



# A Study on the Dynamics of Foreign Trade and the Issues of Regional Economic Integration in Central Asia

Kodirjon Maxamadaminovich Umарkulov



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## Executive Summary

At the current stage of globalization, Central Asia (CA) is becoming a focal point for the political and economic interests of global forces because of its rich natural resources and critical strategic position. From this point of view, the CA countries need to form a joint development strategy for solving regional problems and a strong mechanism for countering the main political and economic conflicts in the region. At the same time, the countries of the region need to choose the path of joint development in order to increase the efficiency of their internal capacities and resources, adapt the domestic social and economic infrastructure to modern requirements and improve the living standards of the population.

This is directly related to the progress of regional economic integration in CA. Through this integration, the economies of the countries in the region could complement each other and ensure a high level of development in mutual trade and industrial development.

However, there are some obstacles and problems hindering the development of economic integration in the region. Most particularly, the weak infrastructure in the region, its economic-geographical isolation from world markets, administrative barriers and political instability hinder trade between the countries of CA.

From this point of view, this study focuses on the problems of general and cross-border trade in CA countries, and the opportunities for economic integration in the region.

**Keywords:** Foreign Trade, Export, Import, Central Asia, Mutual Trade, Economic Integration

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## 1. Introduction

An integration of the countries in Central Asia (CA) became one of the key problems of national and regional policy in the early 1990s, when new states were faced with problems of extreme complexity (economic, social, environmental, etc.) which they could not solve on their own. The integration ideology of the 1990s was based, firstly, on the identity of the problems that impacted the CA countries, which constituted the content aspect of integration projects, and secondly, the “withdrawal” of Russia from this region, which determined the geography of the integration policy.

Despite the fact that the situation has changed now, the countries of CA still find themselves unable to achieve a high level of sustainable development.

From this point of view, the independent CA states have only two options to shape their future under the new conditions:

- (1) independently solve the tasks of social and economic development, satisfied with the sovereignty they have achieved and relying solely on their own forces – while constantly bearing the risk of falling under the influence of stronger neighboring states (a deliberately losing option); or
- (2) develop mutually beneficial integration ties with neighboring states, jointly strengthening their national economies.

The need for integration is generated today by a number of pressing economic

problems that cannot be solved by any country alone. The growing globalization and internationalization of production, the deepening of the international division of labor make the traditional policy of supporting free competition by an individual country ineffective. Alone, no country is able to cope with the tough competition in the world market. This spurs the search for new forms of international cooperation that ensure sustainable development of individual countries in the world economy. One such form is the integration of countries into various kinds of interstate unions, including large-scale regional economic complexes with a common territory, administrative apparatus, financial system, economy, citizenship, foreign policy.

At the same time, regional economic integration is not only a way to deal with world market competition; it also serves as protection against economic expansion supported by globalization. This is a way to ensure the sustainability and independence of each country's development.

In general, globalization and integration are objective and interrelated processes that will determine the world economic development in the coming decades. At the same time, regional economic integration for leading developed countries can be seen as a way of rallying and unifying efforts with a view to preserving the determining dictate in the world economy. Moreover, regional integration for developing countries is in fact the only opportunity to counter the negative consequences of worldwide globalization and dictate from the leading countries of the world.

The countries of CA have only one way to take their rightful place in the global economic community: transparent regional economic integration. Economic integration of the CA states is an objective and natural process, conditioned by the national interests of each of the countries of the region. The need for economic integration in the region is largely based on the deep interdependence and mutual complementarity of the economies of the region.

In addition, the deepening of integration processes is now acquiring great importance for ensuring both the regional and national security of CA states.

At present, the trade performance of the CA countries appears to demonstrate extremely weak mutual trade. In accordance with the indicators in 2016, the mutual trade of CA states reached only 6.4% of the total foreign trade of the region. Calculations of this indicator showed that Tajikistan and Kyrgyzstan achieved better

results – 22.0% and 16% respectively, while Uzbekistan and Kazakhstan reached 8.1% and 5.1%, and in Turkmenistan this accounted for just 2.9% regional trade of all external trade of the country. However, Kazakhstan and Uzbekistan had significantly higher shares in the region's foreign trade turnover, at 42.2% and 26.4%, respectively.

From this point of view, it can be noted that the CA countries need to expand their mutual trade. To achieve this, it will be necessary to study their interdependence with each other, opportunities for development and acceleration in the process of integration.

## 2. A Retrospective Analysis of the Processes of Regional Economic Integration in CA

The issue of integration between the countries of CA was for many years practically non-existent on the regional agenda, but today is experiencing a kind of renaissance. It is actively discussed at various analytical platforms, and, most importantly, is constantly fueled by event material in the form of various kinds of official meetings and conferences, statements and initiatives by the leaders of the countries of CA.

To briefly describe the current situation in the region, it represents a kind of state of positive expectations. However, whether these expectations for CA can be turned into real integration projects at the official level, it is impossible to say for sure. Perhaps the first step to this will be a meeting between the leaders of CA countries in Kazakhstan in March 2018.

At the same time, if CA countries still decide to launch a regional integration project, they will first of all need to identify and analyze the reasons for the failure of the first integration attempts in the 1990s and early 2000s, and also more clearly articulate the basic goals of integration that will have to fill the project with long-term semantic and practical content.

As is well-known, the countries of CA during the period of the 1990s to 2005 made overt attempts at regional integration, as evidenced by the establishment of such structures as the CA Economic Community (CAEC) and the CA Cooperation Organization (CACO). The presidents of Uzbekistan and Kazakhstan launched the integration by signing the Agreement on a Common Economic Space in Tashkent on January 10, 1994. The presidents of Kyrgyzstan, Tajikistan and Turkmenistan joined the process a little later.

Why did the first attempt at regional integration fail, resulting in this topic practically losing relevance after 2005?

Throughout the 1990s, the CA region was caught up in creating the foundations of new independent states. This was a very difficult time, as new political groups and leaders had no experience building independent government systems.

The contradictions between intentions and objective reality that blocked the regional integration of the 1990s and the beginning of the 2000s were also observed

in the area of the economy. An important role in blocking integration aspirations was played by the unfavorable economic conditions in which the CA countries found themselves after the collapse of the USSR, as well as the difference in the potentials of their economies. It is known that the countries of CA in the Soviet planned economy occupied their strictly defined niches, and this was, in principle, understandable. The Soviet economy functioned as a single organism. Therefore, after the collapse of the Soviet Union and its economic ties, all the countries of CA faced serious imbalances in the structure of their economies and the loss of markets, which in turn jeopardized their internal stability.

The scale of the negative effect from the severance of economic ties explains the figures for the supply of a net tangible product from the countries of CA at the beginning of the 1990s. The highest rates were in Turkmenistan – 50.7% and Kyrgyzstan – 50.2%. Then came Uzbekistan – 43.2%, Tajikistan – 41.8% and Kazakhstan – 39.9%. At the same time, the share of their barter transactions outside the USSR ranged from 10.5% in Turkmenistan to 16% in Tajikistan, while the average for the Soviet Union was 45%.<sup>1</sup> In other words, the CA countries were to a large extent focused on the Soviet market and that is why they suffered greatly from the collapse of the USSR. An unfavorable factor was also the fact that supplies of mineral and agricultural raw materials accounted for a very large share in the supply of a clean material product.

The economic impact from the collapse of the Soviet Union was such a force that, for example, in the Kazakh economy, even by 2000, the level of production recorded in 1990 was not restored, and the volume of investments remained at only 29% of the 1990 level. There was a reduction in GDP by almost 20% by 1995 and the actual impoverishment of the population, because 39% of Kazakhstan residents had incomes below the subsistence minimum.<sup>2</sup> In many respects a similar picture was observed in other countries of CA.

In these conditions, the countries of the region needed to carry out so-called “catch-up modernization” as soon as possible to create new industries, jobs in industry, agriculture and services, as well as diversify commodity production and export structure. However, all this required huge financial resources, investments,

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<sup>1</sup> C. Сафаров (November 10, 2005), <http://www.pv.uz/uz/sostavlyaya-edi> (accessed June 20, 2018).

<sup>2</sup> <http://cc-sauran.kz/rubriki/economika/47-kazahstan-prichiny-i-proyavleniya-ekonomicheskogo-spada-v-1990-gody.html> (accessed June 20, 2018).

knowledge and free access to foreign markets with a high purchasing power, and here arose the first economic obstacle that caused regional integration to stumble and which caused a number of other difficulties. The essence of this obstacle was that none of the CA countries, including Kazakhstan and Uzbekistan as the largest regional economies, could at that time become a source of major investments, modern knowledge and technologies for their neighbors. The markets of CA countries were also unable to play the role of drivers of economic growth and trade in view of their low purchasing power.

Compared against the European integration process, at the time of the creation of the EU, countries such as Germany, Britain, France, Spain and Italy were among the leading economies in the world and the largest consumer markets, a source of investment, advanced knowledge and technology, developed financial systems and branched-out trade relations. There were no such starting conditions for the CA countries to launch a full-fledged economic integration, and this in turn largely determined the gradual shift of their focus from regional to extra-regional economic spaces, where the necessary investments, knowledge, modern technologies and markets existed.

Another factor that played to a large extent against CA was competition from neighboring China, which throughout the 1990s and the first decade of the 2000s consistently demonstrated very high rates of economic growth. The average GDP growth of the PRC in the period of 1989-2017 is estimated at 9.69%, and the highest rate was recorded in 1993 – 15.4%.<sup>3</sup> The strengths of the Chinese economy in comparison with CA were cheaper labor, low environmental requirements, access to maritime transport communications and a competent policy by the state in attracting and protecting investments.

In addition, China was able to derive maximum benefits from joining the WTO in 2001. The figures for growth in a number of indicators are simply impressive. If at the time of joining the WTO the size of China's foreign trade was at the level of 509.8 billion USD, then by the end of the decade this figure had increased to 3 trillion USD. Over the same period, the total volume of foreign investment in the country increased from 46.8 to 105.7 billion USD, and gold and foreign exchange reserves

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<sup>3</sup> China GDP Annual Growth Rate 1989-2017, Trading Economics, <https://tradingeconomics.com/china/gdp-growth-annual> (accessed June 20, 2018).

increased from 212.2 to 2.85 trillion USD.<sup>4</sup> At the same time, the middle class was booming in China, which expanded the capacity of the consumer market, making the country an even more attractive trade and investment destination.

Certainly, it would be wrong to say that foreign investments in the production sector of CA countries did not come. They came, but their volume and quality could not provide a breakthrough in economic and technological development, as it was in China. In this regard, a number of CA countries had little choice but to begin to integrate deeper into the world system of the division of labor in the segment of suppliers of mineral and agricultural raw materials, since the necessary infrastructure has been created back in Soviet times. The logic of this choice was simple – the funds received from the export of raw materials should provide financing for projects in the field of industry and the social and scientific-educational sphere, i.e. serve as a catalyst for growth in other areas and drive a transition to a higher-class economy.

In Kazakhstan, the role of the locomotive was assumed by the oil industry. Despite the fact that world oil prices showed a steady drop after 1991, reaching a bottom of 11 USD per barrel in 1998, Kazakhstan managed to produce 25.8 million tons by 1997, and thereby to repeat the indicators of 1992. After that, oil production only grew, reaching 74 million tons in 2015. A slight drop in production by 1.4% in 2016 was due to Astana joining the deal with OPEC to reduce oil production, as well as the deterioration of existing infrastructure in the oil industry.<sup>5</sup>

Strengthening of the positions of the oil industry in the economy and as a factor of Kazakhstan's participation in the world system of the division of labor in the raw material segment was also promoted by the growth of oil prices. In the late 1990s, prices rose to 30 USD per barrel, and then, after the start of the US military operation in Iraq in 2003, they began to grow continuously up to the middle of 2008, reaching 147 USD per barrel.

An indication that Kazakhstan has seamlessly blended into the niche of the supplier of raw materials and, first of all, oil, has been a large-scale arrival of foreign investment in the extractive sector. As a result, this led to 73% of all foreign investments invested in Kazakhstan becoming concentrated in the oil-producing

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<sup>4</sup> <http://russian.mofcom.gov.cn/article/counselorsreport/201112/20111207873767.shtml> (accessed June 20, 2018).

<sup>5</sup> <https://neftegaz.ru/news/view/157327-Dobycha-nefti-v-Kazahstane-v-2016-g-snizilas-na-14-sokraschenie-nablyudaetsya-i-po-gazu> (accessed June 20, 2018).

regions by 2013 – namely, in the Atyrau region (61.4%) and Mangistau region (12.1%). In parallel, the share of the oil and gas industry in GDP and exports increased. In the period of high world oil prices, the share of this sector in GDP reached 25%, and in export earnings 60-74%.<sup>6,7</sup>

This high rate in the oil and gas sector favorably affected the state of the economy of Kazakhstan, which not only recovered from the crisis following the collapse of the Soviet Union, but also turned into the largest economy in CA in terms of GDP and per capita income. It also favorably affected the internal stability and process of the formation of a new Kazakhstani identity among the elite and in society. The symbol of a positive change in the economy and society CA is called the construction of a new capital in Astana.

At the same time, the rapid development of the oil and gas sector worked against regional integration. The main flow of Kazakhstan's oil exports was sent to far-abroad countries and, first of all, to Europe, and since a significant part of strategically important revenues from oil exports came from the European market, Kazakhstan became vitally interested in the stability of these ties and their priority. This, in turn, contributed to the growth of orientation toward the West in a significant part of the emerging elite. Another result was the strengthening of Kazakhstan's orientation to the markets of foreign countries, amidst which unfolded the "Great Game" between Russia, the United States, the EU and China, which persistently proposed and promoted their routes of exporting Kazakh oil to the markets of foreign countries.

In principle, Astana had no choice but to orientate itself to foreign markets as a part of its policy of increasing oil production and export, since the CA market was not able to consume the growing volumes of Kazakhstan's oil exports. On the one hand, it was extremely small, and on the other, a number of countries in the region had their own large oil and gas fields. In particular, Turkmenistan itself was a supplier of oil and gas, and Uzbekistan has taken a course of energy independence based on its own natural gas reserves.

Certainly, Kazakhstan's export policy was not limited to only oil and other kinds

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<sup>6</sup> <http://www.akhmadi-invest.com/2016/06/15/dolya-neftegazovoj-otrasli-v-vvp-kazaxstana-snizilas-s-25-do-17/> (accessed June 20, 2018).

<sup>7</sup> <https://informburo.kz/novosti/eksport-kazahstanskoy-nefti-dostig-minimuma-za-shest-let.html> (accessed June 20, 2018).

of raw materials. The influx of petrodollars and a rather liberal economic policy led to an increase in activity in other industries, agriculture and services. Private business was strengthened and was ready from the beginning of the 2000s to invest in foreign projects, and in this context, the CA market was of interest to the nation, but the Kazakh economy, as already said, was still weak. Just then Astana started to integrate with Russia, which was and remains its main trade and economic partner. Integration with Russia was carried out within the framework of the Eurasian Economic Community (EurAsEC) (2001-2014). The attractiveness of the development of economic relations with Russia since the early 2000s was due to the overall stabilization of its political and economic system after Vladimir Putin came to power and the rise in world commodity prices, which turned the Russian market into one of the most attractive in the world for exporters and investors.

In Turkmenistan, the oil and gas industry also acted as the locomotive of economic growth and a factor in overcoming the crisis associated with the disruption of Soviet economic ties. At the time of independence, Turkmen natural gas reserves were estimated at 2 trillion m<sup>3</sup>. The largest field was Davletabad in the Mary region, and the main export route was Russia, where gas was supplied through the CA-Center gas pipeline system.

The rate for the export of natural gas in Turkmenistan had similar features to Kazakhstan's oil policy, as well as fundamental differences. The axis of foreign economic policy was the maximum extraction and diversification of gas supply routes. Since the main sales markets were supposed to be outside CA, it is natural that it began to interest Ashgabat mainly as an element of safe transit. Some of the revenues from gas exports went to industry, agriculture, transport communications, and electricity. As in Kazakhstan, a symbol of this era was a large-scale construction in Ashgabat and regional centers.

At the same time, as the revenues from gas exports increased, the idea of regional integration for the Turkmen elite increasingly receded into the background, giving way to isolationist ideas and building relations primarily on a bilateral basis. The public's support for this course was to be ensured by the policy of granting some social benefits to the state. Hopes that the change of power in Turkmenistan in 2007, as well as the first wave of the global financial and economic crisis of 2008-2009, which provoked the collapse of oil and gas prices, would lead to a change in the philosophy of Turkmen regional and economic policy were not justified.

First of all, the opening of the giant “Galkynysh” deposit near Iolotan in the Mary region with reserves of 21.2 trillion m<sup>3</sup> of gas and 300 million tons of oil contributed to the preservation of the old policy. The second factor was the beginning of the implementation of agreements with Beijing on the construction of a network of gas pipelines that allowed Turkmen gas to enter the huge Chinese market. Both of these factors gave Ashkhabad a reason to talk about plans to increase gas production to 185 billion m<sup>3</sup> by 2030 and significantly increase its exports. Naturally, these intentions did not in any way stimulate the desire of the Turkmen elite to go for full-scale regional integration.

Uzbekistan, as well as Kazakhstan and Turkmenistan, used raw material exports as a source of foreign exchange earnings. Of the total exports of almost 3,265 billion USD in 2000, the share of cotton fiber was 27.5%, ferrous and non-ferrous metals 6.6%.<sup>8</sup> Also, natural gas and refined products were exported. However, the absence of hydrocarbon reserves comparable with Kazakhstan and Turkmenistan forced Uzbekistan to move along the path of development of industry, small and medium-sized businesses, farming, which, surely, laid the foundation for a qualitatively new structure of GDP and exports. For example, in 2000, approximately 35.4% of the total volume of imports was purchased by the machinery and equipment needed to reform the industry.<sup>9</sup> The symbol of this course was the construction of the automobile plant UzDaewooAvto (currently “GM Uzbekistan”) in 1993 in the city of Asaka, Andijan region.

Uzbekistan’s adoption of the IMF statute on the convertibility of the national currency on current operations in 2003, and its subsequent fulfillment of obligations under the eighth article, led to an impressive increase in exports. In the period 2003-2008, Uzbek exports grew almost threefold – from 3.7 to 11.5 billion USD.<sup>10</sup> Certainly, a significant trend in the growth of exports in value terms was a bullish trend in world markets, but the economic recovery was obvious. Therefore, in accordance with the logic of the development of the manufacturing and processing sector, as well as the service sector, Uzbekistan was to become one of the main

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<sup>8</sup> <https://nuz.uz/ekonomika-i-finansy/25931-s-2000-goda-uzbekistan-snizil-vneshnetorgovyy-oborot-so-stranami-sng.html> (accessed June 20, 2018).

<sup>9</sup> <https://nuz.uz/ekonomika-i-finansy/25931-s-2000-goda-uzbekistan-snizil-vneshnetorgovyy-oborot-so-stranami-sng.html> (accessed June 20, 2018).

<sup>10</sup> <http://uz24.uz/opinions/dvoynoy-viigrish-cho-zhdet-uzbekistan-pri-otkroyq-konvertacii?page=2> (accessed June 20, 2018).

engines of regional integration in CA as its industrial and agricultural base strengthened, since free access to the markets of CA countries would be the best incentive for economic development. Indeed, Uzbekistan, as the situation in the economy improved, was one of the initiators of the establishment of the CACO in 2002.<sup>11</sup>

However, it was at that time that Tashkent's growing skepticism about regional integration began to be felt, which eventually led to a priority rate on bilateral relations in Uzbekistan's foreign policy. Skepticism was caused by the fact that at the time of creation of the CACO, the region as a single phenomenon has already begun to show signs of crisis. So, Turkmenistan did not join the organization, which already limited the potential of the integration project. In 2003, Ashgabat also withdrew from the unified energy system, thereby laying the groundwork for its subsequent disintegration, which painfully hit the economic unity of CA.

With the launch of the reforms by the new President of Uzbekistan, the normal logic of strategic planning began to return, in which the long-term goal is a breakthrough in economic development, and security begins to play a supporting role.

In addition, there has been an aggravation of relations between Uzbekistan and Tajikistan due to the invasion by militants of the so-called "Islamic Movement of Uzbekistan" (IMU) in 1999-2000. These two incursions, as well as terrorist acts in Tashkent on February 16, 1999, led to a serious transformation in the priorities of Uzbekistan's domestic and foreign policy, in which security issues, often to the detriment of the economy and relations with neighbors, began to take the forefront. Such an approach dominated until the election of Shavkat Mirziyev, the president of Uzbekistan, with the launch of reforms, the normal logic of strategic planning began to return gradually, in which the long-term goal is a breakthrough in economic development, and security begins to play a supporting role, a tool for ensuring stable conditions for economic development.

Among the reasons that caused skepticism within Uzbekistan towards regional integration in the early 2000s, one could name the gradual understanding of the

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<sup>11</sup> The Central Asian Cooperation Organization was initially created under the name of Central Asian Economic Union in 1994, by Kazakhstan, Kyrgyzstan and Uzbekistan. Tajikistan joined the group in 1998, and the Organization was then renamed Central Asian Economic Cooperation (CAEC). On February 28th, 2002, the CAEC was transformed into the CA Cooperation Organization, (CACO). On May 28th, 2004, Russia joined CACO as a member.

market limitations of most of the CA countries and their technological and scientific potential that could not provide an economic breakthrough for the whole region. Solving the problem of capacity building could only be accomplished by rethinking the model of integration and including other countries in this model. Therefore, Russia's entry into the CACO in 2004 at the invitation of Islam Karimov seemed quite logical.

At the same time, the geopolitical climate began to change significantly in the region due to the growing rivalry between Russia, the United States, the EU, China and Iran, and the CA countries are increasingly choosing the policy of balancing between the centers of power, taking into account not their regional, but primarily their national interests. All this aggravates the situation, resulting in the "tulip revolution" in Kyrgyzstan and the Andijan events in Uzbekistan in 2005, which in turn become the trigger for the new stage of geopolitical games. Naturally, in such conditions it was not necessary to talk about full-fledged regional integration. It was then that the CACO merged with EurAsEC, which buried the integration projects of the 1990s and early 2000s.

As for Kyrgyzstan and Tajikistan, their resource and industrial base, unlike the three above-mentioned countries, was rather limited and, due to this, it could not ensure their effective exit from the post-Soviet crisis period. They became the poorest countries in CA and therefore had to look for any source of income for survival. They rely on a quite small agriculture portfolio, transfers from labor migrants and the development of deposits of natural resources. Kyrgyzstan gradually transformed into a re-export center of Chinese goods, tried to attract tourists to the resorts of Issyk-Kul and charged rent for the deployment of the NATO airbase "Manas" on its territory.

Kyrgyzstan and Tajikistan had high hopes for electricity exports, given that the sources of the Amudarya and Syrdarya are on their territory, but the plans for the construction of new large hydroelectric power stations led to a sharp deterioration in their relations with Uzbekistan, which believed that they could endanger the lives and well-being of millions of people and the agriculture of countries located downstream of these rivers. These contradictions eventually became another obstacle to regional integration. However, in general, both countries were not opposed to joining various associations, such as EurAsEC, as they needed investments.

Cumulatively, the above reasons contributed to the ultimate failure of regional integration in the 1990s and early 2000s. However, from the moment when the CACO went into oblivion, the region went through a rather serious path that left its imprint on the worldview of elites and the population, as well as on management models in politics and economy. And external political and economic landscapes have changed, including the balance of power in the world. Therefore, today it is of great interest to compare the current conditions for the possible launch of a new integration project with the conditions at the time of the first integration attempt.

Given that regional integration includes economic integration and the creation of a common economic space, liberalism is best suited for the free movement of capital, knowledge, investment, people, goods, the protection of private property, investors' rights, and the maintenance of open and fair competition. In modern history, this was in fact the only platform for the voluntary unification of countries and peoples in order to achieve mutual benefits and development, as exemplified by the EU and WTO.

In this regard, great hopes are sparked by President Shavkat Mirziyev's reforms aimed at general internal liberalization in Uzbekistan. If they succeed, it will create the prerequisites for a more confident and effective integration of the element of liberalism into the structure of the regional supranational identity. Reforms aimed at liberalization in Uzbekistan can also create prerequisites for the formation of a kind of "liberal integration core" in CA, the elements of which will also include Kazakhstan and Kyrgyzstan, which have certain experience of economic and cultural liberalism. It is between these three countries today that the closest rapprochement is observed. Astana and Bishkek are also WTO members, and Uzbekistan in turn probes the possibility of joining this organization, having already secured the support of the United States, South Korea and the European Union in the provision of advisory assistance.

As in the case of the first attempts at regional integration, if the second attempt is possible, the issue of economic prerequisites for it will become critically important. If the construction of a supranational identity aims to find the answer to the question "What do we have in common in order to unite?", The economic aspect should answer the question "Why should we unite?"

In this regard, surely, it seems important to formulate a precise long-term goal, around which it would be possible to build a meaningful economic plan within the

integration strategy. It is often the case that the goal of integration is defined as the creation of a single economic space for the free movement of capital, goods, people, ideas and knowledge, through the implementation of a coordinated policy in the field of border and customs control, defense policy, cultural exchange etc. However, in reality, such goals are either instruments to achieve this long-term goal, or the results that will be achieved by implementing a long-term integration strategy. A good example is the goals declared by CACO in its time, which, despite their external specificity, nevertheless, to a large extent, seemed to be blurred.

## 3. Dynamics of Foreign Trade of CA Countries

### 3-1. General Foreign Trade

Today, the role of foreign economic relations, especially foreign trade, is one of the factors contributing to the country's economic growth. The main reason for this is the globalization processes in the world economy, as well as the widening of economic relations among the countries. In this regard, foreign trade is a major focus of economic policy in the countries. As it has been noted in CA countries, the issues of developing effective foreign trade relations have maintained their relevance since the first years of independence. The reason for this is the importance of foreign trade from the early years of independence. Firstly, as a result of the specialization of countries during the Soviet Union era, a certain direction of production was formed. These sectors were insufficient to ensure that internal needs were met following independence. The bulk of consumer demand was met by imported goods. Secondly, foreign trade revenues have been widely used in the development of economy, financing of structural reforms in the countries. Thirdly, the demand for modern equipment and technologies, which is a material and technical basis of the structural reforms and modernization processes during the years of independence, has been met by international trade.

In the analyzed period, foreign trade relations in the countries of the region were formed as a result of macroeconomic, trade and economic-structural policies, changes in the structure of goods and prices in the world market. However, in recent years the volume of foreign trade turnover in all CA countries has decreased.

The greatest decline was observed in Kazakhstan (67.8%), and this has reflected on the overall decline in the region's foreign trade.

However, imports from all CA countries, except Kazakhstan, have increased (Table 1).

**Table 1. Exports and Imports of CA Countries**

(Unit: in billion USD)

Years	Units	KAZ	KGZ	TJK	TKM	UZB	CA
2010	Exports	60.3	1.8	1.2	9.7	13.0	86.0
	Imports	31.1	3.2	2.7	8.2	9.2	54.4
2011	Exports	84.3	2.2	1.3	16.8	15.0	119.6
	Imports	36.9	4.3	3.2	11.4	11.3	67.1
2012	Exports	86.4	1.9	1.4	20.0	13.6	123.3
	Imports	46.4	5.6	3.8	14.1	12.8	82.7
2013	Exports	84.7	2.0	0.9	18.9	14.3	120.8
	Imports	48.8	6.0	4.0	16.1	13.9	88.8
2014	Exports	78.2	1.9	1.0	19.8	13.5	114.4
	Imports	41.2	5.7	4.3	16.6	14.0	81.8
2015	Exports	46.0	1.5	0.9	12.1	12.5	73.0
	Imports	30.6	4.1	3.4	14.0	12.4	64.5
2016	Exports	36.8	1.6	0.9	7.5	12.2	59.0
	Imports	25.2	3.9	3.0	13.2	12.1	57.4
In 2016, in comparison to 2010 (%)	Exports	61.0	89.6	75.2	77.7	93.5	68.6
	Imports	80.9	121.6	114.1	160.6	132.2	105.6

Source: Calculated by the author on the basis of data of statistics agencies of CA countries (date accessed for all: March 22, 2018).

The role of Russia and China in the foreign trade of CA countries is very high (Table 2). Over the past few years, China has become the main importer in three CA countries: Kyrgyzstan, Tajikistan and Uzbekistan. Thus, in 2016, 38.1% of all imports to Kyrgyzstan came from China. The situation in Tajikistan is slightly different, with imports from China accounting for 52%. China is also leading imports in Uzbekistan, at about 21%. Only in Kazakhstan and Turkmenistan is China is second to other countries, Russia and Turkey, respectively. In the import structure of CA countries, China has a wide range of products, including machinery and equipment, food products, daily goods, and much more.

**Table 2. Major Trading Partners of CA Countries, 2016**

Units	Uzbekistan		Kazakhstan		Kyrgyzstan		Tajikistan		Turkmenistan	
Export partner (% of exports)	China	16.4	Italy	20.3	Switzerland	45.5	Kazakhstan	20.9	China	70.9
	Russia	14.7	China	11.5	Kazakhstan	10.6	Turkey	20.3	Turkey	5.4
	Kazakhstan	7.8	Russia	9.5	Russia	10.2	Italy	10.0	Italy	5.4
Import partner (% of imports)	China	21.0	Russia	36.3	China	38.1	China	52.0	Turkey	24.9
	Russia	20.3	China	14.6	Russia	20.8	Russia	20.1	Russia	11.4
	Republic of Korea	9.6	Germany	5.7	Kazakhstan	10.5	Kazakhstan	11.3	Japan	7.9

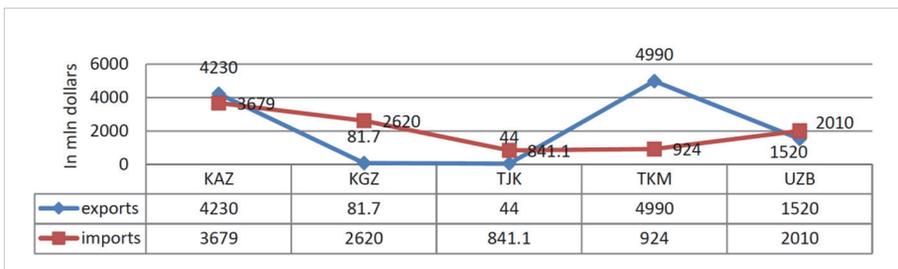
Source: <http://data.un.org> (accessed May 25, 2018).

As for exports, China has become the main destination for the products of Turkmenistan and Kazakhstan. Thus, China's share in Turkmenistan's exports in 2016 stands at a record 70.9%. At the same time, the export of Ashgabat to China is almost exclusively a monopoly of hydrocarbons. As for Kazakhstan, the share of its exports to China is 11.5%. Again, oil and gas prevail, but in general, Kazakhstan's exports are more diversified than Turkmen exports. China is the first export partner for Uzbekistan. But Tajikistan and Kyrgyzstan, which do not have serious reserves for China, find it difficult to offer anything to Beijing: the export of their own products to China does not play a significant role for them, and their foreign trade balance with the PRC is sharply negative (Figure 1).

The foreign trade of CA countries also depends on export-import transactions with Russia (Figure 2, 3).

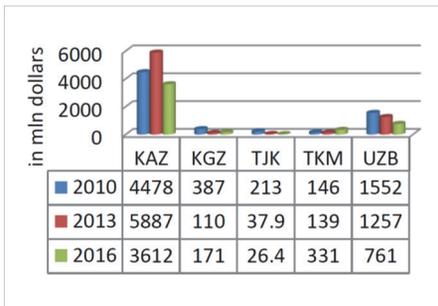
In general, Russia and China play an important role not only in the foreign trade of CA countries, but also in the activity of regional integration at various levels.

**Figure 1. Trade of CA Countries with China in 2016**



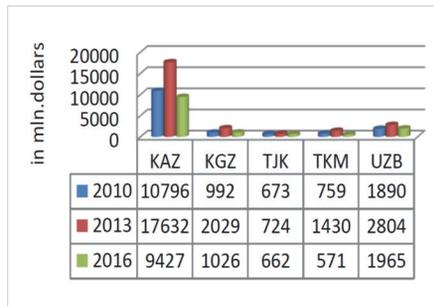
Source: Calculated by the author on the basis of data of statistics agencies of CA countries (date accessed for all: March 22, 2018).

Figure 2. Exports of CA countries to Russia



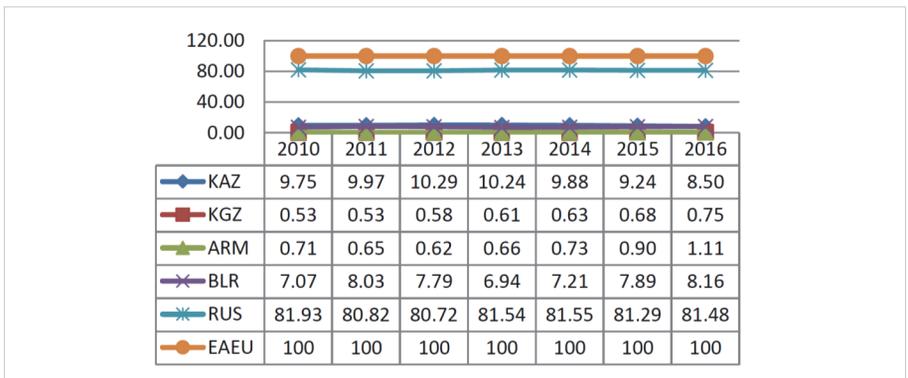
Source: Calculated by the author on the basis of data of statistics agencies of CA countries (date accessed for all: March 22, 2018).

Figure 3. Imports of CA countries from Russia



Source: Calculated by the author on the basis of data of statistics agencies of CA countries (date accessed for all: March 22, 2018).

Figure 4. The share of foreign trade turnover EAEU countries



Source: Calculated by the author on the basis of data of statistics agencies of CA countries; [http:// www.eurasiancommission.org](http://www.eurasiancommission.org) (date accessed for all: May 25, 2018).

Russia ranks first in the foreign trade turnover of the Commonwealth of Independent States (CIS) (\$ 594.5 billion in 2016, 81.5% of the organization's foreign trade) (Table 3). A similar situation is observed in the Eurasian Economic Union (EAEU), which means that most of EAEU foreign trade falls on Russia (Figure 4).

The largest share of the foreign trade turnover of the Shanghai Cooperation Organisation (SCO) belongs to China (\$ 4,145 billion and 85.7% in 2016). Russia follows, with \$594.5 billion and 12.3% (Figure 5). The share of the four CA states is

about 2% of the foreign trade of the SCO. The various rates of economic growth, market transformations in the SCO countries, which entail a restriction of mutual access of industrial, trade, financial and insurance capital to the markets of partner countries, certainly have a negative impact on the expansion of trade and economic ties within the SCO.

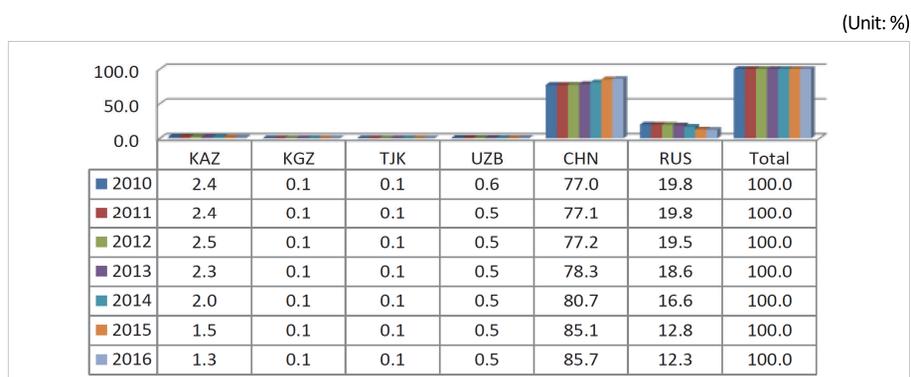
**Table 3. Foreign Trade Turnover share of CIS countries**

(Unit: %)

	KAZ	KGZ	TJK	TKM	UZB	ARM	BLR	RUS	MDA	AZE	UKR	Total
2010	7.9	0.4	0.3	1.5	1.9	0.6	5.7	66.1	0.6	3.4	11.5	100.0
2011	8.0	0.4	0.3	1.9	1.7	0.5	6.5	65.1	0.6	3.5	11.5	100.0
2012	8.3	0.5	0.3	2.1	1.6	0.5	6.3	65.0	0.6	3.4	11.4	100.0
2013	8.3	0.5	0.3	2.2	1.8	0.5	5.6	66.0	0.6	3.4	10.8	100.0
2014	8.1	0.5	0.4	2.5	1.9	0.6	5.9	66.9	0.7	3.5	9.1	100.0
2015	7.5	0.5	0.4	2.5	2.4	0.7	6.4	65.6	0.7	3.8	9.5	100.0
2016	6.8	0.6	0.4	2.3	2.6	0.9	6.5	64.7	0.8	3.7	10.7	100.0

Source: Calculated by the author on the basis of data of statistics agencies of CA countries; <http://www.cisstat.com> (date accessed for all: May 25, 2018).

**Figure 5. Foreign trade turnover share of SCO countries**



Source: Calculated by the author on the basis of data of statistics agencies of CA countries; <http://www.eurasiancommission.org> (date accessed for all: May 25, 2018).

In the Central Asia Regional Economic Cooperation (CAREC) trade turnover, China has absolute predominance (4,145.9 billion USD and 94.3%) (Table 4).

Negative indicators prevail in the foreign trade of the CIS countries, which take part in the activities of a number of international organizations. Along with the

decline in the absolute indicators of foreign trade of CA countries, their share in most organizations is also decreasing.

**Table 4. Foreign Trade Turnover Share of the Member Countries of CAREC**

(Unit: %)

	KAZ	KGZ	TJK	TKM	UZB	AZE	CHN	AFG	PAK	MNG	TOTAL
2010	2.8	0.2	0.1	0.6	0.7	1.2	92.2	0.3	1.8	0.2	100
2011	2.9	0.2	0.1	0.7	0.6	1.3	92.0	0.2	1.7	0.3	100
2012	3.0	0.2	0.1	0.8	0.6	1.2	92.0	0.3	1.6	0.3	100
2013	2.8	0.2	0.1	0.7	0.6	1.1	92.5	0.2	1.5	0.3	100
2014	2.3	0.1	0.1	0.7	0.5	1.0	93.2	0.2	1.5	0.3	100
2015	1.6	0.1	0.1	0.5	0.5	0.8	94.3	0.2	1.6	0.2	100
2016	1.4	0.1	0.1	0.5	0.6	0.8	94.5	0.3	1.6	0.2	100

Source: Calculated by the author on the basis of data at <http://www.eurasiancommission.org>; <http://data.un.org> (date accessed for all: May 25, 2018).

The decrease in the external trade turnover of the CA republics arose as a result of the complex impact of a number of factors. The slowdown in the rate of China's economic growth, which became one of the reasons for the fall in world prices for oil and the metals that form the basis for the export of a number of CA states, and the subsequent devaluation of the yuan, had a negative impact on the economies of the countries in the region. In addition, the oil market is influenced by attempts by OPEC countries to oust American oil producers from the market, as well as strengthening of the dollar. The situation is exacerbated by the sanctions war initiated by the US and EU against Russia. As a result, in the region there is a decline in exports of goods in value terms (this is confirmed by the information given above).

The main reason is a drop in world demand and prices for key exports of CA countries (hydrocarbons, metals and other raw materials). If the average price of Brent crude oil per barrel in 2014 was 112.04 dollars, then in 2015 it fell to 44.31 dollars. This is a fall of more than 2.5 times. The slowdown in the growth of the economies of Russia and China is characterized by a slowdown in GDP growth. GDP growth in Russia in 2014 was 0.7%, and in 2015 there was no growth and GDP fell by 2.5% and in 2016 by 0.2% compared to the previous year. As for China, in 2014 GDP growth was 7.4%, in 2015, 7.0%, in 2016 it was 6.7%, this being the slowest in 26 years.<sup>12</sup>

<sup>12</sup> <http://stanradar.com/news/full/20513-inflijatsija-v-turkmenistane-ochen-hitryj-predmet.html?page=80> (accessed June 6, 2018).

In parallel, because of the deteriorating situation in the Russian economy, the volume of supplies of CA products to Russia is declining. In the first half of the year 2016, exports of Turkmenistan and Uzbekistan to the Russian Federation sank almost twice as compared to the same period in 2014, while Kazakhstan's exports fell by 1.4 times. The situation in the gas and automotive markets had a serious impact on these processes. This year, against the backdrop of continuing disagreements with the Turkmen side, Gazprom sharply reduced its purchases of gas to 4 billion m<sup>3</sup>, while in 2014 it bought 10 billion m<sup>3</sup> from Ashgabat. There was a drop in car supplies from Uzbekistan. In the first quarter of 2016, 5,411 Uzbek cars were sold in Russia, which is 58% lower than the level of the same period in 2014.

It is possible to underline that as a result of influence of the specified factors devaluation of national currencies occurred. The government of Turkmenistan was forced to devalue the manat by almost 20% from the beginning of 2014, the Tajik somoni depreciated by 30.5%, the rate of the Kyrgyz som fell to the lowest level in the history of the republic (62.4 soms per dollar). Kazakhstan conducted a devaluation measure on August 20, 2015, announcing its transition to a floating exchange rate and cancellation of the currency corridor. As a result, the tenge fell by 26% against the dollar.<sup>13</sup>

The value of the dollar on the black market in Uzbekistan has increased by almost 1.4 times since the beginning of 2015, although the official rate showed a change of only 3%. Since September 5, 2017, the Central Bank of Uzbekistan has almost twice devalued the exchange rate of the national currency. According to experts, after the devaluation of the national currency of Uzbekistan, their goods will become more affordable for foreigners and, consequently, their exports should grow. In the first half of 2017, about 50% (or \$122 million) of all imported cotton to Russia came from Uzbekistan. After the devaluation of the sum, this share is likely to grow.<sup>14</sup>

In general, the crisis phenomena in the CA states are caused by a complex of internal causes – first of all, by the raw nature of the national economy. External factors only aggravated the accumulated systemic problems, demonstrating the vulnerability of the economic models adopted in the region. To get out of this situation, measures are needed to stimulate the transition to a more high-tech type of production that is stable to external conjunctures. The organization of economic

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<sup>13</sup> <https://riss.ru/analytics/20319/> (accessed June 6, 2018).

<sup>14</sup> <https://www.gazeta.ru/business/2017/09/05/10874726.shtml> (accessed June 6, 2018).

integration in CA opens a wide market for the countries of the region, where their own products can be competitive. The free movement of the workforce alleviates social imbalances. One of the subsequent stages in the development of such an economic union will also be currency co-ordination, aimed at enhancing the role and stability of national currency exchange rates of participating countries in their foreign trade and investment operations.

### 3-2. Mutual Trade

From the definition of integration it follows that the presence or absence of positive integration dynamics is determined by the strengthening or weakening of mutual ties between economies.

The classic measure of integration is the indicator of the importance of mutual flows (TI), which is calculated as the ratio of mutual flows (between the country and the members of the integration association) to all flows (between the country and the whole World). In our example, for mutual export (import):

$$TI = \frac{E^{int}}{E^{all}}$$

Where,  $E^{int}$  – the volume of exports (imports) for CA countries,  $E^{all}$  – the total volume of exports (imports).

The growth of this indicator means an increase in the share of mutual flow, which in the adopted definition of integration means the improvement of integration ties in this direction.<sup>15</sup>

When we analyze the situation in CA according to this formula, the value of mutual export in the region in 2016 has increased in comparison with 2010 (Table 5). This indicator has changed positively in Kazakhstan, Kyrgyzstan, Tajikistan and Turkmenistan. In Uzbekistan there is a slight decline in this indicator.

This indicator was 0.192 in Kyrgyzstan in 2016, and in Tajikistan this coefficient was 0.268. The lowest ratio was in Kazakhstan. Kazakhstan, Turkmenistan and Uzbekistan have a relatively small share of exports to CA because of their exports' geography and volume.

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<sup>15</sup> [http://www.eurasiancommission.org/ru/act/integr\\_i\\_makroec/dep\\_makroec\\_pol/investigations/Documents/](http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_makroec_pol/investigations/Documents/) (accessed March 20, 2018).

**Table 5. Indicator of the Importance of Mutual Exports**

	2010	2011	2012	2013	2014	2015	2016
Kazakhstan	0.032	0.025	0.03	0.031	0.036	0.047	0.052
Kyrgyzstan	0.131	0.203	0.344	0.358	0.279	0.257	0.192
Tajikistan	0.031	0.046	0.085	0.109	0.194	0.184	0.268
Turkmenistan	0.042	0.026	0.024	0.028	0.02	0.036	0.056
Uzbekistan	0.09	0.071	0.091	0.087	0.096	0.077	0.07
CA	0.044	0.034	0.041	0.043	0.046	0.056	0.063

Source: Calculated by the author on the basis of data of statistics agencies of CA countries (date accessed for all: April 10, April 25, 2018).

While analyzing the indicator of importance of mutual trade we can see a similar situation: this indicator decreased in 2016 compared to 2010 (Table 6). This indicator was 0.146 in Kyrgyzstan, 0.206 in Tajikistan. Relatively smaller coefficients are observed in Turkmenistan and Kazakhstan: 0.014 and 0.049, respectively. These indicators for Kyrgyzstan, Turkmenistan and Uzbekistan dropped during analyzed period.

**Table 6. Indicator of the Importance of Mutual Imports**

	2010	2011	2012	2013	2014	2015	2016
Kazakhstan	0.04	0.041	0.032	0.034	0.041	0.042	0.049
Kyrgyzstan	0.168	0.129	0.151	0.131	0.143	0.153	0.146
Tajikistan	0.174	0.175	0.236	0.229	0.193	0.202	0.206
Turkmenistan	0.03	0.025	0.023	0.022	0.032	0.021	0.014
Uzbekistan	0.141	0.124	0.119	0.107	0.097	0.097	0.092
CA	0.069	0.061	0.061	0.059	0.064	0.064	0.065

Source: Calculated by the author on the basis of data of statistics agencies of CA countries (date accessed for all: April 10, April 25, 2018).

The calculation of the indicator of the importance of mutual flows is usually supplemented by the openness index (TO), which is calculated as the ratio of mutual flows to a large macroeconomic aggregate, usually GDP. In our example, the indicator of the openness of the economy in trade in goods:

$$TO = \frac{X^{int} + M^{int}}{GDP}$$

where  $X^{int}$  - exports to CA,  $M^{int}$  - imports from CA, GDP - the country's GDP<sup>16</sup>

The growth of this indicator means an increase in the influence of mutual trade on the economy of the country, which in the definition of integration means the improvement of integration ties. For example, an improvement in the TI indicator may indicate integration in the study direction, but for small TO values, its impact on the country's economy is obviously small.

According to the economics openness index, these indicators of CA countries are gradually declining. The total openness index of the region in 2010 was 0.035, while in 2016 this indicator was 0.030. In particular, these indicators in Turkmenistan and Uzbekistan have dropped acutely (Table 7).

**Table 7. Calculation of the Openness Indicator of the Economy**

	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan	CA
2010	0.022	0.167	0.089	0.031	0.063	0.035
2011	0.018	0.161	0.092	0.024	0.054	0.029
2012	0.020	0.242	0.132	0.023	0.054	0.033
2013	0.018	0.205	0.118	0.023	0.048	0.030
2014	0.020	0.173	0.109	0.021	0.043	0.030
2015	0.019	0.149	0.114	0.019	0.033	0.027
2016	0.023	0.136	0.129	0.017	0.029	0.030

Source: Calculated by the author on the basis of data of statistics agencies of CA countries (date accessed for all: April 10, April 25, 2018).

The slight change in Kazakhstan's openness in CA is due to the fact that Kazakhstan occupies a central place in the foreign trade of all the countries of CA (Appendix 1-6).

These tables show that the dependence of Kyrgyzstan and Tajikistan is relatively high with the economy of the region. Foreign trade of Kazakhstan, Turkmenistan and Uzbekistan depends more on China, Japan, South Korea, Russia, Turkey and other countries in Western Europe.

Due to the transition of Kazakhstan and Uzbekistan to the formation of their economy on the basis of innovations, they are focused on the import of goods that will enable them to achieve the set goal.

<sup>16</sup> [http://www.eurasiancommission.org/ru/act/integr\\_i\\_makroec/dep\\_makroec\\_pol/investigations/Documents/](http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_makroec_pol/investigations/Documents/) (accessed March 20, 2018).

For instance, in 2016 in Kazakhstan with an indicator of 27.3% of the total number of imported goods, according to tradition, the commodity group “Machines, equipment and machinery, electrical equipment” was used.<sup>17</sup>

And in Uzbekistan, in the import structure, the main share (35.4%) belongs to machinery and equipment, as well as chemical goods (14.8%).<sup>18</sup>

Here, we will cite the correlation coefficient of exports and imports of the CA countries to the region (Table 8). Among the CA countries, Uzbekistan’s regional exports and imports correlation coefficients are very close: 0.52 and 0.57, respectively. Tajikistan’s export correlation coefficient to the region is 0.95 while imports have a coefficient of 0.30. Among the countries of the region, the ratio of Turkmenistan’s exports and imports to the MO countries is very low and is equal to 0.1 and 0.02, respectively.

The influence of Kazakhstan and Uzbekistan on export-import operations in the whole region is high, and mutual trade between them is of decisive importance for the CA region.

**Table 8. Correlation Coefficients of Mutual Exports and Imports of CA Countries**

		KAZ	KGZ	TJK	TKM	UZB	CA
KAZ	Exports	-	0.19	0.52	0.03	0.75	0.08
	Imports	-	0.06	0.94	0.26	0.40	0.18
KGZ	Exports	0.06	-	0.07	0.39	0.11	0.03
	Imports	0.19	-	0.74	0.21	0.18	0.12
TJK	Exports	0.94	0.74	-	0.11	0.55	0.95
	Imports	0.52	0.07	-	0.12	0.75	0.30
TKM	Exports	0.26	0.21	0.12	-	0.44	0.10
	Imports	0.03	0.39	0.11	-	0.03	0.02
UZB	Exports	0.40	0.18	0.75	0.03	-	0.52
	Imports	0.75	0.11	0.55	0.44	-	0.57

Source: Calculated by the author on the basis of data of statistics agencies of CA countries (date accessed for all: April 10, April 25, 2018).

<sup>17</sup> <https://business.gov.kz/ru/export-import/imports/kazakhstan-imports-analysis.php> (accessed March 20, 2018).

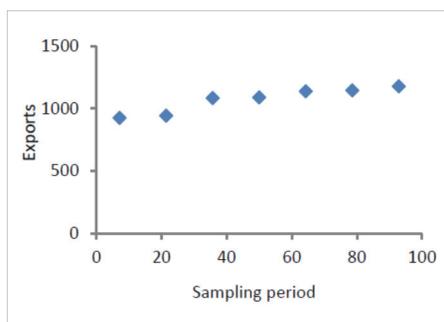
<sup>18</sup> <https://ru.sputniknews-uz.com/economy/20180213/7497197/Export-import-oborot-yanver-2018.html> (accessed March 20, 2018).

According to the regression analysis of exports from Kazakhstan to Uzbekistan, the equation has the following appearance:

$$f(x) = 71152,78 - 34,81 * x$$

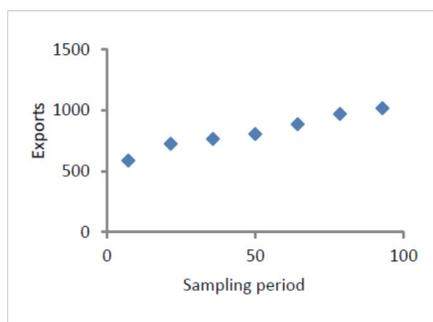
The correlation coefficient equal to  $\sqrt{0,57} = 0,75$ . The graph of this process is as follows (Figure 6).

Figure 6. Normal distribution graph of exports from Kazakhstan to Uzbekistan



Source: Calculated by the author on the basis of data of statistics agencies of Kazakhstan and Uzbekistan (date accessed for all: April 10, April 25, 2018).

Figure 7. Normal distribution graph of exports from Uzbekistan to Kazakhstan



Source: Calculated by the author on the basis of data of statistics agencies of Kazakhstan and Uzbekistan (date accessed for all: April 10, April 25, 2018).

As a result of the export analysis from Uzbekistan to Kazakhstan, the following equation has appeared:

$$f(x) = 55676,9 - 27,25 * x$$

Correlation coefficient was  $\sqrt{0,16} = 0,4$ . The graph of this function is as follows (Figure 7): the results of the analysis show that as a result of economic and political changes, it is expected that in 2018 the volume of exports and imports between Kazakhstan and Uzbekistan will increase.

While Tajikistan's trade with the CA countries is not higher, the correlation coefficient of mutual trade with Kazakhstan is higher: the correlation coefficient of exports from Kazakhstan to Tajikistan is 0.52, while the correlation coefficient for exports to Tajikistan from Kazakhstan is 0.94.

But in general, foreign trade relations between the countries of CA are unstable and their dependence on foreign trade is low. This is because there are barriers in the region on mutual trade. In my opinion, the most important reform of the CA countries in the development of trade corridors is to remove barriers to trade and movement of goods within the region. And there are a lot of barriers here: difficulties with the passage of goods across the border, administrative barriers (all kinds of certificates and permits, overstated requirements for quality standards, etc.), monopoly in the transport sector (generating high transportation costs), some countries in the region use excises on import and there are visa regimes between individual countries. All this prevents both mutual trade and effective use of trade opportunities with third countries.

It should be noted that the least developed countries in terms of their economies are Kyrgyzstan and Tajikistan. The inefficient structure of the economies of these countries, the low living standard of the population, the unstable political situation and the activation of migration processes pose threats to the stable development of these states.

Various rates of economic growth and market transformations in CA countries, which entail a restriction of mutual access to industrial, trade, financial and insurance capital in the markets of the countries of the region, certainly have a negative impact on the expansion of trade and economic ties. Therefore, the adoption of effective measures to harmonize market transformations in the CA countries, creating conditions for the free flow of goods, capital, services and technologies, which will contribute to improving the quality of economic growth in the countries of the region, is of great importance.

Prospects for further expansion of trade and economic relations between the countries of CA are hampered by the presence of such problems as:

**1. Low level of technical conditions in the transport infrastructure of the countries of the region.**

For many CA countries, the transport infrastructure is characterized by a low level of technical conditions, primarily due to the aggravation of the crisis in the CA economy in the early 1990s, the lack of budgetary and investment resources for repair and restoration work and the construction of new highways.

Many automobile highways, even those included in international transport corridors, do not meet international quality standards.

The condition of the railways in CA countries is also a matter of serious concern. Most will need reconstruction and modernization in order to satisfy international standards.

In order to meet the international transport standards, it will be necessary to invest considerable funds in the reconstruction and modernization of long-distance communication sections. Special costs require the formation of transport communications in the mountain areas of Kyrgyzstan and Tajikistan.

To implement a large-scale transport policy in CA, it will be necessary to carry out structural reorganization in the region's economy and develop a modern transport and warehouse infrastructure.

## **2. Absence of unified approaches in the formation of railway tariffs for freight and passenger transportation in CA.**

The implementation by the CA states of a coordinated tariff policy in the field of transport is the main condition for the effective use of the transit potential of the region and the formation in the long term of the Single Transport Space.

The inconsistency in transport tariffs for freight traffic in CA does not allow an effectively solution to the issue of reducing the transport component in the cost of transported goods, which to some extent is a deterrent to the sustainable growth of national economies.

## **3. The inconsistency of the customs policy of the CA states.**

Customs barriers are the main obstacle to the development of mutually beneficial cooperation between countries. The inefficient customs and border control system significantly delays the movement of vehicles to their destination.

In particular, according to experts, about 20% of the useful time of the car and locomotive is spent on border and customs procedures, which ultimately leads to a decrease in the efficiency and competitiveness of rail freight.

As is stated by experts,<sup>19</sup> 30% of the total delivery time is required for transportation of goods, and 70% to clear customs formalities.

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<sup>19</sup> А.Б. Вардомский, Е.М. Кузьмина, А.В. Шурубович, Евразийское экономическое сообщество: особенности и проблемы развития, <https://cyberleninka.ru/article/n/evraziyskoe-ekonomicheskoe-soobschestvo-osobennosti-i-problemy-razvitiya> (accessed May 23, 2018).

And this testifies to the deficiency and ineffectiveness of the corresponding mechanisms of cooperation between CA states in the transport sphere.

The analysis of the state of trade and economic relations between the CA countries made it possible to conclude that there is a positive trend in their development. Stabilization of mutual trade turnover in recent years was facilitated by the creation of an appropriate regulatory and legal framework between the CA countries on the basis of bilateral agreements. At the same time, serious economic problems in tariff, customs and border policy remain in the economic cooperation of the CA countries.

Therefore, it will be of topical importance to develop a mechanism to further expand mutually beneficial trade and economic ties between the CA countries, and to deepening their integration cooperation.

## 4. The Role of CA Countries in International Organizations

In the modern economy, globalization of the world economic life is one of the leading development trends. Important factors of economic growth are the deepening of international specialization and cooperation, the exchange of technologies between countries. In this aspect, the most appropriate method of development is to participate in the activities of international organizations.

Today, no country can develop steadily without establishing international relations with other countries. International economic institutions play a very important role in establishing and expanding relations with various countries, the innovative development of the structure of the national economy, the flow of foreign investment, the development of new markets for production and services and the intensification of labor resources and the increase in their efficiency. In other words, international economic organizations have a great influence on the socio-economic development of different countries.

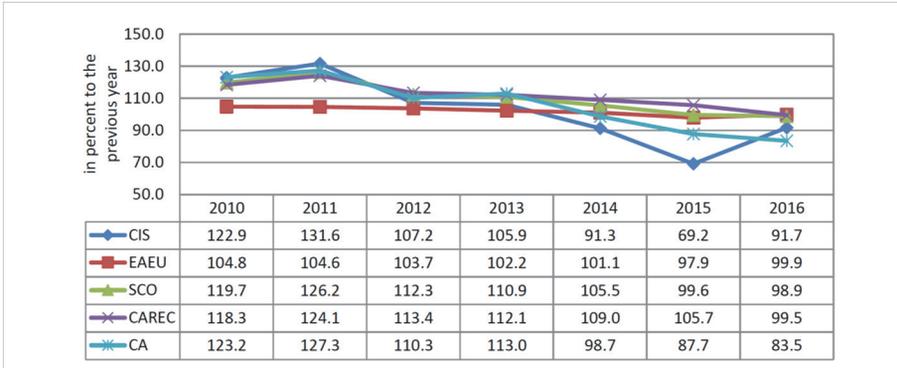
CA countries also participate in such international organizations. However, this does not mean that the activities of such organizations and the participating countries are effective. Between 2010 and 2016, the GDP growth rate of these organizations gradually declined (Figure 8).

In connection with the slowdown in the growth of the Russian and Chinese economies, in all organizations GDP indicators declined. In 2016, Russia's GDP fell by 0.2%, in 2015 it fell by 2.5%, in 2014 it grew by 0.7%, in 2013 it increased by 1.8%, in 2012 it jumped by 3.7%.<sup>20</sup>

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<sup>20</sup> <http://www.interfax.ru/business/598085> (accessed April 20, 2018).

Figure 8. Growth rate of GDP



Source: Calculated by the author on the basis of data of statistics agencies of CA countries; <http://data.un.org> (date accessed for all: May 25, 2018).

Notes: Actually, the EAEU is officially registered in 2015, but, it received data of currently members of organization for 2010-2016 to form the chart.

CA is not regarded as an independent international organization. Here only the cumulative indicators of CA countries are taken (to compare the CA region with other organizations).

Concerning China: in 2014, GDP growth of 7.4 %, in 2015, 7.0 %, in 2016 was 6.7 %, becoming the slowest in 26 years.<sup>21</sup>

Also, the foreign trade turnover of these organizations also dropped gradually (Figure 9).

It can be seen from the data that the EAEU, which is one of the main international organizations in the region, has a large share in GDP. Kazakhstan takes the second place in this indicator. The share of Armenia and Kyrgyzstan in EAEU GDP is very low: in 2016, 0.71% and 0.44%, respectively (Figure 10). This situation can be observed in the CIS as well (Figure 11).

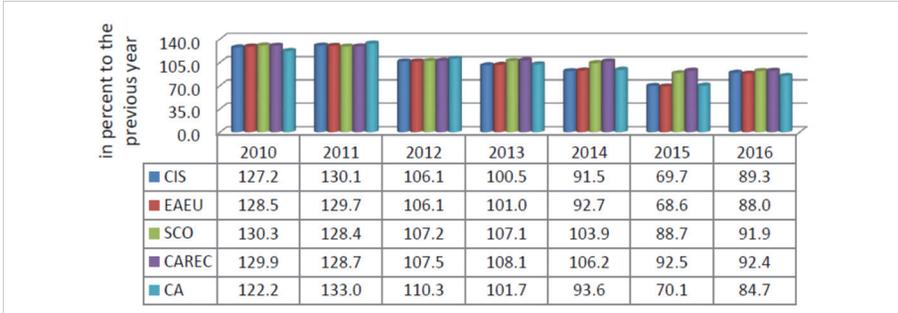
But today a number of factors negatively affect the development of EAEU. Adverse factors in the development of Eurasian integration are due to the disintegration policies of its participants, the variety of external reference points, the different levels of economic development, the deformation of the reproduction process caused by the transition to market relations, the state of deep economic crisis, etc.

The failures of the Eurasian integration basically include that:

- the overall level of development of the economies of the member states of the EAEU and the CIS is not high;

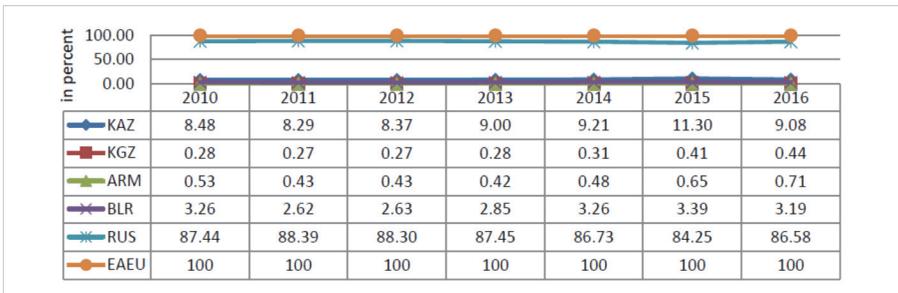
<sup>21</sup> <http://stanradar.com/news/full/20513-inflijatsija-v-turkmenistane-ochen-hitryj-predmet.html?page=80> (accessed April 20, 2018).

**Figure 9. The growth rate of foreign trade turnover**



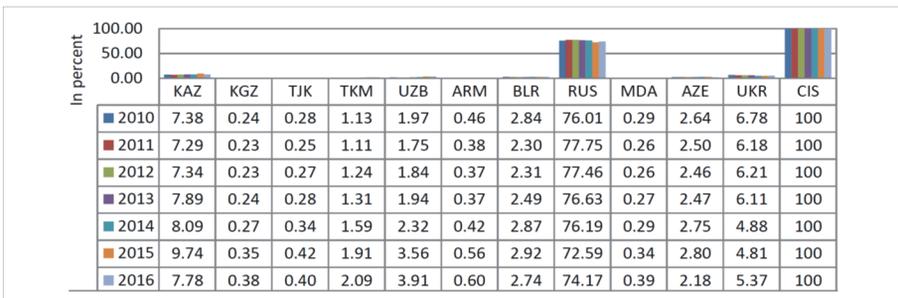
Source: Calculated by the author on the basis of data of statistics agencies of CA countries; <http://data.un.org> (date accessed for all: May 25, 2018).

**Figure 10. GDP share of EAEU countries**



Source: Calculated by the author on the basis of data of statistics agencies of CA countries; <http://data.un.org> (date accessed for all: May 25, 2018).

**Figure 11. GDP share of CIS countries**



Source: Calculated by the author on the basis of data of statistics agencies of CA countries; <http://www.eurasiancommission.org> (date accessed for all: May 28, 2018).

- the difference in the economic strength of countries is immense;
- a low level of mutual trade is not sufficient to achieve a synergistic effect of integration;
- the process of liberalization of trade and investment is differently regulated in the member countries;
- lack of investment in innovation;
- the desire for sovereignty and the lack of readiness for full-fledged compromises (too great are the exceptions to the general rules of supranational regulation in mutual and foreign trade) of young countries that have recently gained independence are still strong, which in many ways weakens the appeal of the integration group as the basis for regional economic cooperation;
- in the CIS format, there are serious problems in the field of electricity and water use between Tajikistan, Kyrgyzstan and Uzbekistan, and serious contradictions on fuel and energy complex between Russia and Ukraine (today it is impossible to even talk about the development of mutual economic relations between the Russian Federation and Ukraine), Russia and Turkmenistan, Azerbaijan, and competition between the Russian Federation and Kazakhstan.

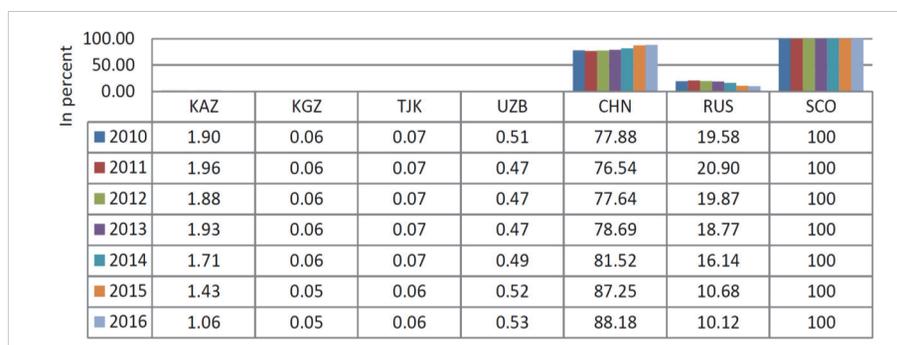
It must be noted that the participation of CA countries in the EAEU can have a positive economic effect. For example, Uzbekistan's accession to the EAEU will create certain opportunities for a free flow of labor within the framework of the EAEU. This is quite significant for Uzbekistan, which is a source of labor migration, while Russia and Kazakhstan are the two main recipient countries of the labor force from Uzbekistan. An important advantage can be the leveling of conditions for Uzbek producers to supply products within the economic space, which will increase the competitiveness of Uzbek products in the territory of the EAEU countries. There are a number of other advantages that Uzbek citizens and business can receive within the framework of the EAEU, which provides for the formation of a single labor and capital market.

But the prospects for the development of this association have two important unresolved problems, the first being the EAEU (both now and after its possible expansion) existing as an organization with one clear and dominant leader – Russia. This dominance is objective and it allows the leader to dictate its terms to the other

members of the association, which may be disadvantageous for them in certain situations. For example, in the EU there is no such leader and this, in my opinion, significantly facilitates the process of EU enlargement and the strengthening of economic and political integration within the Union itself. The second problem lies in how the EAEU is formed in the post-Soviet space, under the auspices of Russia. In connection with this situation, fears arise that Russia can use the EAEU as a platform for the revival of a new Russian Empire. Especially within Russia itself, the imperial ideas are very strong, and the events of this year have shown that ideas sometimes turn into a material force. These two circumstances, according to Yuliy Yusupov,<sup>22</sup> director of the non-profit non-governmental organization Center for Economic Development, will hinder the development and expansion of the EAEU.

When we look at GDP indicators of the SCO and CAREC, it is clear that China's share of GDP is increasing. By 2016, China's share of the SCO's GDP was 88.18% and in CAREC was 94.89%. The share of the four CA republics in GDP of SCO is 1.7%, and in CAREC their collective GDP accounts for 2.14% (Figure 12, 13).

**Figure 12. The GDP share of SCO countries**



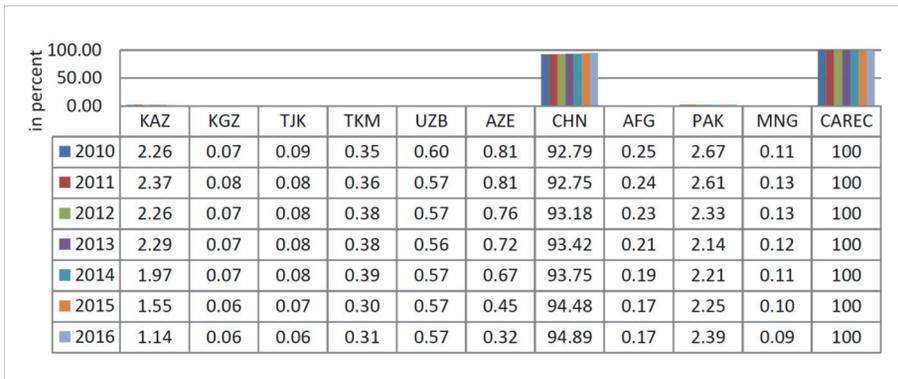
Source: Calculated by the author on the basis of data of statistics agencies of CA countries; <http://data.un.org> (date accessed for all: May 25, 2018).

<sup>22</sup> Юлий Юсупов: «Вместе страны Центральной Азии представляли бы гораздо больший интерес для зарубежных партнеров», <http://www.exclusive.kz/expertiza/antresoli/11739/> (accessed May 30, 2018).

The main reasons for the relatively low indicators of CA countries in these organizations are:

Firstly, the infrastructure formed in the countries of the region does not fully comply with world standards. In particular, the market infrastructure, which plays an important role in increasing production and service productivity, has not been formed at the required level;

**Figure 13. The share in CAREC GDP**



Source: Calculated by the author on the basis of data of statistics agencies of CA countries; <http://data.un.org> (date accessed for all: May 25, 2018).

Secondly, the outlined attention to support the real sectors of Economy on economic, financial, legal aspects in the countries of the region;

Thirdly, the countries of the region have barriers that prevent the development of foreign trade (customs, visa, certification, etc.).

These situations, clearly, reduce the capacity of this region.

It is important to understand that in the short term economic cooperation will become the main factor for the continuous development of the SCO, as well as an important component of the SCO's long-term attractiveness for the other participating countries and other states of CA.

But there are internal contradictions within the SCO that are characterized by a commonness of economic obstacles (on one side), and by a particular order of interstate problems in mutual relations (on another side). Taking into account the fact that from the moment of transition to multidisciplinary cooperation the basis of the

organization is also the economic block of issues, we should separately dwell on objectively existing contradictions between the parties in this sphere.

Here we can also highlight the following unfavorable factors in the sphere of the economy that take place in the organization:

- the general level of development of the economies of the SCO member states is low, while the difference in economic power is substantial;
- countries do not pay enough attention to trade within the organization, and as a result intra-SCO trade remains low in scale;
- in the participating countries, the process of trade and investment liberalization is regulated in various ways.

Economic cooperation within the SCO is not only an economic, but also a political problem. Security and economic cooperation are equally important; they complement each other and mutually develop. Nevertheless, security and economic cooperation have different features. So, security requirements are gradually reduced and in the process of resolving these problems, the need for security cooperation will also disappear.

When talking about CAREC, we can note the following.

Since 2001, CAREC investments have contributed to sustainable economic growth in the region. In the period of 2003 to 2007 the gross domestic product (GDP) of the CAREC region increased by about 9% per year. The global economic and financial crisis of 2007-2008 interrupted this growth, and its significant negative consequences persisted. From 2012 to 2016, the average annual growth rate fell almost twice to 4.7%.<sup>23</sup>

The fall in commodity prices since 2014 has caused additional damage to the balance of countries exporting hydrocarbons, and the resulting recession has had a negative impact on the prospects of migrant labor and reduced the flow of remittances to countries exporting labor. The CAREC countries faced urgent economic problems, including fiscal pressures, currency devaluations, the growth of the current account deficit and the reduction of gold and foreign exchange reserves, which led to stagnation in economic activity, increased unemployment and the

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<sup>23</sup> Statistics of the United Nations Conference on Trade and Development (UNCTAD), [http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS\\_ChosenLang=en](http://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx?sCS_ChosenLang=en) (accessed May 30, 2018).

curtailment of structural and sectorial reforms. In addition, the economic downturn in major trading partners led to a narrowing of the market for exports from the CAREC countries.

CAREC promotes trade openness by preparing member countries for WTO accession and supporting them in the necessary actions after accession, as well as by expanding trade in services, and by addressing non-tariff barriers. CAREC's trade facilitation agenda demonstrates progress in both knowledge-building and institution-building: best international practices have been introduced in knowledge management, border management, logistics, sanitary and phytosanitary measures. In the field of institutional construction, institutions for cooperation in the areas of customs and forwarding business were established, and their capabilities were enhanced. Pilot projects in the areas of customs control, preliminary data exchange and regional transit are in the process of implementation.

It should be noted that the inadequate participation of CA countries in international organizations can be associated with a number of factors. One of the main factors that largely determine the degree of integration of these economies is their development of a logistics infrastructure.

Table 9 gives clarity to many issues arising in the analysis of the dynamics of economic relations between the countries of CA. Despite stable economic growth in the key countries of CA, particularly in Kazakhstan and Uzbekistan, the efficiency of their logistics sectors leaves much to be desired. Even Kazakhstan, which is the leading country in terms of GDP in the region, scores 77th in terms of logistics efficiency, not to mention other countries. This picture clearly illustrates the political situation in the region. Despite the improvement of diplomatic relations between the countries in recent years, each CA country remains alert to ensure their national security. Uzbekistan, which is geographically located in the center of the region, is concerned about the existing dangers, such as inter-ethnic differences, Islamic fundamentalism and drug trafficking. This significantly lowers the incentives of the key figure, that is, Uzbekistan, when it comes to the development of a regional logistics system. While Uzbekistan has the necessary financial resources and can attract foreign investors to the development of the logistics sector in the region, the above factors deter the creation of a powerful transport and logistics system in the region. But the significant reforms carried out by the leadership of Uzbekistan on the liberalization and openness of the economy make it possible to believe that in the near future the picture will change for the better.

**Table 9. Global Rating on the Logistics Performance Index (LPI), Ranking of 160 Countries in 2016**

	Index of logistics performance	Customs clearance	Infrastructure	Organization of international transportation	Quality and competence of logistics services	Tracking the passage of goods	Timely delivery
Kazakhstan	77	86	65	82	92	71	92
Kyrgyzstan	146	156	150	152	151	115	126
Tajikistan	153	150	130	151	143	144	159
Turkmenistan	140	142	103	126	145	154	142
Uzbekistan	118	114	91	130	116	143	114

Source: LPI Global Rankings 2016 Data Table, <http://www.lpi.worldbank.org/international/global/2016> (accessed June 22, 2018).

Analysis of the place of industry in the GDP of CA countries gives a clear picture of the degree of development in these countries. Undoubtedly, Kazakhstan holds the leading position, with its share of industry reaching 27.3% of the country's GDP and 51.3% in CA in 2016. This indicates that more than half of the industrial output in the region is concentrated in this state. But last year the country began to concede its leading position to Uzbekistan, which is building up its potential due to ongoing reforms in terms of the liberalization of social and economic policy. Despite a slight decrease in the share of industry in GDP (25.7% in 2016, against 26.7% in 2010), Uzbekistan has steadily increased its share in the CA region (13.9% in 2010, 23.4% in 2016). Turkmenistan stays more stable, the leader in natural gas reserves in the region whose economy largely depends on the gas industry. If you take into account that the above countries have huge reserves of natural gas, tough competition in this area is inevitable. The following countries, namely Tajikistan and Kyrgyzstan, have relatively weak industrial power. In this regard, the share of both states in the total volume of goods produced in CA is low, 1.7% and 1.5%, respectively (2016). The economy of these countries directly depends on the results achieved in the agrarian sector. Although Kyrgyzstan has rich gold ore deposits, this industrial sector does not hold bright prospects for stable economic growth, since the industry's problems are more associated with corruption at the government level. In turn, Tajikistan's energy dependence on its neighbors hinders it from full-scale industrial development. The country cannot even provide itself with high-quality and inexpensive agricultural products, not to mention develop its industry.

**Table 10. Industry of CA Countries**

	Kazakhstan		Kyrgyzstan		Tajikistan		Turkmenistan		Uzbekistan	
	Share in GDP	Share in CA								
2010	34.0	70.7	22.3	1.4	16.4	1.2	40.3	12.8	26.7	13.9
2011	33.8	69.6	24.5	1.6	16.4	1.1	43.2	14.5	26.5	13.1
2012	32.8	68.2	17.5	1.1	15.4	1.1	42.7	16.0	26.2	13.6
2013	30.4	67.0	20.8	1.4	14.2	1.1	42.1	16.4	25.9	14.1
2014	29.5	63.0	18.4	1.3	13.8	1.2	42.7	18.9	25.8	15.6
2015	26.2	58.2	18.3	1.4	15.0	1.3	42.5	19.0	25.7	20.1
2016	27.3	51.3	19.0	1.7	17.0	1.5	42.4	22.1	25.7	23.4

Source: [http://be5.biz/makroekonomika/industry/central\\_asia.html](http://be5.biz/makroekonomika/industry/central_asia.html) (accessed June 22, 2018).

In addition, the reasons for the relatively low performance of CA countries in these organizations also include:

First, the infrastructure created in the countries of the region does not fully comply with international standards. In particular, the market infrastructure that plays an important role in ensuring the efficiency of production and services has not been formed to a sufficient level;

Second, in the countries of the region, the accent is insufficient for the economic, financial and legal provision of the real sector of the economy;

Third, there are barriers to the development of foreign trade in the countries of the region (customs, visa, certification, etc.).

Another issue is that Uzbekistan, realizing its own model of economic reforms, is guided by the policy of stimulating its own production, providing a predominantly protectionist customs and tariff regime.

The protection of domestic producers and markets is the priority of the “Uzbek model,” which distinguishes it from the model of Kazakhstan, which is part of the WTO. Uzbekistan is quite cool on the WTO and is unlikely to enter into it even in the long term. But at the same time, Uzbekistan has signed the Accession Treaty to the CIS free trade zone. At the same time, all members of the EAEU are also members of the CIS.

Currently, the system of mutual preferences, agreed upon when Uzbekistan joined the CIS free trade zone, is quite acceptable to Uzbekistan. It is also quite

possible to create a free trade zone between the EAEU and Uzbekistan, since all parties are interested in developing and deepening trade and economic ties with each other.

With the new president of Uzbekistan Shavkat Mirziyoyev taking office, various experts and the media have noted that it will be possible to change the priorities and principles of Uzbekistan's foreign policy. But Foreign Minister Abdulaziz Kamilov made a clear and unambiguous statement in July 2017 expressing the country's position that "Uzbekistan will not join the EAEU."<sup>24</sup>

The foreign policy principle of "positive neutrality" has also affected the integration preferences of Turkmenistan. The country does not enter and did not belong to any regional association in the post-Soviet space. Even within the CIS, it did not sign the Charter, and in 2005 it voluntarily became an associate member.<sup>25</sup> The economic parameters of Turkmenistan do not contribute to the creation of conditions for the country to enter into the EAEU.

Thus, the countries of CA have different economic ties with the EAEU. They most effectively cooperate with Russia while Kazakhstan, Belarus and especially Armenia are on the periphery of their economic interests. Kyrgyzstan represents some economic interest for its neighbors Tajikistan, Kazakhstan and Uzbekistan.

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<sup>24</sup> <http://eurasia.expert/uzbekistan-ne-vstupit-v-eaes-no-mozhet-rassmotret-zony-svobodnoy-torgovli-ekspert/> (accessed June 20, 2018).

<sup>25</sup> <http://www.webeconomy.ru/index.php?page=cat&cat=mc&mc=167&type=news&newsid=3748> (accessed June 20, 2018).

## 5. Conclusion

The countries of CA are known to be closely interrelated in historical, geographical, ecological, political, social and economic terms. Almost all the countries of the region are rich in mineral raw materials, energy resources and there is a historically developed infrastructure for the development of foreign trade between them. Despite the abovementioned development, economic relations between the CA countries remains at a low level. The reasons for this phenomenon include:

- a different approach to the restoration and development of national economies following their independence;
- the strong dependence of the economies of the CA countries on other leading countries of the post-Soviet space, in particular on Russia;
- multiple differences between countries in terms of their main macroeconomic indicators, such as GDP and indicators of foreign economic relations;
- discrepancy of national, geopolitical interests which in many respects determined the further policy of foreign trade between the countries of CA;
- the instability of individual regions politically, particularly in Tajikistan and Kyrgyzstan;
- the invasion of inexpensive and substandard goods from China;
- the intersection of the mutual interests of “major political players” of the world.

All of these factors are reflected not only in interregional trade, but in other spheres of international relations. But despite all the difficulties, regional leaders have tried many times to adjust economically and politically.

The participation of the countries of the region in various integration organizations, such as the EAEU, CIS, SCO, CAREC, will undoubtedly increase their economic potential. However, the existing differences between the economic potential and the capabilities of the member countries of these organizations do not fully guarantee the stable economic prosperity of a single country. As a result of political games, CA countries cannot compete on equal terms with other countries in world markets. The main countries that predetermine “graft games” in advance,

such as Russia and China, have their own economic and geopolitical interests, which often do not coincide with the interests of the CA countries in the region. This does not allow for stable development in the countries of CA due to their relatively weak and small economies.

A new era of interregional relations has begun, largely due to the new presidents of Uzbekistan and Kyrgyzstan. A clear formulation of further strategic actions with neighboring countries, delimitation and demarcation of disputed territories, mutually beneficial long-term cooperation are all important directions for the foreign policy of the Uzbek leadership. Work is underway on complex economic issues related to transboundary waters and on the energy independence of the region. For these reasons, it can be said that it is important to choose a joint development strategy. In other words, it is important to form regional economic integration in CA.

Deepening economic integration of the region can be ensured by the full synchronous actions of the CA countries in creating a common goal of mutual interests. Such a goal could be the joint movement of the countries in the region into a CA industrial clustering. At the same time, the clusterization of industry must proceed with the absolute and relative advantages of CA countries. Based on the specific advantages of the CA countries; it can be assumed that light industry can become a vivid example of the creation of such clusters. At the same time, it can be confidently asserted that there will not be any problems in providing raw materials to the cluster of light industry, as Uzbekistan is one of the leaders in the export of raw cotton. In the role of the leading countries of the clustering process, Kazakhstan and Uzbekistan are considered to have extensive experience in attracting foreign investment in large projects.

Moreover, this goal can be defined not only as the goal of economic integration, but also as a whole, as the main goal of the entire integration project, around which a long-term strategy will be built.

A distinctive feature of CA industrial clustering is that industrial production, energy, agriculture, cities with all their infrastructure become “smart.” This is achieved through the introduction of innovations, artificial intelligence, large data, robotization, additive and digital production, which in turn radically changes the structure of a number of national economies and jobs in all three sectors (extraction, production and service), and affect the education system, thinking, planning and the organizational nature of the society. In fact, speaking of industrial clusterization in

CA, we are talking about the formation of a new kind of rationality.

Kazakhstan and Uzbekistan show the greatest understanding and attention to the development of technologies in the industrial sector in CA. They also have the most developed scientific schools and economies in the region. Both countries are already implementing a number of innovative projects in the field of alternative energy and are driving cooperation in the field of industry.

From this point of view, if integration based on this clustering is launched, it must be phased. At the first stage, this could be the axis of cooperation between Uzbekistan and Kazakhstan, which could also undertake the development of a long-term integration strategy around the goal of joining industrial clusterization in CA, consisting of measures that are conditionally grouped into two groups.

The first group of measures should focus on creating favorable conditions for joint achievement of the set goals. These measures should help attract investment, innovative technologies, the development of start-ups, the creation of a value chain in the sectors of CA industry, multilateral research groups, laboratories and innovation centers, new high-tech jobs, markets for consumption of new products, etc. in one space. In this case, it is critically important to find the most effective formula for ensuring a balance between the participation of the state and supranational structures and the creation of the most freely competitive innovative business environment.

The second group of measures could focus on creating a single trade and economic space, ensuring the free movement of capital, goods, people, and the emergence of jobs in areas and sectors that are not directly related to the CA industrial clustering. Increasing the overall welfare of people and the emergence of new companies will create sources of generating and accumulating significant financial resources that will identify promising niches for investment and profit, and some of these funds can be attracted to revolution projects through a number of mechanisms worked out in developed and some developing countries.

In particular, we could pay attention to the development of the “green bond market,” which can be issued by companies, joint-stock companies and even entire cities to attract private funds to develop alternative and clean energy, green transport, and improve energy efficiency in production and housing. In Kazakhstan, this process of creating a green bond market is already being actively conducted and managed by the International Financial Center of Astana.

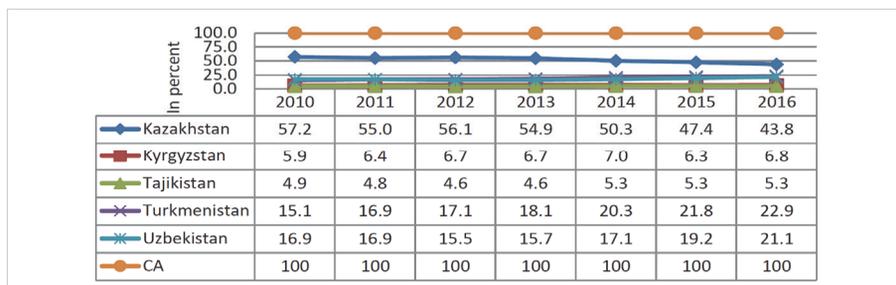
To summarize, I would like to note that the issue of regional economic integration, despite its revival, will nevertheless be mainly disseminated in the space of experts' discussions in the foreseeable future, while its transition to practical discussion at the highest political level within the most optimistic scenario will not occur until a number of necessary conditions arise.

The first condition of all, of course, is for Uzbekistan to enter a stable trajectory of new development, which will depend on how the process of ensuring the continuity of power in Kazakhstan unfolds, thus becoming a test for the Kazakh elite. Political processes in Kyrgyzstan will play an important role. The peaceful transfer of power from Almazbek Atambayev to Sooronbay Jeenbekov inspires great hopes that in the region the prerequisites for the emergence of a stable liberal core of integration will be met. The stability of the Kyrgyz authorities will also improve the investment climate in the country, continue the process of strengthening the foundations of the political nation and effectively oppose the manifestations of nationalism and especially the growing influence of Islamist ideas among certain groups within the population. In turn, Tajikistan's participation in regional integration will depend on the success of current policies implemented by the president in the field of economic development and combating corruption, and also to ensure greater balance in the management system by strengthening the liberal component.

As for Turkmenistan, it is still difficult to say from the current conditions that a country can become part of an integration core. Regional economic integration will require compliance with the principles of the liberal economy both within the country and in its relations with neighbors, as well as the transparency of the borders for the movement of people, capital, companies and ideas. In our opinion, Turkmenistan is not yet fully ready for this process.

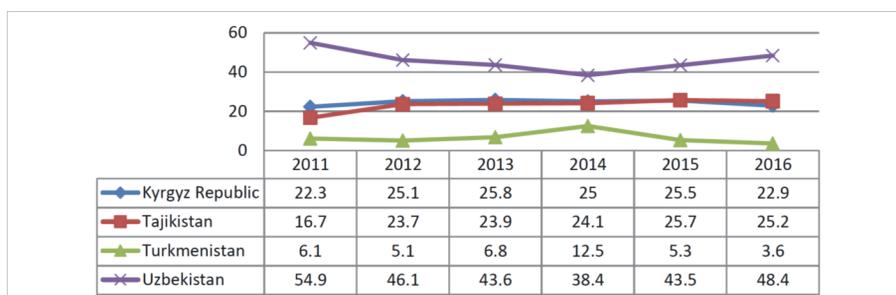
# Appendix

## Appendix 1. Share of CA countries in imports of the region



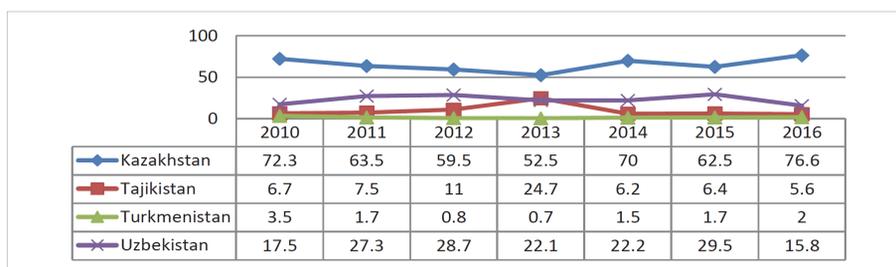
Source: Calculated by the author on the basis of data of statistics agencies of CA countries (date accessed for all: April 10, April 25, 2018).

## Appendix 2. Share of CA countries in exports of Kazakhstan



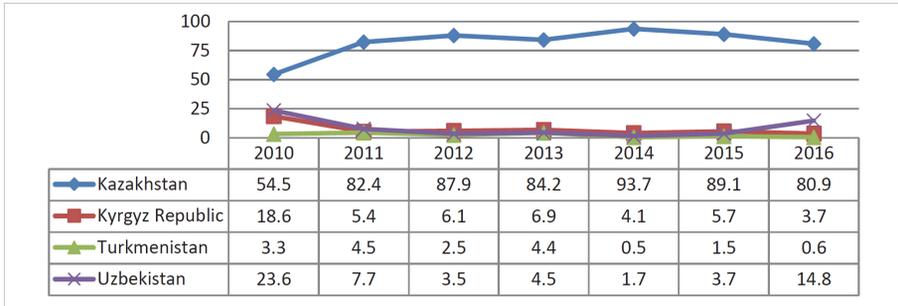
Source: Calculated by the author on the basis of data of statistics agencies of CA countries (date accessed for all: April 10, April 25, 2018).

## Appendix 3. Share of CA countries in exports of Kyrgyzstan



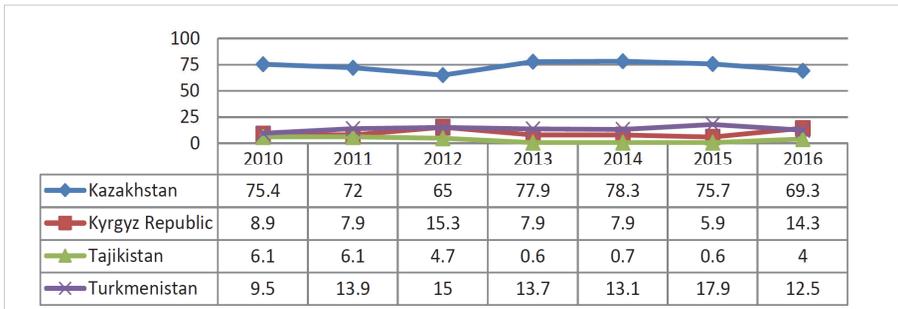
Source: Calculated by the author on the basis of data of statistics agencies of CA countries (date accessed for all: April 10, April 25, 2018).

#### Appendix 4. Share of CA countries in exports of Tajikistan



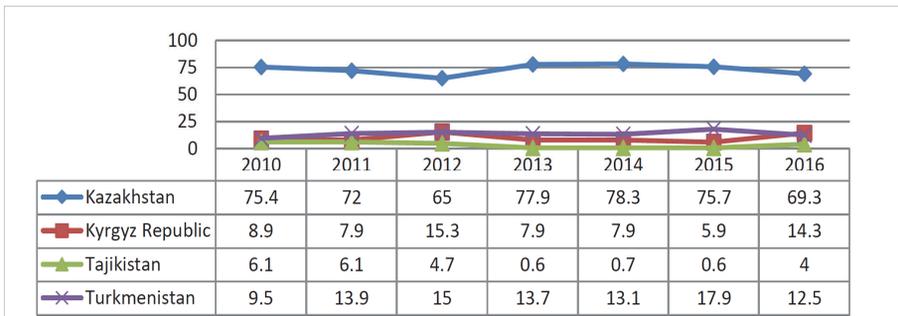
Source: Calculated by the author on the basis of data of statistics agencies of CA countries (date accessed for all: April 10, April 25, 2018).

#### Appendix 5. Share of CA countries in exports of Turkmenistan



Source: Calculated by the author on the basis of data of statistics agencies of CA countries (date accessed for all: April 10, April 25, 2018).

#### Appendix 6. Share of CA countries in exports of Uzbekistan



Source: Calculated by the author on the basis of data of statistics agencies of CA countries (date accessed for all: April 10, April 25, 2018).

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## 국문요약

중양아시아는 풍부한 천연자원을 보유하고 전략적 요충지에 위치하고 있어 오늘날 세계화의 흐름 속에서 전 세계의 정치·경제적 이해관계가 만나는 중심지로 부상하고 있다. 이러한 관점에서 중양아시아 국가들은 지역 내 주요 이슈들을 해결하고 정치·경제적 이해관계의 충돌에 대응할 수 있는 강력한 메커니즘 구축을 위한 공동의 개발 전략을 수립할 필요가 있다. 더불어 중양아시아 국가들은 내부 역량 강화와 자원 활용의 효율성 증대, 사회·경제 기반시설의 현대화, 시민의 삶의 질 개선을 위한 공동의 경제개발 행로를 선택해야 할 것이다.

이는 중양아시아 지역경제 통합의 진전과 직접적으로 연결되는 것으로, 중양아시아 각국은 역내 경제통합을 통해 경제적 약점을 상호 보완하고, 높은 수준의 역내 교역 활성화와 산업 발전을 보장받을 수 있을 것이다.

그러나 중양아시아의 경제통합을 저해하는 장애요인도 있다. 특히 취약한 사회 기반 시설, 세계시장과의 지리·경제적 괴리, 행정 장벽, 불안정한 정치여건이 중양아시아 역내 교역을 방해하고 있다. 이에 본 연구는 중양아시아 국가들의 일반 무역 및 국경 간 무역의 문제점과 역내 경제통합의 기회에 대해 중점적으로 알아보고자 한다.

**핵심용어:** 중양아시아, 역내 교역, 경제통합

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### **저서 및 논문**

“Improving the quality of educational services with the use of simulation and multimedia technologies in Uzbekistan.” (with Kodirjon Umarkulov, Roberto Revetria, Gulnora Mirzaliyeva, International Scientific Conference ‘Marketing Education: A New Approach to Promoting Educational Services,’ 2014)

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# A Study on the Dynamics of Foreign Trade and the Issues of Regional Economic Integration in Central Asia

Kodirjon Maxamadaminovich Umarkulov

As a result of political games, Central Asian countries cannot compete on equal terms with other countries in the world market. World powers that predetermine “graft games,” such as Russia and China, have their own economic and geopolitical interests which often do not coincide with the interests of the Central Asian countries. This hinders stable development of the Central Asian countries due to their relatively weak and small economies. In this regard, the need for economic integration in the region through joint efforts is increasing and becoming an important policy goal for the Central Asian governments.

From this point of view, this study investigates the challenges and opportunities for economic integration in Central Asia with a special focus on the dynamics of foreign trade including general and cross-border trade in the region. This study underlines the importance of fully synchronized actions of the Central Asian countries to make a progress in developing regional economic integration. This study concludes with a policy suggestion to achieve the goal of economic integration in Central Asia through a phased industrial clustering that must proceed with absolute and relative advantages of the Central Asian countries. For the phased industrial clustering, creation of favorable conditions for attracting investment and innovative technologies, development of start-ups, multilateral research and so on is advised to come first, and then creation of a single trade and market space that ensures free movement of capital, goods and people to follow.

