
Guest Commentary

Economic integration in Central Asia: history and political geography

by Prof. Yang Shu

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When doing research on the issue of economic integration in Central Asia, special consideration has to be given to the characteristics of Central Asia countries established during the Soviet era. The five Soviet republics founded at that time were by no means sovereign countries able to decide their own political and economic future. Instead, their development, directed by the highly centralized Soviet political and economic system, was carried out with the aim of making them an integral part of the overall Soviet economic system. The starting point of their development, stressed the divisions and regional characteristics of the whole Soviet Union, not on making each country an independent entity within the Soviet economy.

Accordingly, in the 1920s, as the Soviet economy was recovering from war and civil war, the territory of the five Central Asian countries was divided into three regions: the East Kayak District, the West Kayak District, and the Central Asia District. The former two gradually joined to form the Kayak District. The Kayak District occupied the territory that is now the Kayak Allied Republic.

The Central Asia District consisted of the territories of the four allied countries: Tajikistan, Kyrgyzstan, Turkmenistan, and Uzbekistan.

Under the system of a highly planned economy, the GNP of the two economic regions went up significantly. However, the traditional economy, based on material production of agriculture, livestock, and minerals, underwent no obvious change.

For example, even though Uzbekistan used to be the foremost producer of cotton in the Soviet Union, the production of machinery for the harvesting and spinning of cotton, as well as cotton-processing factories, were mainly located in Russia. Similarly, even though Turkmenistan ranks first as a center for petroleum and natural gas, the centers for manufacturing drilling machinery and for processing petroleum and natural gas are in Russia. Also, while the production of various nonferrous metals occupies a pivotal position in Kazak-

stan, the necessary equipment for the exploration and exploitation of mines as well as for the processing of nonferrous metals are made in Russia.

Thus, one result of the Soviet period is that advanced manufacturing, marketing, and distribution functions were supplied more by other Soviet republics, while the economies of the Central Asian republics became more centered on the production of primary materials. This resulted in Central Asia's economic dependence on Russia and other former Soviet republics. Besides, in Central Asia, the contacts among industrial enterprises are weak, even though they are in the same industry. This made the two economic regions in Central Asia into economic peripheries of Russia and other developed regions. Within these two regions, the economic relationships among various republics are secondary, compared with relationships with Russia and other developed countries.

This development is obviously detrimental to today's process of economic integration in Central Asia. However, this lack of economic cooperation within the alliance of Central Asian countries cannot be considered as purely negative, since it had been beneficial to the economic development of the whole Soviet Union. The fact that, in the Soviet era, no independent economic system was created in Central Asia is doubtless a disadvantage in today's attempt at economic integration, but the highly centralized planned economy did in other ways create excellent conditions for economic integration.

The Soviet Union had the lowest percentage of private enterprises of all economies in the world. State-owned and collectivized businesses had been brought under the control of the highly planned management system. The commodity prices in the Soviet Union were basically unified. (There are slight differences in prices between separate districts, but this is only true for some products.) The tax rates were basically the same. Production costs were calculated according to the same rule.

The production process followed a unified technical standard, and the management of production and human resources were carried out in accordance with one set of regulations. All this removed basic obstacles to the circulation of products, the unification of the market, and the free flow of labor.

FIGURE 1
Central Asia: existing and newly constructed railways



It should also be pointed out, that the Soviet Union used to advocate and pursue the use of the Russian language throughout the whole country. Through years of hard work, the Russian language has become popular and occupies an important position particularly in the field of science and technology. This does give powerful cultural support to the effort to achieve the economic integration of Central Asia today. It can be said that the Soviet Union had played an important role in the integration of Central Asia's economy by preparing some of its basic conditions.

After Soviet disintegration

The disintegration of the Soviet Union changed the above-mentioned situation tremendously. The Soviet Union was a large political entity and simultaneously a functioning economic system. Its disintegration left a huge crack in the already-created, highly unified economic system. All the allied countries were severely hit economically, including Central Asia. Within the borders of the Commonwealth of Independent States, there is no allocation of products under a unified plan, the circulation of products has been adjusted to the market price, and many economic contacts that had existed for years were weakened or altogether abandoned. Along with its independence, each country set up its own economy, currency, tariffs, and its own financial system in order to safeguard its domestic market. The circulation of labor has been restricted and the circulation of capital has even been under rigorous control.

For an independent country, the adoption of these measures is undoubtedly essential, but, at the same time, it should be aware of their negative effect on the goal of economic integration. Any limits to the free circulation of merchandise, capital, and labor are obstacles to economic integration.

It has been a difficult task for the member countries in the Commonwealth of Independent States to find a balance between keeping the national economy independent, and speeding up the process of economic integration. In fact, the level of Central Asian economic integration today is remarkably lower than it was during the Soviet era. In the process of economic integration, it has been an important task to try to resume and enhance long-standing relationships from the Soviet era. These kinds of resumption and enhancement are not universal, but intended to be selective, step by step, and of a different content, between different countries.

The five Central Asian countries have had distinct plans and adopted different policies toward the Central Asian economic integration. This is very natural, and there are many reasons for this. One of the most important reasons is the unique geopolitical situation of each country. The following is a brief analysis of this aspect.

Characteristics of the five republics

As indicated above, the five countries in Central Asia are close neighbors, and they have been in close contact with each other. But there are many differences in respect to their

geopolitical situation.

Kazakstan traverses two continents, Europe and Asia, with an area of 2.755 million square kilometers, and shares a boundary of about 6,000 kilometers with Russia. Its westernmost region extends as far as the Russian hinterland and the valley of the Volga, and 34.8% of the Kazak population are Russian. This geographical environment has formed an inseparable historic relationship between Kazakstan and Russia. Kazakstan's relationship with Russia has been significantly stronger than its relationship with the other four Central Asian countries.

The most important issues Kazakstan has been facing since its economic recovery and the ensuing process of modernization, are the need for financing, technology, and an infrastructure that connects it with the outside world. In all these regards, Russia could provide assistance, but the role other countries in Central Asia could play are limited. For Kazakstan, strengthening its economic ties with Russia to a large degree, while at the same time joining the group of countries fostering the economic integration of Central Asia, will be its best option.

Kyrgyzstan is a mountainous country of extremely limited space, and its geographical environment is very closed. It has four neighboring countries: China, Tajikistan, Kazakstan, and Uzbekistan. The relationship between China and Kyrgyzstan will not be discussed in this article.

Historically, Kazakstan, Uzbekistan, and Kyrgyzstan have had a very close relationship in cultural and other respects. As they describe it, they are like the three branches of one tree or the three brothers of one family. Since their independence, the three countries have implemented a very high level of political, economic, and cultural cooperation, as compared to their level of cooperation with other countries. The "Treaty of Everlasting Friendship" signed by these three countries is a good example to illustrate this. Kazakstan is the thoroughfare for communication between Kyrgyzstan and Russia. Uzbekistan is Kyrgyzstan's western gateway to Iran, Turkey, and other countries. These are the basic conditions under which Kyrgyzstan has to set up its political and economic alliances.

The geopolitical situation of Tajikistan is the worst among the five Central Asian countries. As the result of civil war, Tajikistan has lost its role as the southern thoroughfare to Kyrgyzstan, and simultaneously caused a lot of problems for the countries in Central Asia. In addition, the situation in Afghanistan, with its extremely backward economic conditions and many years of chaos caused by war, has interrupted access to Tajikistan from the south. It also brought war and the influence of Islamic fundamentalism to Tajikistan. An extremely confined geopolitical situation creates particular pressure on Tajikistan to follow the road of economic integration. As long as this situation persists, economic recovery and development are unlikely to happen here. As long as the civil war continues, neighboring countries of the Commonwealth of Independent States will not be able to consider economic

cooperation with Tajikistan. These countries will also keep a wary eye on it in order to avoid bringing the spark of unrest upon themselves.

The geographical environment of Turkmenistan is the most superior among the countries in Central Asia. Going west to the Caspian Sea, it is easy to pass through Russia and the region of the Caspian Sea and to enter Turkey, the Black Sea, and Europe. Iran is Turkmenistan's largest continental neighbor, and communications, both on water and land, between the two countries is very convenient. Especially after the completion of the railway from Mashhad to Ashkhabad in 1996, trade and economic cooperation between them have become particularly close. Turkmenistan's main industries are the exploitation of petroleum and natural gas and the production of cotton. Both industries have a similar basis in Iran. At a time then the economic situation in Turkmenistan was at an all-time low and badly in need of support, the only country among its neighbors that provided true assistance and cooperation was Iran. As a consequence of these economic and political developments, Turkmenistan has clearly distanced itself from the other Central Asian countries.

However, it is hard to predict whether the cooperation between Turkmenistan and Iran is likely to surpass the degree of cooperation between the five Central Asian countries. After all, Iran is a country where politics and religion are closely intertwined, and Turkmenistan is not likely to suffer any slights.

Uzbekistan is surrounded by five countries. Besides Afghanistan, with its closed boundaries, its other neighbors are the other four Central Asia republics. Uzbekistan, therefore, has no immediate connection with the outside world. This, to a great extent, restricts Uzbekistan's external as well as international contacts. Uzbekistan's only way out of isolation lies in creating a close relationship with all its neighbors. Historically, Uzbekistan used to be Central Asia's center of culture, religion, economy, and politics. Since the disintegration of the Soviet Union, it has been an important policy for Uzbekistan to work on improving the political and economic situation in all Central Asia. Uzbekistan has the largest population of all the Central Asian countries, and the second largest GNP. It also possesses an excellent foundation in education and scientific research. The influence of Russian culture in Uzbekistan is limited in comparison to that in countries like Kazakhstan and Kyrgyzstan, and its Russian population is relatively small.

All these factors show that Uzbekistan has no intention to establish close relationships with any surrounding country. Instead, its only option is to increase its cooperation with all countries in all fields of interest on the basis of cooperation with its neighbors.

As this brief analysis of the geopolitical aspects of Central Asia's economic situation illustrates, there is integration in separation, and separation in integration in Central Asia. In the process of economic integration, Turkmenistan has already shown a certain tendency to separate itself. The three

countries, Kazakhstan, Kyrgyzstan, and Uzbekistan, are already closely connected. Tajikistan, however, will only be in a position to consider economic integration after it has completely resolved its inner turmoil. But in the future, it will have to become a member of the group, since its confined environment does not provide any other options.

For several years, many measures have been adopted for the economic crisis, and they do not have the capability to adopt feasible and practical steps. Therefore, the series of treaties, agreements, and contracts signed by the countries in question are predominantly symbolic in nature. At present, there should be two key issues for the economic reform in Central Asia: 1) the privatization of industry, and 2) the implementation of structural reforms both in production and financial systems.

There are vast differences in the progress made by different countries. This will subsequently influence the process of economic integration. As long as the above-mentioned reforms are not basically completed, the economic integration in Central Asia will lack a solid foundation. The economic integration of Central Asia will not be implemented in a completely balanced way. Similar to the experiences of the European Union, some countries will cooperate faster and more easily than others, and the same will be true for different economic sectors. If Central Asia's economic integration is to follow the models used in Europe and America, it will take many years before it is completed.

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