.050.000		**58.5** -------------------- 31.5	**139.2** -------------------- 73.3	**82.4** -------------------- 5.7	**19.7** -------------------- 5.3	2.200.000 -------------------- 2.250.000
Kyrgyzstan	export ---------- import	368.2* ------------- 466.0	31.5 -------------------- 58.5			7.5 -------------------- 2.7	4.6 -------------------- 23.2	88.4 -------------------- 103.0
Uzbekistan	export ---------- import	**2.060.000** ------------- 1.719.000	73.3 -------------------- 139.2			**185.2** -------------------- 97.8	**35.3** -------------------- 5.9	**662.6** -------------------- 274.5
Tajikistan	export ---------- import	**692.3** ------------- 643.9	5.7 -------------------- 82.4	2.7 -------------------- 7.5	97.8 -------------------- 185.2		6.7 -------------------- 29.1	**237.3** -------------------- 55.9
Turkmenistan	export ---------- import	**2.500.500** ------------- 1.785.500	5.3 -------------------- 19.7	**23.2** -------------------- 4.6	5.9 -------------------- 35.3	**29.1** -------------------- 6.7		**472.8** -------------------- 130.1
* Russia	export ---------- import	**103.008.160** ------------- 45.453.000	**2.250.000.** -------------------- 2.200.000	**103.0** -------------------- 88.4	274.5 -------------------- 662.6	55.9 -------------------- 237.3	130.1 -------------------- 472.6	

Source: ITC TradeMap based on COMTRADE statistics. Kyrgyzstan and Uzbekistan have no figures for 2000 in COMTRADE database (figures for other countries)

Table 3. 7 major foreign trade partners of Central Asian countries in 2000 (export/import)

Central Asian countries		Partner Countries (share in %)													
		1		2		3		4		5		6		7	
Kazakhstan	export ---------- import	Russia --------------- **Russia**	**20** **49**	Bermudas ---------------- Germany	15 7	Virgin Islands ------------------ USA	12 5	Italy --------------- Great Britain	10 4	**China** ------------------ Italy	7 3	Germany ------------------ **China**	6 3	Switzerland ------------------ Turkey	5 3
Kyrgyzstan	export ---------- import	Germany --------------- **China**	**31** **24**	Russia ---------------- Russia	24 22	**China** ------------------ Kazakhstan	18 13	Kazakhstan --------------- Germany	9 6	Iran ------------------ USA	5 5	Belarus ------------------ Turkmenistan	3 5	Tajikistan ------------------ Iran	2 5
Uzbekistan	export ---------- import	**Russia** --------------- **Russia**	**32** **16**	Italy ---------------- Korea	9 13	Tajikistan ------------------ Germany	9 12	Korea --------------- USA	5 9	Tirkey ------------------ Kazakhstan	4 8	Japan ------------------ Tajikistan	4 6	Germany ------------------ Turkey	4 5
Tajikistan	export ---------- import	**Russia** --------------- **Uzbekistan**	**37** **29**	The Netherlands ---------------- Russia	26 16	Uzbekistan ------------------ Ukraine	14 13	Switzerland --------------- Kazakhstan	10 13	Italy ------------------ Azerbaijan	3 10	Latvia ------------------ Romania	2 6	Slovakia ------------------ Turkmenistan	1 5
Turkmenistan	export ---------- import	**Russia** --------------- **Russia**	**41** **14**	Italy ---------------- Turkey	16 14	Iran ------------------ Ukraine	10 12	Turkey --------------- UAE	7 9	Ukraine ------------------ Japan	7 8	Switzerland ------------------ Area Nes	4 6	UAE ------------------ Iran	2 5

Source: ITC TradeMap based on COMTRADE statistics. Kyrgyzstan and Uzbekistan have no figures for 2000 in COMTRADE database (figures for other countries.

Table 4. 7 major foreign exchange commodities of the Central Asian countries (export/import)

Central Asian countries		Items (share in %)												
		1		**2**		**3**		**4**		**5**		**6**		**7**
Kazakhstan	export ---------- import	Oil and oil derivatives --------------- Oil and oil derivatives	**49** **6.0**	Copper Cars	7.3 3.8	Grain ----------------- Natural gas	5 2.4	Ferrochromium -------------- Uranium	2 2	Aluminium oxide ------------- Raw sugar	2 1.4	Coal --------------- Drilling equipment	1.8 1.2	Silver ----------------- Medicines
Kyrgyzstan	export ---------- import	**Gold** --------------- **Oil and oil derivatives**	**30** **9.4**	Aluminum waste ---------------- Synthetic fiber fabrics	10.9 5.8	Tobacco Footwear	10.1 5	Cotton Grain	6.8 3.4	Copper waste 9999	4.4 2	Electrical energy --------------- Natural gas	3.3 2	Electric bulbs ----------------- Coal
Uzbekistan	export ---------- import	**Cotton** --------------- **Car spare parts**	**40** **7.4**	Gold ---------------- Grain	7.8 3.5	Cars ------------------	2.9 3.2	Natural gas ------------- Zinc ores and concentrates	2.4 1.9	Zinc ------------- Combine harvesters	1.8 1.8	Copper --------------- Engineering machinery	1.7 1.5	Cotton yarn ------------------ Rubber-tire mechanisms
Tajikistan	export ---------- import	**Cotton** --------------- **Grain**	**11.8** **5.1**	Cotton fabric ---------------- Aluminum oxide	3.8 3.4	Nuts and blends ----------------- Oil and oil derivatives	1.3 2.5	Apricots -------------- Flour	1.3 2.5	Tobacco ------------- Cotton yarn	1.1 2.3	Cotton trousers, etc. --------------- Petroleum coke	 1.4	Cotton lint ------------------ Mail equipment
Turkmenistan	export ----------	**Natural gas** ---------------	**50**	Oil and oil derivatives	30	Cotton -----------------	9	9999 --------------	1.5	Cotton yarn	1	Cotton fabric	1	Balbriggan -----------------

	import		**5.9**	---------------- Pipes	2.2	Equipment	1.7	Textile equipment	1.6	Gas turbine	1.6	(close weave) --------------- - Poultry	1.6	Spare parts for eq

Source: ITC TradeMap based on COMTRADE statistics. Kyrgyzstan and Uzbekistan have no figures for 2000 in COMTRADE database (figures for other countries)