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## CENTRAL ASIAN COUNTRIES: COMPETITIVENESS AND PROSPECTS FOR COOPERATION AND INTEGRATION

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**Abstract.** *This article provides an analysis of the economies of Central Asia in the post-Soviet period. The method of periodization allowed the stages of reforming these economies and the difficulties of their transitions to the market to be highlighted. The*

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authors used a systematic approach, the selection of necessary information, and logical inferences.

It is demonstrated that the economic potential and the narrowness of the sales markets in these countries are unattractive for investors. Aging populations, high youth unemployment, and rampant migration complicate the socio-demographic situations. The nationalistic egoism of the business elite, which has grown stronger in the years since independence, exerts significant pressure on political power.

An analysis of the indicators of the global competitiveness of selected countries leads to the notion that the national economies of Central Asia may show growth in the future. The region has a competitive advantage because of: the reduced costs of transport and logistics; a similar culture of consumption and customer demands; comparability of household income; and greater demand for products within the region.

Noting attempts of the countries in the region at integration, the authors outline intensifying contradictions and conflicts that include: ethnic enclaves, border problems, the distribution and regulation of water resources, trade, and customs barriers.

An important outcome of this study is the identification of opportunities for regional cooperation and the format for expanding integration ties between Central Asian countries. These countries represent a single economic space, and the use of the entire range of relations – from single agreements to international ones – will benefit these countries as a large region in the global market.

**Keywords:** *global competitiveness, Central Asian countries, cooperation, integration, socio-economic situation.*

**JEL:** *D41, F15, Z13*

## **1. Introduction**

The countries of Central Asia (CA) cover the territory of five states: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan. After the collapse of the USSR, these countries chose various methods of economic liberalization, state property privatization, and transition towards a market-based management model. They differ in the performance of the implementation of reforms, methods of management, and the degree of economic centralization. Over the course of time, mistakes in the management of the economies of these countries, border conflicts, and disputes over the solution of water-power problems have worsened their situations and led to strained relations. Today, the countries of this region are developing unevenly, and the available prerequisites for regional economic integration have not been sufficiently utilized. These countries started on the path towards market transformation simultaneously, but today one can observe differentiation in the levels of development. This can be explained by differences in starting conditions, available economic potential, management culture, national peculiarities, and assumed models of management. The period of time that has elapsed since gaining independence is also different for these countries.

Kazakhstan is positioned as a state with a territory of gargantuan scale and significant economic potential. The country has commercial reserves of ferrous and non-ferrous metals, 84 types of industrial minerals, and oil and gas – all of which support economic development. This republic ranks 7th in uranium production, 9th in silver production, and 10th in zinc and alumina production globally (Kazakhstan. General characteristic 2016; Nurashева et al. 2019).

Market reforms are actively carried out, the Astana International Financial Center has been set up on the territory of the International EXPO–2017 exhibition site, the “People’s IPO” project is being implemented, and shares in KEGOC, KazTransOil, and Kazatomprom are being successfully sold. In spite of sustainable GDP growth, the rate of the national currency is unstable, the banking sector is experiencing a state of fever. Analysts agree that the export-raw-material model is in a dampened stage, oriented towards the extraction of raw materials and providing financing from external resources.

The natural resources of Uzbekistan are quite diverse, and create favorable conditions for the development of the branches of the natural resource complex. The country is among the world leaders in reserves of silver, tungsten, phosphate rock, potassium salt, and rare earth metals; it is the third largest exporter of cotton in the world, and a major supplier of gold and natural gas to the global market. For a long time, elements of the centralized economy remained in Uzbekistan, and market reforms only began in the last 2–3 years. An investment environment and measures to stimulate investment, along with guarantees of protecting investors’ rights, have been formed. The volume of accumulated investments in 2018 amounted to \$190 billion, of which over \$65 billion were international (Begalov 2018; Salimov 2018).

Turkmenistan is a predominantly desert country, with nomadic cattle raising and intensive farming in irrigated oases thanks to the Kara Kum Canal. The country has enormous gas (the fifth largest reserves in the world) and oil resources, and is the tenth largest cotton producer in the world – half of the irrigated land of Turkmenistan is occupied by this crop (Trapeznikov 2018; Turkmenistan Economy 2020).

Tajikistan is a small, mountainous country, poorly endowed with resources other than water. For a large part of the 1990s, Tajikistan was engulfed in civil war and remains in poverty today (Akhmedov 2016; Republic of Tajikistan. Recent social and economic trends and short-term prospective 2019).

Despite the stabilization of the economic situation after numerous political upheavals, Kyrgyzstan has not fully restored its potential. The main export-oriented industries are mining and energy, and gold mining at Kumtor – the world’s largest gold deposit – provides a significant portion of currency supply. In addition, the republic ranks first in the world in terms of reserves and production of mercury. For a long time, Kyrgyzstan was the first and the only state in the region to join the WTO, which can be regarded as a product of its vigorous implementation of early economic reforms (Kyrgyzstan: Country overview 2018; World Economic Outlook Database 2019).

The countries of the region – with the exception of Kazakhstan – lag behind in the human development rating. These states are, to different degrees, open to international and regional trade, the movement of labor and capital, the provision of services, and

various forms of collaboration and cooperation. However, these countries have much in common, including geographic location, common history, linguistic and cultural proximity, and established economic ties. Therefore, current restrictions on foreign economic activity can be considered a temporary phenomenon.

It should be noted that there are few in-depth studies on the socio-economic problems of these countries. Instead, research is mainly conducted at the local level and is contained in scientific journals published domestically. There are no scientific papers that consider CA countries as a single economic territory, reflect the real level of integration, and consider the regional division of labor within. In addition, most publications have political implications, and seek to explain the decisions and legislative initiatives of the authorities.

On this evidence, this article sets the following **goal of the study**: to examine the characteristic trends of development and the distinctions of the national economies of CA countries to provide a forecast for the prospects of the region's development and the possibility of expanding integrative links between these countries. The **objectives of the study** are: to consider the stages of development of the economies of the CA countries in the period of independence; to observe the course and dynamics of market reforms; to elucidate the socio-economic situations in these states; and to show the degree of competitiveness of national economies and opportunities for regional economic cooperation. Therefore, the **subject matter** is: the socio-economic processes taking place in CA countries.

## 2. Methods and methodology of research

The presence of a real diversity of national economic models in global economic practice creates the need to use various research methods. In the course of this study, logical reasoning, various methods of sampling the necessary information and its grouping, and both system and statistical analysis have been used. The use of a context-specific approach made it possible to consider the special conditions of the development of countries, to clearly distinguish between the established facts, and to achieve the indicators of the economies of countries.

When considering the socio-economic situation in these countries, a systematic approach was used – involving consideration of the national economy as a system of established relations in the political, economic, and social spheres. This meant an analysis of all of the interconnections of countries within the region, which revealed a shared negative aspect of these economies – their primarily agrarian character, and hence the low productivity of labor.

Observation is widely used as an active cognitive process based on statistical data, which has led to an objective analysis of the economies of countries and conclusions that do not depend on the will and desires of individual experts and scholars. As a result, it can be concluded that government regulation plays a large role in the overall process of the functioning of national management systems.

Considering the five former republics of the Soviet Union as independent states, the authors resorted to comparison to recognize similarities and differences in these

countries and the processes taking place within them by comparing the main indicators of development. Similarities in the historical past have determined similarities in the ways of development of economies, the processes of transition to new methods of management, and the methods of government of these states. Here, analogy has been used as a method of scientific cognition, through which we have attained knowledge about a country on the basis of its similarity with another from the point of view of cultural, historical, and geographical contexts. The historical method of research is known as a tool of cognition of social phenomena and processes. In this regard, the authors used periodization – the study of economic processes according to the main periods of development of countries – by comparing the Soviet and post-Soviet eras. Knowledge of cognition methods enabled the authors to note the continuity of the historically-changing forms of development of countries in the region, which explains the rather complex and slow transition of individual CA countries to market relations.

Using the methods of processing and analyzing the statistical data on countries' GDP, global competitiveness, available resources, etc., it became possible to reveal that in the modern world there is a large variety of national economic models, which confirms the objective need to develop a theory of the nation-specific peculiarities of economic models. From a practical point of view, the study of the CA countries focuses on the multiplicity of ways of economic development, and thus obliges reformers to take into account variability and plurality when it comes to choosing methods of transforming the existing economic system.

### ***3. Results of the study and discussion***

#### ***3.1. The results of the stages of reforming economies***

Analysis of the economies of the CA countries allows for the identification of several periods of their transformation.

**The first stage** was macroeconomic stabilization based on a tight monetary policy. In 1991–1994, economies were liberalized, orientations towards political independence were adopted, and the following two years were aimed at strengthening economic trends in the policies of these states.

**The second stage** was aimed at overcoming the decline in production. In 1995–1999, the transition to a socially-oriented economy began, the concept of reforms was developed, and the activation of human capital took place. During this period, there was slight economic growth, which was a prerequisite for the third stage – when significant changes began in all spheres of life.

**The third stage** – 2000–2005 – can be characterized as a period of struggle with poverty and unemployment, the beginning of economic growth, and a sense of some results from market reforms. The years 2000–2005 were marked by economic recovery in all of the countries of the region, and governments began to actively implement social programs on: education, health care, retirement insurance, social protection, and employment. GDP growth in Kazakhstan was achieved through the export of fuel and power

resources, in Kyrgyzstan and Tajikistan through the growth of agricultural production, and in Uzbekistan due to the work of enterprises according to the old model.

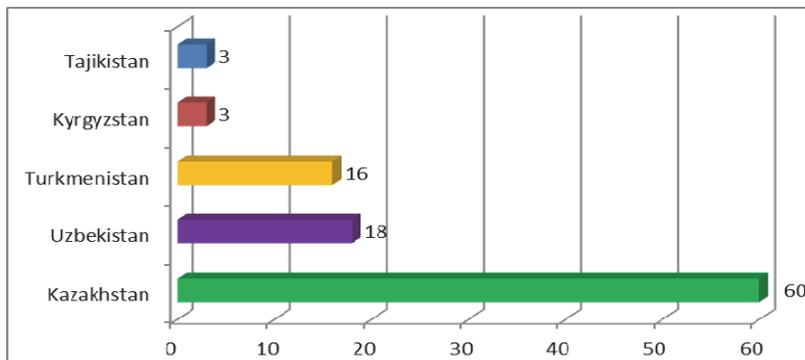
**The fourth stage** took place in 2006–2010. The decisive factors that determined the success of reforms in this period were the speed and intensity of structural transformations, the quality of state regulation of the economy, and activity in the development of market institutions. The emphasis shifted from macroeconomic stabilization to protection of property rights, respect for the rule of law, predictability of economic conditions and the “rules of the game”, and the formation of trust in the authorities.

**The fifth stage** began in 2011 and continues to the present day. This period is characterized by the implementation of institutional reforms, the deepening of market reforms, the implementation of legislative initiatives, and the strengthening of the banking sector and financial market. The creation of integration associations and unions is also intensifying.

The countries under examination all demonstrate an increase in indicators in attracting direct international investment, especially in the extractive industries. Whilst large investments are attracted by Kazakhstan, the share of other countries remains small due to the weak progress of reforms (Kazakhstan in 2017 2018). International experts note the desire of the leadership of CA countries to enter into an open and constructive dialogue with investors. Measures are being taken to improve the investment climate, the conditions of doing business, and the regulatory and legal framework, in order to ensure compliance with international best practice. Regulation on specific issues is consistently improving (for example, tax, currency, and customs regulations) (Nurasheva et al. 2020). The openness of the world creates conditions that force national businesses to compete with companies from other countries, while fragile domestic business structures are put in a difficult position. Transnational companies have become the major influencing factor, of which there are over 70,000 globally, according to the UN. Their annual turnovers often exceed the budgets of many states, and the interests of these monsters do not always coincide with those of national states – which can lead to social conflicts. Foreign investors consider CA to be an extremely attractive region in terms of investment. Proximity to the fast-growing markets of Russia, China, and a number of Asian countries offers great opportunities to many investors in industry and in the financial services sector (Europe and Central Asia Economic Update 2020). At the same time, proximity to China may present some danger in view of the level of labor productivity and production efficiency in this country.

### ***3.2. National economies: economic climates and weight in the global economy***

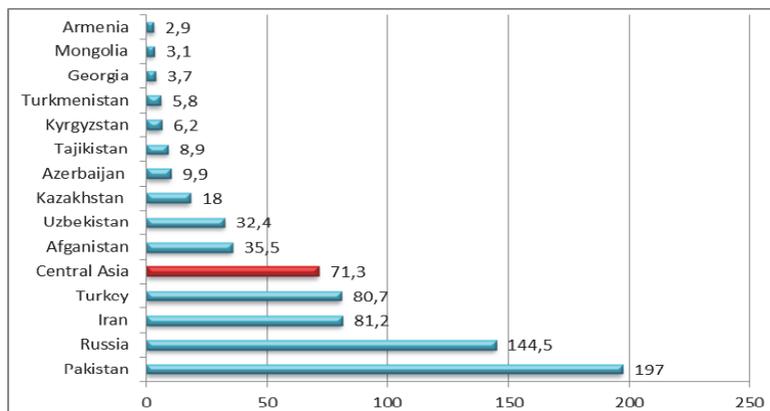
In a region with more than 71 million people and a total GDP of \$265.2 billion in 2019, there are two leaders: in terms of population – Uzbekistan (over 45% of the region’s population), and in terms of economy – Kazakhstan (around 60% of regional GDP, Fig. 1). Population size and size of the economy are key factors that investors and trading partners pay attention to when deciding upon long-term cooperation plans. Clearly, the larger the volume of the market, the greater the opportunities for business development.



**Figure 1.** Individual CA countries' shares of total CA GDP in 2019.

Source: Statistical Yearbook "Commonwealth of Independent States" (2019); The Rating of the World on the level Country of GDP (2019)

As can be seen from Figure 2, the populations of the CA countries are relatively small compared to their nearest neighbors – indeed, their competitors. Similarly, the volume of the economies of these countries is not as attractive for investors (Fig. 3).

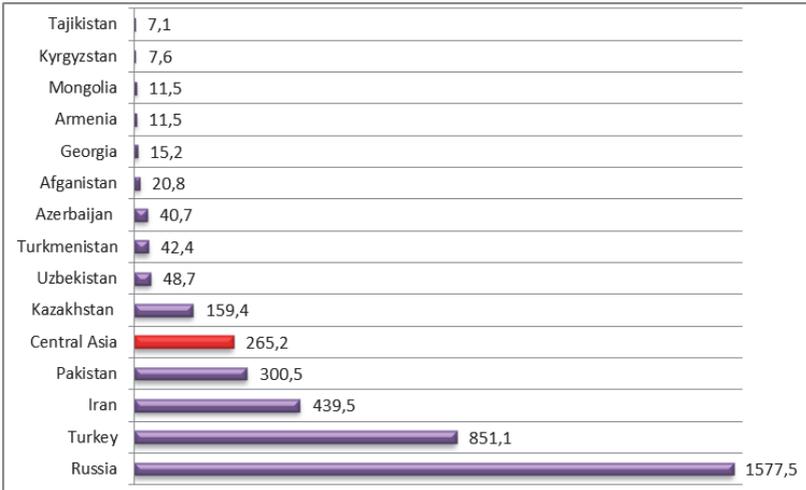


**Figure 2.** The populations of selected countries in 2019, million

Source: Statistical Yearbook "Commonwealth of Independent States" (2019)

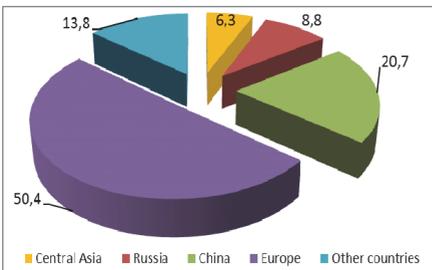
If the CA countries are represented as a single economic territory, they are far more competitive in comparison to such countries as Azerbaijan, Armenia, Afghanistan, Georgia, and Mongolia, and become more comparable in terms of population and size of economy to such countries as Pakistan, Iran, Turkey, and Russia (World Economic Outlook Database, 2019). For a long time, the stereotype persisted that the CA countries

had nothing to trade among themselves, and were competitors to each other because of their agrarian and raw material economies.



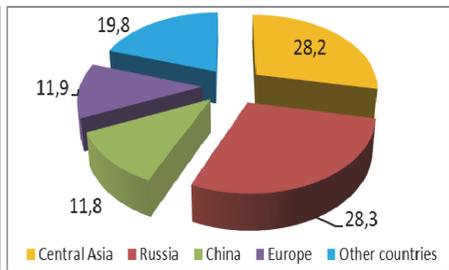
**Figure 3.** The GDPs of selected countries in 2019, billion \$  
 Source: *The Rating of the World on the level Country of GDP (2019)*

Indeed, data on the export and import of goods, presented in Figures 4 and 5, indicate that the size of regional trade within the CA countries is insignificant (6.3%). Meanwhile, that the countries have things to trade with each other is considered a prerequisite for deepening the division of labor within the region.



**Figure 4.** Export destinations for CA countries, %

Source: *own calculation based on the survey (2019)*



**Figure 5.** Export destinations for CA countries excluding mineral commodities, %

The main components of the goods exported by the CA countries are mineral resources and the products of their processing (87.6%), which these countries do not trade with each other and instead send outside the region (Oseledko 2018; Trade Summary

for Europe & Central Asia 2018). However, if one removes the export of mineral commodities and metals from this data, a completely different picture is observed (Figure 5). Now, active regional trade is noticeable, despite the existence of various barriers. Mineral commodities (oil, gas, primary processing products) and metals (gold, copper, ferrous metals, zinc) account for 97.1% of the region's exports to Europe, 93% of its exports to China, and 66.5% of its exports to Russia, where a considerable amount of export is also composed of soft goods and food. Analysis shows that hydrocarbons form the vast majority of the exports of Turkmenistan and Kazakhstan. These countries are considerably less focused on regional markets than Tajikistan and Kyrgyzstan, whilst Uzbekistan occupies an intermediate position.

The high dependence of CA countries on the export of goods carries great risks associated with the volatility of global prices. The key issue here is the so-called "Dutch disease" when – due to the significant export volumes of minerals – the development of other sectors of the economy, especially the processing industry, is frozen. This gives rise to the social stratification of society (as few earn money from exports), bureaucracy, and corruption (Amini, Douarin, and Hink 2021). Today, the finished products of CA countries are not competitive enough in foreign countries. At the same time, there are competitive advantages within the region due to: 1) reduced transportation and logistical costs; 2) a similar consumption culture and customers' needs; and 3) more in-demand goods in terms of comparability between levels of income.

A more detailed analysis suggests that the possibilities for regional cooperation are quite large. According to the theory of comparative advantages, the export of goods and services in which the country specializes allows for the purchase of those goods and services for which production is less profitable. As a result, all of the countries participating in the international division of labor increase their well-being. On this issue, it is necessary to convey the notion that only regional integration will attach considerable weight to the region and create incentives for the development of its countries.

### ***3.3. Socio-demographic factors of identification***

CA states are located in different climatic zones with a wide variety of natural conditions and, according to the UN criteria, they belong to the classification of developing countries. Political and economic transformations are being carried out in all CA countries with varying intensity, and attempts are being made to integrate into the global economy. Kazakhstan and Kyrgyzstan are members of the Eurasian Economic Union on par with Russia, Belarus, and Armenia (Statistical Yearbook "Commonwealth of Independent States" 2017; Ubiria 2015). The population of the region 25 years ago was 50 million people – in the time since, it has increased by 42%. This is a fairly high indicator, and this growth was accompanied by an increase in life expectancy and a reduction in mortality (Table 1).

The highest birth rates can be observed in the poorest countries – 22.6 and 23.8 people per 1000 inhabitants in Kyrgyzstan and Tajikistan, respectively. Compared to the other countries of the region, the mortality rate is very high in Kazakhstan – 8.2 people

per 1000 inhabitants (Satubaldin 2014; World Economic Outlook Database 2020). In the main agrarian territories, the population density exceeds 100 people per square kilometer, which is comparable to the indicators of large cities. By population, the largest country in the region is Uzbekistan, which is home to 32.4 million people. Of these, 8 million live in the Fergana Valley with a population density of 360 people per square kilometer, which is 12 times higher than the overall population density of Kyrgyzstan and 55 times higher than that of Kazakhstan (for comparison, in Shanghai this indicator is 435 people per square kilometer) (Statistical Yearbook “Commonwealth of Independent States” 2017; Zakhvatov 2014).

**Table 1.** *The main demographic indicators of the CA countries, 2019*

	Population (million people)	Population density (per 1 sq. km)	Area (thousand sq. km)	Birthrate (number of births per 1000 people)	Mortality (number of deaths per 1000 people)	Natural growth of population
Kazakhstan	18.0	6.5	2,725	18.7	8.2	10.5
Kyrgyzstan	6.2	30.5	200	22.6	6.6	16.0
Tajikistan	8.9	60.,8	143	23.8	6.1	17.7
Turkmenistan	5.8	11.7	488	19.3	6.1	13.2
Uzbekistan	32.4	70.9	447	16.9	6.1	11.6
Total	71.3	-	4,003	-	-	-

Source: *Statistical Yearbook “Commonwealth of Independent States” (2019)*

According to the UN, individual countries in the region are gradually approaching the threshold of old age. In 2018, the age structure of the populations of Kyrgyzstan and Uzbekistan changed from a young one towards an increase in the proportion of people over 65 years of age. With an increase in the proportion of the aged population, experts also note a tendency of growth in the proportion of children (in 2018, their proportion was one third).

There is uncontrolled growth in large cities due to the appearance of slum territories, which is fraught with social tension. Kyrgyzstan provides an example, where the inhabitants of the outskirts of Bishkek were the main driving force behind the coups of 2005 and 2010. Because of inter-ethnic clashes in the south of Kyrgyzstan in 2010, tens of thousands of Uzbeks and Kyrghiz left their homes. According to the Office of the United Nations High Commissioner for Refugees, the clashes in Osh and Jalal-Abad led to the displacement of around 375,000 people, 169,500 of whom never returned. These examples demonstrate the problems that CA countries may potentially face in the future (Rezvani 2013).

In the CA region, Tajikistan, Uzbekistan, and Kyrgyzstan are considered the poorest countries, with the predominance of the agrarian sector in their economies. Around half of the population of the region is below the poverty line, and a systemic crisis, with high inflation and unemployment, has had a negative impact. The rise in prices of essential

goods has badly affected the poorer strata of society, and the population spends, on average, 70% of their income on food. Average monthly incomes are also low, constituting: \$70.1 in Kyrgyzstan; \$53.8 in Uzbekistan; and \$32.6 in Tajikistan (Tsereteli 2018; The standard of living... 2019; World Bank 2017; Sputnik Tajikistan 2018).

It must be said that uneven regional development is observed in all of the countries of the region. Thus, according to the Statistic Committee of Kyrgyzstan, the highest real incomes are in the capital of Bishkek (\$80.4) and in the Osh (\$72.7) and Chui (\$64) oblasts; the lowest are in the Naryn and Talas oblasts (\$14.5) (Kyrgyzstan Economy Profile 2020).

Uneven distribution of income also takes place in Tajikistan. Although Tajik authorities declared that GDP had grown by 12% and household income by 10% in 2017, experts say that the real growth rate of the economy was only 7% (Najmiddinov 2018). In general, the welfare of households in Tajikistan improved mainly due to financial remittances from abroad, wage growth, and self-employment. The average monthly nominal wage of salaried employees in 2017 was 1,228 somoni (\$135), and the minimum wage in the country was 400 somoni (\$44). For reference, 1 US dollar is equal to 9.11 Tajik somoni. There are large regional differences in incomes: the highest wages are received by Dushanbe residents – 1,934 somoni – and the lowest wages are received in the Khatlon oblast – an average of 916 somoni (World Bank 2017; Sputnik Tajikistan 2018; Najmiddinov 2018; Khramova et al. 2020).

It should be noted that, thanks to the support of the World Bank Group, in 2015–2018 the Partnership Strategy for Tajikistan was implemented, which expanded opportunities in the private sector, especially in rural areas. As a result, the investment climate has improved, the costs of doing business have decreased, and the hydropower and mining industries have been developed. Investment in education, water supply and sanitation, irrigation, and transport has also increased.

The situation in Turkmenistan is somewhat better. The presence of an abundance of natural resources masked the need for change, delaying the reforms of the first generation such as price and trade liberalization, privatization of state property, and the creation of market regulation institutions. Changes began only after 2007, and tight administrative control and the large role of the public sector in the economy remain the main obstacles for the development of the private sector. In 1993, privileges were introduced for the country's citizens – water, gas, and electricity became free, and, later, free gasoline was also introduced. This privilege was cancelled in 2014, and since 2017 all public utilities privileges have been withdrawn (Azatlyk Radio 2017; Crude Accountability 2009). As a result, food prices have begun to rise, public sector wages are stalling, and unemployment is growing.

At present, Turkmenistan is experiencing an economic crisis, facilitated by a global decline in the prices of power resources and the high cost of building expensive facilities (for example, for the 2017 Asian Games). International experts note the deterioration of the economic situation in the country and the decline in income of the population (Richardson 2013; Turkmenistan Economy 2020). The country is considered one of the most closed in CA, and indeed globally, and official unemployment statistics are not

published. Since 2007, Turkmenistan's authorities have not provided information regarding population size. Meanwhile, income level is above the average in the region: on 1 January 2017, the monthly minimum wage was set at 650 manats (\$185). Despite this, Turkmenistan is still in the early stages of its transition to the global market. For reference: the official exchange rate of the Turkmenistan central bank is 3.51 manats per \$1.

SMEs and private entrepreneurship are the basis of Uzbekistan's economy, constituting 56.7% of GDP and 77% of all employed work (Yusupova 2018). Over 60% of the population lives in densely populated villages, leading to high employment of the population, and the inflation rate does not exceed 5–6% (Isayev (2017; Melibayev 2017). At the same time, the authorities openly admit that officially reported figures differ greatly from real ones. Thus, the Minister of Finance, Jamshid Kuchkarov, reported at a meeting of the Senate that the real inflation rate, following the results of 2017, was projected at 14%, although the State Statistics Committee gave a figure of 9–10% (Smirnov 2017). In a country with an official level of unemployment of around 5%, there is chronic, hidden unemployment – up to 20% in cities. Meanwhile, according to government reports, hundreds of thousands of jobs are created annually in the republic. In 2015 alone, over 980,000 jobs were ostensibly created in the country, of which more than 60% were in rural areas. Labor migration has taken on such a scale that it is no longer possible to manage it, and over 3 million Uzbek citizens work abroad (in Russia, Kazakhstan, Turkey, and even Kyrgyzstan). Migrant remittances account for 12% of GDP, but since the statistics only take into account official bank transfers, in reality, the amount of money transferred by migrant workers to their homeland is much higher (Salimov 2018; Yusupova 2018).

A tour of the CA countries suggests that there are many common problems. These include: excessive centralized regulation of the economy; the underdevelopment of market relations; the low incomes of the population; and the uneven development of regions within countries.

### 3.4. Global indicators reflect internal problems

Today, due to many factors, CA countries are not in the best condition in terms of the main indicators. GDP per capita in Uzbekistan, Kyrgyzstan, and Tajikistan is several times lower than in developed countries (Table 2) (Tsereteli 2018; Europe and Central Asia Economic Update 2020).

**Table 2.** A comparison of selected countries based on GDP per capita, 2019

No.	Countries of the world	GDP per capita, \$	No.	Countries of the world	GDP per capita, \$
1	Norway	82,733	12	Turkmenistan	8,073
2	Qatar	72,677	13	Turkey	7,615
3	USA	65,062	14	Belarus	6,372
4	Germany	49,692	15	Georgia	4,806
5	France	43,500	16	Azerbaijan	4,779

No.	Countries of the world	GDP per capita, \$	No.	Countries of the world	GDP per capita, \$
6	UK	42,036	17	Armenia	4,447
7	Israel	41,553	18	Ukraine	3,133
8	Japan	41,418	19	India	2,188
9	Russia	11,461	20	Uzbekistan	1,560
10	Kazakhstan	10,447	21	Kyrgyzstan	1,307
11	China	10,099	22	Tajikistan	815

Source: Eurasian Economic Commission (2019); Monitoring of Sustainable Development Goals Indicators in CIS region (2019); List of Countries by Projected GDP per capita (2019)

As displayed above, GDP per capita is higher in Kazakhstan and Turkmenistan, whilst in the other countries of the region it ranges from \$815 to \$1,560, which seems to be an extremely low figure on which to carry out reforms and engender innovative development. Uzbekistan, Kyrgyzstan, and Tajikistan are in 156th, 161st, and 176th place among the world ranking of GDP per capita, respectively (Monitoring of Sustainable Development Goals Indicators in CIS region 2018; Europe and Central Asia Economic Update 2020; World Economic Outlook Database 2020). Kazakhstan witnessed high rates of economic growth from 2003 to 2013, and GDP per capita peaked in 2014 at \$12,500 (The main socio-economic indicators of the Republic of Kazakhstan in 1991–2017 2018). Over the past 20 years, \$108 billion has been attracted to the economy of the republic – 80% of total foreign investment in all CA states (UNCTAD 2018; Pritchins 2017). Additional improvements to the economy were provided by the upgrading of the transit infrastructure, in particular the Western Europe–Western China highway and the transportation of goods through the country’s territory to Russia, China, and Europe. In addition to GDP per capita, CA countries have low economic competitiveness (Table 3).

**Table 3.** The index of the global competitiveness of selected countries according to the World Economic Forum

No.	Countries	2017–2018		2016–2017	
		Rank	Score	Rank	Score
1.	Azerbaijan	35	4.69	37	4.55
2.	Russia	38	4.64	43	4.51
3.	Kazakhstan	57	4.35	53	4.41
4.	Georgia	67	4.31	59	4.35
5.	Armenia	73	4.19	79	4.07
6.	Tajikistan	79	4.14	77	4.12
7.	Ukraine	81	4.10	85	4.08
8.	Kyrgyzstan	102	3.90	111	3.75

Source: Schwab (2017); World Economic Outlook Database 2020

As can be seen, the gap between industrially developed countries and the states of the CA region is very large (Schwab 2017; World Economic Outlook Database 2020). In terms of competitiveness, only Kazakhstan occupies a middle level – Tajikistan is in 79th place, Kyrgyzstan is in 102nd place, and Turkmenistan and Uzbekistan are not represented in the ranking at all. A deeper analysis of the main components of the global competitiveness index shows that the countries of the CA region, even in comparison with the CIS countries, are significantly lagging behind in development (Table 4) (World Bank 2020, pp. 73–74; World Economic Outlook Database 2020).

According to the six indicators in Table 4, Russia, Azerbaijan, and Kazakhstan occupy middling positions. Kyrgyzstan demonstrates very low indicators, and Uzbekistan and Turkmenistan, as noted, are often not present in these calculations. In our opinion, these indicators are of great importance, as they reflect the advancement of reforms, economic freedom, and prospects for scientific and technological development. In this case, the lack of full-value market relations in the countries of the region hinders the implementation of reforms, the introduction of innovations, and the growth of the population's well-being. For example, in Turkmenistan, the state retains a dominant influence in the economy, leaving elements of the planning system with subsidies and exerting tight control over production and price formation.

**Table 4.** *The rating of some countries of the CIS and CA regions by major indices of global development, 2018*

	Health and primary education	Higher education and training	Labor market efficiency	Infrastructure	Innovation	Technological readiness
Russia	54	32	60	35	49	57
Armenia	55	69	51	80	70	77
Azerbaijan	74	68	17	51	33	56
Kazakhstan	59	56	35	68	84	52
Kyrgyzstan	75	89	113	109	126	102
Tajikistan	73	76	34	99	47	114

Source: UNDP (2018); Cornell University, INSEAD, and WIPO (2018); Ease of Doing Business Index (2018)

There is strict export and currency control in a mostly-closed economy, which holds back foreign investors and disincentivizes innovation. Having transformed in the wake of a communist regime, Turkmenistan chose an overly cautious approach to economic reform, hoping to use the sale of gas and cotton to maintain a generally inefficient economy, and the scale of privatization was limited. However, thanks to high oil and gas prices, export revenues are rising.

In practice, the markets of many countries are highly monopolized. This is facilitated by barriers to foreign trade and all manner of preferences created by governments to “protect domestic producers”. Natural monopolies and state corporations also play large

roles in the economies of all countries. Commercial enterprises in a region often exist in an artificially-created supportive environment, without encountering strong competition.

In addition to domestic, economic, and social difficulties, CA countries face unresolved inter-state problems. In particular, Tajikistan and Kyrgyzstan have disputes with neighboring Uzbekistan regarding their territories, and the issue of water frequently engenders argument (Ayupov 2016). After gaining independence, the regional water-power exchange scheme, which has been in effect since the existence of the USSR, has for some reason ceased to meet the national interests of the CA countries. Intensive use of the water resources of the Syr-Darya and Amu-Darya rivers since the 1960s has caused global climate change due to increased water consumption and the pollution of rivers with salts, fertilizers, and pesticides from the drainage of farmlands (Kristopher 2013; Izhitskiy et al. 2016).

With the advent of 2018, 25 years had passed since the creation of the International Fund for Saving the Aral Sea, and a lot of work has been done in this regard. In 2018, meetings and discussions took place, and the Convention on the Legal Status of the Caspian Sea was signed within the framework of the Fifth Caspian Summit in Aktau city (Kazakhstan) on August 12 (Masanov 2018). One of the key events in actualizing water-power issues in the region will be the projected launch of the Rogun hydroelectric power station in Tajikistan, which will become the largest of its kind in CA (Musabekov, Nurasheva, and Mergenbayeva 2018). In general, it must be said that the CA countries have much to do in order to avoid remaining on the periphery of global civilizational development. At the same time, Kazakhstan – being the most powerful and developed state – can play a leading role, and use its potential and experience to boost the economy of the entire region.

### ***3.5 Central Asian cooperation: experience, problems, and difficulties***

Within the framework of the CA region, there were positive trends in integration processes. The foundations for these trends were laid by the Treaty on the Establishment of the Common Economic Territory of 30 April 1994, between Kazakhstan, Kyrgyzstan, and Uzbekistan. This organization was named the Central Asian Union (CAU). In March of 1998, Tajikistan joined the CAU, and on 17 July of the same year, at the summit in Cholpon-Ata, the name CAU was changed to CAEC – the Central Asian Economic Community. In the period from 1994 to 1996, 180 documents were developed and adopted with the aim of creating a legal basis for integration. The seriousness of these intentions was indicated by the fact that the states even signed agreements on the organization and formation of a peacekeeping battalion under the auspices of the UN (Chronicle of Eurasian integration 2014).

A legal basis was created for state cooperation that was envisaged to ensure free movement of goods, services, capital, and labor, and implementation of the agreed payment, budget, tax, tariff, customs, and currency policies. In order to implement this Treaty, the Program of Action was developed for the formation of the Common Economic Territory of States until 2000. Agreements on the following have been signed: use of fuel, power,

and water resources; construction and operation of gas pipelines in the region; and parallel operation of the power systems of Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan. In the social sphere, the Program of Cooperation in the Field of Migration and the Program to create conditions for free movement of labor have also been accepted.

Attempts at integration in the region have been made many times, but only parts of these agreements have been implemented. In Tashkent at the end of 2001, the Presidents of the four republics decided to transform the CAEC into the CAC – Central Asian Cooperation. It was at this point that Islam Karimov, realizing that there had been no talk of integration, proposed to reformat the CAEC into the Central Asian Economic Forum – that is, to turn the association into a membership club like the Economic Forum in Davos (Ilkhamov 2019).

On 28 February 2002, in Almaty, the heads of the four states signed the Treaty on the Establishment of the Organization of Central Asian Cooperation (OCAC), which emerged in place of the CAEC and provided for the latter's liquidation. The word "community" was replaced by the vague term "cooperation". This term is present in the names of extremely free structures such as the APEC or OECD, where the implementation of decisions is not obligatory. In addition, the word "economic" disappeared from the name. This meant that the ultimate goal of the CAEC – the creation of a common market of goods, services, and capital – remains unattainable for the present.

However, in the years 2000–2009 the region intensified integration into the global economy, and trade-economic ties were established with 192 countries. During these years, 30% of the volume of the foreign trade of CA countries was accounted for by the EU, 18% by Russia, and 13% by China. Joint projects were implemented in the fields of energetics, transport, communication, health care, and science, and positive results were achieved by the joint use of interstate highways and railway transport for the transit of goods and access to the markets of third-world countries. Unified rules for the certification, standardization, and quality control of healthcare products, medical equipment, and medical goods produced in the countries of the region came into force (Solehzoda 2015).

Over the course of time, alongside positive trends in regional cooperation, there was a slowing of the rate of integration. Internal regional trade declined, and the leaders of the CA states witnessed the unviability of the global cooperation projects that they had previously scheduled, instead deciding to limit themselves to their own economies. The advantages of globalization were thus not utilized due to a number of reasons, including: different levels of market transformation in the economies of these countries; differences in the rate and scale of economic liberalization; and the low levels of investment activity. The issues of interaction of these states in the real sector of the economy and the social and cultural spheres remain unsolved. The separation of states was observed, mutual suspicions grew between them, there was a struggle for leadership in the region, and territorial disputes arose (Yusupov 2015).

The further history of the integration of the CA countries speaks to the discredit of the very idea of integration. In 2004, Russia joined the OCAC, and in the following year, at the summit in St. Petersburg, a decision was adopted that envisaged the transformation of the OCAC into the Eurasian Economic Community – EurAsEC.

At the beginning of 2007, the President of Kazakhstan, N. Nazarbayev, tried to revive the idea of regional integration. This question involved the formation of a single economic territory of the five CA countries with the goal of “ensuring the security, economic growth, political stability, and prosperity of the region” (Address of the President of the Republic of Kazakhstan... 2007, p. 8). At the same time, the President of Uzbekistan I. Karimov directly stated his position in observing that “this initiative is unacceptable for Uzbekistan. In order to create such unions, it is necessary that the level of economic and social development of countries is comparable. Unfortunately, we still have a lot of questions, so it’s premature to talk about some kind of union” (Uzbekistan left the EurAsEU in 2008 due to doubts regarding its effectiveness).

With the abolition of the Central Asian Union and the withdrawal of Uzbekistan from the EurAsEC, there are no common multilateral mechanisms of cooperation between the CA countries. Today, bilateral relations are the main format of interaction between countries, which contain a broad range of relations at various levels: from agreements on individual issues to union agreements – such as between Kazakhstan and Kyrgyzstan. In addition, the Asian cooperation is partially supported in the framework of such broader unions as the CIS and the SCO.

A sober look at the situation in the post-Soviet countries shows that, despite almost 30 years of independence, most have not become economically independent. In the global conditions of the modern division of labor and the objective reduction of natural resources, the main vector of development of the CA countries should, in the opinion of the authors, be directed towards regional integration.

### ***3.6. Prospects for the integration of the Central Asian countries***

According to experts, in the next two to three years the CA countries will look for new ways of cooperation and rethink their positions in international and regional processes (Yusupov 2018). This is indicated by the changes in Uzbekistan after I. Karimov’s death and the recent events in Kazakhstan in connection with the resignation of President N. Nazarbayev. One should expect the launch of new formats and regional consultations aimed at strengthening cooperation, both within the countries of CA and with Russia. At the same time, one can assume that cooperation in the region will develop mainly in the form of bilateral or trilateral relations, for example, Kazakhstan–Uzbekistan, Kazakhstan–Kyrgyzstan, or Kazakhstan–Uzbekistan–Turkmenistan. It is also important to understand that each of the CA countries has its own goals and visions, and will advance its own interests. The analysis of the broader situation in the region allows some conclusions to be drawn.

- 1) It is impossible to regard the ethnic and socio-cultural homogeneity of the region as absolute. It is undeniable that some countries hearken back to the idea of “nomadic democracy” whilst others speak of a developed urban culture. At the same time, the Turkic cultural component is perceived as a potential threat by Persian Tajiks.
- 2) CA is not a unified region and is not recognized by its member countries as such. It is characteristic that in Soviet times the region was called “Central Asia and

Kazakhstan”, which spoke to its division into two heterogeneous parts. Despite the dominance of Islam, there is no unified religious identity.

- 3) Due to the approximately similar structure of the CA economies and the absence of serious technological specializations, CA countries are not partners – they are instead competitors. The narrow natures of sales markets give rise to small semi-handicrafts, which produce products that are not always of good quality and are often characterized by a weak product line. The small scale of production of a particular type of product often instigates attempts to master many additional directions that allow equipment to be purchased and craftsmen to be employed. However, the scale of production in these directions is also not large, and, consequently, their competitiveness remains low.
- 4) There are currently unsolvable interstate contradictions and conflicts on issues such as: ethnic enclaves; borders; the distribution and regulation of water resources; customs walls; and population migration.
- 5) The nationalism of political powers and business elites has its impact, because they identify their own interests with national ones. It is for this reason that the elites in power in the CA countries have no interest in structures that will be delegated auditing functions. Meanwhile, without the creation of supranational structures, integration is not possible.
- 6) External forces are not interested in the independent integration of CA countries. Parties from outside make attempts to involve one or another CA country in their sphere of influence, whilst the leaders of some countries are ready to play upon the contradictions among global players in an attempt to seize dominance in the region. This increases distrust in power structures, and makes wider integration very problematic.

It seems, then, that there is no motivation to create mechanisms for integration and multilateral cooperation in CA. However, that is not so. Today, countries simply address internal problems: inflation, unemployment, low incomes, old enterprises, the agricultural and raw material economy, the struggle of business elites for an affected area, and so on. As such, the need for intraregional cooperation is more urgent than ever. In the opinion of the authors, it is necessary:

- To solve each problem separately at the interstate level. For example, it is necessary to solve the Aral problem. Thanks to the financing of the World Bank and the efforts of Kazakhstan, the “Little Aral” was restored to life via the building of a dam. Water salinity has decreased significantly, marine organisms have reappeared, around 20 species of fish are harvested, and three fish factories operate. Today, experts are proposing the restoration of the “Big Aral” through a set of activities in the Amu-Darya river basin (Izhitskiy et al. 2016; Ayupov 2016).
- To carry out more intensive internal reforms that will lead to the levelling of income in certain localities and the increase of welfare in general. The introduction of real market relations will create the basis for countries to conclude agreements in the fields of customs and tax, and will contribute to the formation of the CA financial market. A start was made when the International Financial Center of Astana was established at the EXPO–2017 site.

- To create a separate agreement for 2–3 years on the specialization of countries in the production of certain products and services in order to make export and import effective, and to guarantee crops and the output of certain goods. This will create close links between the enterprises of the CA countries, expand cooperation, and balance their consumer markets. In the regional market, product competitiveness increases due to the reduction of transportation and logistical costs, and the exploitation of similar patterns of consumption and the similar needs of customers. In fact, due to the cultural proximity of the CA countries and the comparability of revenues, local products are more often in demand within the region than abroad.

At the same time, the CA states can integrate into various broader structures which include other countries, for example Russia. Integration associations such as the CIS, CSTO, EAEU (Eurasian Economic Union), and SCO should be mentioned as successful ones. Of course, there are other associations such as the Organization of Islamic Cooperation and the Cooperation Council of Turkic-speaking countries, but they do not play such a significant role for CA. Instead, they mainly represent discussion platforms, and their adopted decisions are non-obligatory.

Despite difficulties, experts predict that the countries of the CA region will, in the long term, encounter positive dynamics of economic growth. According to World Bank estimates, the average economic growth rate in Kazakhstan will be around 2–3%, in Kyrgyzstan 3–3.5%, in Tajikistan 5–6%, and in Uzbekistan and Turkmenistan around 6% (Zubov 2016).

Progress will depend on the effectiveness of the economic policies of the CA governments, and on political stability in general. External factors such as the stability of world energy prices will also have an effect. The influence of China and the Shanghai G8, which accounts for 40% of the world's population and a third of the global economy, will continue to increase. New global initiatives will be promoted under the auspices of "One Belt, One Path".

#### **4. Conclusion**

1. From the analysis performed in this paper, it can be concluded that whilst the countries of CA have, at various rates, trodden the path of independence, the opportunities of market reform have not been fully utilized. The levels of technological development, domestic market capacity, and economic potential in these countries are insufficient for active advancement. Social problems remain unresolved, and the business elite – who have grown stronger in the years since independence – exert significant pressure on the authorities.
2. CA countries are relatively small compared to their nearest neighbors/competitors, and the sizes of their economies are not attractive for investors. If the CA countries are integrated as a single economic territory and if various barriers are removed, then they will benefit as a large region. The main areas of potential cooperation include: a) the joint use of the water and power resources of the region; b) creating advantages for the goods of the region and fostering mutual trade; c)

the development and expansion of transport communications; d) cooperation and specialization in a range of products and the creation of joint ventures; and e) cooperation in the field of agriculture, including the creation of a network of processing enterprises.

3. The population growth rates in the region require more decisive reforms: some territories suffer from agrarian overpopulation; the growth of large cities is uncontrolled; around half of the region's population are below the poverty line; increases in food prices affect the poor social classes especially; unemployment contributes to migration outside the region; and inter-ethnic clashes occur intermittently.
4. Global indicators of the competitiveness of the CA countries are extremely low, even in comparison with the CIS countries. The developmental gap between industrialized countries and the states of the CA region is very large, which clearly prohibits the introduction of reforms and innovation. The authors recommend that these countries integrate and act in the international division of labor as a single region with a population of 70 million people and a GDP of 260 billion dollars – comparable to the GDP of Iran or Pakistan. This will increase the attractiveness of these countries to foreign investors who will introduce new technologies and deploy their experience in organizing production and business.
5. Prospects for the further development of the countries of the region are seen in integration and cooperation on a bilateral and multilateral basis. This can aid in solving water-power problems, agreements on the free movement of labor, goods, services, and capital, and the formation of a single financial market.

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