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Abstract

Ever since their independence from the USSR in 1991 the former Soviet republics of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan have been trying to find a new framework for their international relations. In this essay the experience and prospects of regional cooperation, special relations with the European Union or southeast Asia (ASEAN), or the Russian Federation are considered at length, along with some other groupings. As an alternative to preferential trade associations, affiliation with the World Trade Organization on a multilateral basis is probable in the years ahead. Meanwhile, the five countries independently pursue what the author has termed “export globalism”—administered trading of their staple raw materials for capital equipment and selected consumer goods.

Upon their unexpected and initially unwelcome release from the grip of the collapsing USSR, the leaders of the newly independent Central Asian republics faced many challenges. Among them, a new international arrangement had to be found for their economies—one that would yield full value for their staple exports, freedom to import from the best world suppliers, and conditions for developing their human and natural resources. The Soviet Union, within which many non-Russians felt disadvantaged and undervalued, had not performed well in dealing with the Central Asian union-republics' external relations, despite dramatic advances in their educational and social conditions.[1] Because of their underdeveloped economies and their consequent need for technical and financial assistance, entirely new relationships with the outside world and enhanced cooperation with each other seemed to be required, while preserving their subsidies and supply and transportation links with their Russian neighbors.[2] This hunt for new partners and regional cooperation, along with a search for a more genuine national identity and political order, was similar to that seen in Africa and Southeast Asia on the morrow of decolonialization. In those areas, as in Central Asia, there was an attempt to recover precolonial values and affiliations as a basis for mutual help and international prestige—for example, through the African Union, the South East Asian Treaty Organization (SEATO), and the Association of South East Asian Nations (ASEAN).

This essay analyzes the efforts and meager successes so far of regional cooperation in Central Asia and considers alternative approaches. Though there is of course no prospect for Central Asian states to be invited to be members of the recently expanded European Union within the foreseeable future, would it be preferable for some or all of these countries to seek some kind of associate status with the West? Or perhaps with the East, or with neither, or with both—through the World Trade Organization (WTO)? And would they be accepted as associates or members by ASEAN or the WTO? Would closer ties with other Muslim nations or Russia or China be a good idea? Or should they continue to try to form a more integrated regional market? I will consider each of these possibilities in turn.

Let's start with a few definitions and basic facts. For the purposes of this essay I delimit the Central Asian states as the former Soviet republics of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan. Their total population is 58 million, nearly half of it Uzbek.[3] Though Azerbaijan's culture and political-economic regime are similar to the others, it is usually treated as a Caucasian republic and has different problems and possibilities. The Xinjiang Uighur Autonomous Region of the People's Republic of China (PRC), Afghanistan, the Azeri parts of Iran, and several Turkic parts of the Russian Federation should be included in "Turkestan," but except for Afghanistan, none of these areas is a sovereign entity able to arrange its own trade affairs.[4]

All the states of Central Asia are landlocked, remote from the main world markets. Turkmenistan, Kazakhstan, and Uzbekistan have gas or oil connections to Russia, but these are limited in capacity.[5] Road or rail connections to Europe, Asia, or the Persian Gulf are lengthy and costly.

All five states are ruled by authoritarian presidents who promulgate an ideology of secular nationalism as opposed to political Islam. With negligible differences, none is "democratic" or free.[6] Human rights, free media, and an independent judiciary are all lacking. Not one has held a fair election, in the estimation of Organization for Security and Cooperation in Europe (OSCE) or other outsider observers, with the possible exception of the post-Akayev election in Kyrgyzstan during 2005. All suffer from corruption and weak protection of private property. Hence, though members of the United Nations and the OSCE, they do not presently meet the Copenhagen criteria for membership in the European Union.[7]

Within basically authoritarian political structures, all these regimes have pursued some gradual economic reforms, including privatization of small enterprises and release of prices. Except in Kazakhstan, banking sectors are still weak and mostly state-controlled. Their external strategy I have called "export globalism," meaning dependence on staple exports to finance selected equipment and luxury consumer goods. Export globalism is thus distinct from alternative strategies such as multilateralism, regional integration, or neocolonialism.[8] Except for the capitals or main commercial cities, they are poor, even if high energy prices lately appear to put Kazakhstan and Turkmenistan into a slightly higher category ("lower middle income" is the World Bank term) for gross national income (see Table 1). Owing to Soviet-era development of their health and educational facilities, their United National Development Programme human development indices are rated "medium." The poorest sections of Uzbekistan (Karakalpakstan, near the devastated Aral Sea), rural parts of Kazakhstan, and the mountainous regions of Tajikistan and Kyrgyzstan have all lost significant population, as many males have left temporarily for Russia or elsewhere to earn money by manual labor. Most skilled Germans, Slavs, and Jews had departed permanently already in the 1990s.

The major differences among their economies materialize from their different endowments of energy.[9] Besides the two substantial oil and gas exporters, Uzbekistan is now basically self-sufficient in energy (and food). The poorest two and smallest in size, Kyrgyzstan and Tajikistan, need to import fuel, while trying to develop their abundant potential for hydropower. As a result of Kazakh and Turkmen reliance on petroleum and gas exports, they have lost industry and agriculture. Booming energy exports have aggravated their income disparities, too. The most balanced economy in the region, Uzbekistan has maintained its former sectoral structure. All have been adversely affected by the loss of the Soviet market for their manufactures. Aside from petroleum investments around the Caspian littoral and some nonferrous mineral operations, there has been relatively little foreign direct investment anywhere in the region. This may change somewhat with Russian and Chinese gas exploration and pipeline projects now getting started.[10] Foreign aid and assistance from such international financial agencies as the World Bank, the European Bank for Reconstruction and Development, and the Asian Development Bank are fairly modest compared to other developing regions of the world.[11] While all these secular Muslim countries have been friendly to the West, as well as to Russia and China, only Uzbekistan and Kyrgyzstan have had American bases, set up to aid the war on the Taliban in Afghanistan.[12] Kyrgyzstan and Tajikistan have Russian troops and airmen stationed on their territories. All still rely on Russian spare parts for their military hardware.

Table 1. Basic Economic Data for Central Asian States

Country	GNI/capita (2004) @ ppp	Growth index (2000 as % 1990)	Growth (2000–04)	% Agric + mfg (2004)	Gini Coeff.	Top 10% (2003)
Kazakhstan	6930	66	10.3	24	.339	24.4
Kyrgyzstan	1860	66	4.5	47	.303	27.9
Tajikistan	1160	33	10.0	46	.326	25.6
Turkmenistan	1120[b]	61	16.9[b]	66[a]	.408	31.7[c]
Uzbekistan	1860	98	4.8	41	.268	22.0[d]

Source: 2006 World Development Indicators (Washington, D.C.: World Bank, 2006).
Notes:

[a] manufacturing (mfg) includes industry.

[b] 2003 figure; no data presented for 2004. The IMF estimated growth in 2004 as 7.5%; the government figure of 21.4% for 2004 is widely regarded as unreliable.

[c] 1998 figure.

[d] 2000 figure.

The EBRD, which adjusts official figures, gives 2004 GDP figures (with 1989=100) as Kazakhstan 103, Kyrgyzstan 80, Tajikistan 69, Turkmenistan 112, and Uzbekistan 113 (*Transition Report Update*, May 2005, 13).With the exception of Tajikistan, these figures are roughly consistent with the above levels projected to 2004.

GNI per capita estimates are variable and incomparable across editions of the data source. Turkmenistan's official data are particularly unreliable.

The Present International Situation

All five Central Asian states have fairly open economies and have tried, albeit inconsistently, to retain the unimpeded trade which characterized their former membership in the Soviet Union.[13] In principle, indeed, much of the trade among former Soviet republics is still tariff-free. In practice, the main Central Asian countries have repeatedly impeded free access to their markets, despite relatively modest *de jure* tariff rates.[14] Besides recurrent blockades and chronic bribes extracted at the borders—perhaps as a substitute for official tariffs, but nevertheless unpredictable—several countries charge excise and other taxes on imported goods different from those on similar domestic articles. Like limits on foreign exchange, these imposts also function as protection from imports.

At the same time, however, they all have tried, and had by 1996 mostly succeeded, in diversifying their trade partners beyond the former Soviet Union.[15] As one consequence of their desire for independence, neither the Commonwealth of Independent States (composed of twelve of the fifteen Soviet titular union-republics) nor, as will be shown below, repeated attempts to institute regional preferential trading blocs has succeeded, owing to conflicting priorities and chronic interference by member states.[16] Kazakhstan and its small neighbor Kyrgyzstan have preferred closer association with the Russian Federation; Uzbekistan has tried to keep its distance from the former imperial master, while Turkmenistan professes neutrality. Isolated, very poor, and conflict-riven Tajikistan has tried to get the attention of several bigger partners with little result so far, except for drug smugglers originating in Afghanistan. But all the Central Asian economies have been growing at moderate to fast rates every year since about 2000, with the exception of a year or two in Kyrgyzstan.

Considering that present exports from Central Asia are staples and energy not subject to tariffs, the major advantages to be gained from trade treaties would be potential development of manufactures and enhanced privileges to bring to outside markets agricultural products such as fresh fruit, flowers, and nuts from the rich Fergana Valley, provided quality can be maintained to market destinations, as well as cotton and animal products.

Central Asian Cooperation: An Elusive Project-in-the-Making[17]

Given their close acquaintance with each other throughout history, the clans or ethnic groups (latterly nations) of Central Asia are well aware of the possibilities and also the risks of relying on each other for material assistance.[18] In 1998 Kazakhstan, Kyrgyzstan, and Uzbekistan pledged “eternal friendship” with one another and have repeated such fraternal declarations many times since. They have respected and demarcated most of the Soviet-era boundaries between them, however erratic.[19] They share a Turkic and Islamic culture, Russian as a lingua franca, and a common isolation far from today’s commercial routes, salt-water ports, and manufacturing centers.[20] Schooled in Soviet Marxism, their senior leaders see the merit of a rationally constructed division of labor and economies of scale. Regional markets would be the natural outlet for their manufacturing industries, as they are developed.[21] Solidarity of like economies would give them a strong bargaining position in international dealings. Such had been the objectives of COMECON, the Soviet-led Council of Mutual Economic Assistance. So regional cooperation is a plausible, even attractive, option for Central Asian leaders—at least in theory—and they regularly pledge their allegiance to it as an ideal.

About a year after the end of the USSR as a political union, the ruble zone collapsed. Each member of the Commonwealth of Independent States (CIS) was forced to adopt a national currency and seek out credit on commercial terms, instead of the essentially free ruble loans from the Russian state bank. After some delay, all five Central Asian states chose currencies that would be convertible at least for current account purposes, as required by their new membership in the International Monetary Fund.[22]

Sensing that the CIS treaty and subsequent economic agreements would not prove adequate to preserve the free trade practiced within the USSR once border posts were erected, Kazakhstan, Kyrgyzstan, and Uzbekistan in 1994 formed the "Central Asian Economic Union," joined by Tajikistan in 1998 after the disruption of its civil war. (Turkmenistan insisted that its "neutrality" precluded such pacts.) The Central Asian Economic Community (CAEC), as it was renamed, had an Interstate Council composed of the presidents and prime ministers of member countries. Ultimate decision-making authority would be consensus among them, but an Executive Committee was also established as a kind of staff for the organization. As part of the agreement a regional bank—the Central Asian Bank for Reconstruction and Development—was soon established, with its main office in Almaty and branches in Bishkek and Tashkent and with a modest initial endowment ($9 million) intended to promote intraregional projects. Several small cross-border deals were soon announced and funded—for example, $300,000 for a firm in the Kyrgyz Republic that would manufacture electric motors. But little was done to promote truly new, integrative projects. In 1995 Serik Primbetov, the otherwise impressive first chairman of the Executive Committee, observed, "One should not measure everything in terms of economic parameters alone; our union represents more a union of spiritual values."[23]

The CAEC renamed itself yet again in 2002 as the Central Asian Cooperative Organization (CACO). Each rechristening was intended to broaden the organization's mission and increase its effectiveness. The mission would include preventing illegal migration and drug trade, building transportation and communication infrastructure, establishing free-trade zones, and sharing water resources. Effectiveness was more difficult than rhetorical reach, though. Despite frequent meetings of the top leaders, free trade was never accomplished, since every country had its own emergent realities and preferences. Export globalism in general, and their strong desire to escape what was considered Russian exploitation, meant that all the Central Asian countries now wanted to trade more with the outside world. By 2001 the four countries of the CAEC were conducting only 7 percent of their total trade with each other and only 18 percent with the Commonwealth of Independent States. Investments by any of the four in partner Central Asian countries were unimportant. Weakness of the manufacturing sectors in these countries meant that potential comparative advantage had not yet manifested itself.

Who was responsible for the meager economic interaction among the CAEC members? Except for the Uzbeks themselves, most blamed President Islam Karimov's regime for heavy-handed interference and aspirations to hegemony. Even if these charges had been without foundation, Uzbekistan could hardly avoid suspicions, as that country was the hub of Soviet-era activity, remained the region's largest economy before the oil boom of the 2000s, and was (and is) the only state which borders all the others. What is more, Uzbekistan's decision to suspend convertibility of its currency as a result of balance of payments difficulties in late 1996 meant that investments and commercial trade with its neighbors became much more arduous, because Uzbekistani firms could no longer reliably pay in dollars. Inconvertibility involved many bureaucratic obstacles to business development, as well.[24] As compared with Uzbekistan, Kazakhstan—with its large Slavic minority in the north and close supply links to Russian enterprises—was much more interested in reviving cooperation with the former union-republics to its north and west. As of 2001 less than 3 percent of Kazakhstan's total trade turnover (exports plus imports) was with Central Asian partners. Nevertheless, Kazakhstan frequently blocked imports coming from or through Russia, particularly after the federation devalued its ruble in 1998. On the other hand, Uzbekistan was more standoffish from the Eurasian connection than either Kazakhstan or Kyrgyzstan.[25] Of Uzbekistan's total trade in 2001, 11 percent was with its regional partners. As of 2003 Uzbekistan had 1894 enterprises with foreign capital. Nearly 300 had Russian investment; only 22 had Kazakhstani participation, 12 with Kyrgyz capital.[26] This proportion has risen only slightly since then.

What were the causes of the near-complete failure so far of intraregional integration in Central Asia? According to a well-informed Russian analyst, they were "the increased divergence in economic interests of the region's countries under the new conditions, in the nature and rates of socioeconomic reforms they are conducting, and in the level of liberalization of the economy and involvement in the world economy, as well as by the differences in political and ideological preferences that filled the vacuum formed after the collapse of the Soviet Union."[27] Though she does not mention this, the traditional nature of all the Central Asian societies has permitted personalistic or "sultanistic" assertion of each president's ambitions and prestige. Nationalism reinforces the authority at the top, as well, if naked repression and skimming profits from staple exports are not sufficient.

For reasons given above, a regional division of labor would undoubtedly benefit all the countries of Central Asia, but it would require that they agree to sacrifice some of their development projects and industries in exchange for opening the whole market for some others. For example, if Uzbekistan were to agree to buy all its tractors from Kazakhstan, Kazakhstan would have to reciprocate by purchasing some other agricultural equipment from the Uzbeks. Of course, such production might well involve international corporations from outside the region. Necessary reciprocity held up the Mercosur regional integration scheme for years in Latin America—also a culturally related area but then with some nondemocratic regimes. Unfortunately, until recently international financial agencies have not made regional integration a firm condition for their assistance, and the outside powers are apparently content to deal with each Central Asian country bilaterally.[28] Unlike the European Union, Central Asian states have had neither the political will internally nor the external benefactor (the USA) to promote a closer integration. As for a common threat, which stimulated European integration, each Central Asian state aims to defend itself against possible outside aggressors in its own way—usually by playing them off against each other.

As early as 1994 Kazakhstan's longtime president, Nursultan Nazarbaev, began to offer alternative proposals for a *Eurasian* economic agreement originally to consist of his own country, Russia, Belarus, Kyrgyzstan, and Tajikistan. This idea reflected his admitted frustration that hundreds of signed agreements with CIS partners had yielded "no substantive results."[29] By 1999 Kazakhstan was joined by three other Central Asian countries, together with Russia and Belarus, in a customs union soon dubbed the Eurasian Economic Community (EurAsEC or EEC).[30] The absence of Uzbekistan was obvious. What would be the relationship of this grouping with the aforementioned CACO? No one could explain. Overlapping preferential tariff agreements are a legal mare's-nest, an economic absurdity, unless the tariffs are nominal only. Russia, the strongest of the EEC members, insisted on a higher external tariff and different tax regulations than did Belarus on its western border. Russia also tried to control migrant workers, though ineffectively, by requiring documentation.[31] Several Central Asian countries imposed export taxes and prohibitions to prevent necessary goods from flowing to Russia. Moreover, in 1998 tiny Kyrgyzstan had joined the WTO, with tariff bindings much lower than Russia or Kazakhstan would accept. But President Askar Akayev dismissed both the CACO and the EEC agreements as "on paper only."[32]

Never discouraged from his efforts in this direction, Kazakhstan's leaders drafted an agreement in 2003 with Russia, Belarus, and Ukraine for a "unified economic zone," or Single Economic Space (SES), with identical tariffs. Russia's proposal to make its ruble the common currency and a suggestion for supranational institutions were not readily accepted, however. The next year Ukraine's Orange Revolution made the SES a dead letter because of President Victor Yushchenko's Western orientation, though Nazarbaev and the Russians continued to try. At another point in 2005 Nazarbaev somewhat surprisingly raised the possibility of a three-member CACO *without* Russia, an idea interpreted as an opening to China. In an April 2007 television interview, he once again called for a "Central Asian union." Dosym Satpayev, director of a think tank in Almaty, interprets this as evidence that "Central Asian states are not ready for integration and not ready for cooperation for many reasons." He cited Turkmenistan's "isolationist position" and Uzbekistan's practice of "shunning close relations with its neighbors."[33]

Despite all the promises for consultation and cooperation, the Central Asian states have continued to levy their own tariffs and other protections. Visas have usually been required. Borders are sometimes closed, often impeded with unexpected fees and exactions, and always associated with delay, uncertainty, and red tape for commercial as well as informal "shuttle" traders. Trade in energy, valuable raw materials (gold, uranium, etc.), and staple crops (cotton, wheat), as well as water, is conducted on a state-to-state basis.[34] Failure to pay can and has led to cutting off service. Winters in Central Asia without natural gas are harsh, and payments are soon resumed. In general, outstanding issues have been settled on a bilateral basis, almost entirely without the use of force. The issue of migrant workers is dealt with separately. Kyrgyzstan and Tajikistan (each with an estimated five hundred thousand working in Kazakhstan and Russia) and Uzbekistan have strong interests in permitting these nationals to continue their temporary work and their substantial remittances.[35]

The Eurasian model is not quite dead. Russian President Vladimir Putin has revived it under the slogan "common economic space." The Eurasian Economic Community intends to establish a unified external tariff, a common market for labor and capital, and a single set of regulations and preferences. A unified system of currency regulations and provisions against smuggling are also contemplated. The inactive CACO merged into the Eurasian Economic Community in 2005. With Uzbekistan's turn away from the West toward Russia, following the Andijon massacre of 2005, that country joined the Eurasian community in January 2006.[36] So only Turkmenistan remains outside the regional bloc, and that country's new president, Gurbanguly Berdymukhammedov, may change his predecessor's isolationist stance. However, with the oil boom, Kazakhstan will be less interested in any customs union with Russia that will encumber its imports with that country's greater protection. Following a nasty dispute over energy prices, Belarus has backed away, too. Blaming Russia's unwillingness to create a "coordinated energy strategy," Kazakhstan's prime minister, Karim Masimov, proposed that the six community member states put off their planned customs union until Russia, Belarus, and Kazakhstan are accepted into the WTO.[37] How this would solve the differences over energy was not clear.

A European Connection?

The European interest in Central Asia arises from a necessity to import energy reliably at reasonable prices, apprehension about extreme Islamists, and a desire to staunch the flow of illegal drugs, immigrants, and arms from or through the region. More generally, Europeans hope to advance democracy and human rights, as well as the independence of all the states of the region, but to do so without antagonizing Russia or China, the West's most worrisome potential rivals on the Eurasian continent.[38] How have the Europeans tried to advance these interests? Though not yet including all the West European states—Norway and Switzerland are conspicuous hold-outs—the European Union of twenty-seven states now effectively represents "Europe" and attempts a coordinated foreign policy throughout the world.

The interest is reciprocated. Curiously, Central Asian countries are still treated by several international organizations and statistical agencies as part of "Europe," not Asia, because of their former Russian imperial overlord. Lacking a truly "Eurasian" framework, Europe is still an attractive reference point for the Central Asians, as for developing countries everywhere.

It seems obvious that any formal association between the European Union (EU) and the Turkic states of Central Asia will depend, first of all, on decisions with respect to Turkey's membership, and then to the disposition of Ukraine and Russia, which adjoin Central Asia. Turkey and Ukraine are officially ambitious to join. But Russia? It is not unthinkable. Victor Hugo's appeal for European unity more than one hundred fifty years ago was addressed to archconservative Russia, as well as monarchical Germany and republican France. Former Italian prime minister Silvio Berlusconi suggested that Russia might eventually join the EU! Grigory Yavlinsky, head of the Yabloko liberal bloc, has also talked of this, but not President Vladimir Putin. For this avatar of great power status, the prospect of dreary haggling with puny fellow members in Brussels, talk of "shared sovereignty" and free access to energy, and even the dismantling of borders can hardly be appealing. Putin has recently been less than cordial about any territorial deals with tiny Latvia or a possibly lucrative compromise with Japan over the Kuriles. Better to take on the EU as a whole, and be careful about its expansionist potential, promoted by Poland or other new, former satellite members.

Russia cannot be discounted, however, even if it is no longer considered a military threat. Germany gets about half its natural gas from Russia, Turkey more and more, and Russia's gas monopoly Gazprom is counting on Central Asia for new reserves of that essential fuel.[39] European demands for natural gas are expected to double by 2030, and Russia needs them as reliable hard-currency customers. Were the EU to turn into a looser organization and discard the big power ambitions promoted by the French, a more formal connection with its eastern neighbors could be logical and productive for both sides, particularly if Chinese and Asian competitors for energy continue to press their claims.

If Russia were taken in, that would presumably qualify Central Asia for the same kind of aid and trade patronage now extended to seventy-seven former colonies of Great Britain, France, and Portugal. Whenever the EU has expanded, a significant new member brings with it historical and cultural commitments and sympathies toward non-European communities. The accession of Spain and Portugal, for example, increased EU interest in Latin America; Finland and Sweden, to their northern neighbors.[40] Most to the point, Poland has energetically raised the future prospects of Moldova, Ukraine, and even a democratized Belarus for membership.[41] Accession of new members has also brought previously neglected sectors to the agenda for liberalization: Greece on shipping, Finland on telecommunication services. On the other hand, though accession sometimes opens the door to relatives, it can complicate their reception, too. Spain and Greece are cotton-growing regions and have opposed reduction of the EU's approximately $1 billion in Common Agricultural Policy support for this crop, a staple in Central Asia, as well as in francophone Africa.[42] This is just one example of how the more recently admitted members of the EU might oppose any further expansion eastward, owing to potential competition with their large agricultural sectors, likely diversion of structural funds, and the southern members' weaker technological edge in those eastern markets.[43]

More likely, Turkish accession would provide an entré for Central Asian and Caucasian states. As part of the negotiations during the next decade or so, Turkey will be pressured to make up with Armenia (which brings in fellow Christian Georgia), just as they have had to do with semi-occupied Cyprus. Turkey regards Central Asia as its cultural sphere of influence. Although the Treaty on European Union specifies that membership is open to "European" states, geography can be flexibly interpreted. Nonetheless, these culturally Asian states are not even remotely candidates for membership in the EU because of their present nondemocratic character.[44] "Association agreements" would likewise seem out of the question for Turkic Central Asia because they hold out some kind of long-term free trade area or even accession. A version of the Lomé or Mediterranean agreements, however, does not seem impossible with Kazakhstan and Kyrgyzstan at least, possibly a democratized Uzbekistan.

For the EU, wide-ranging preferential commodity *trade* agreements are a kind of soft alliance. By 2007, it had negotiated limited free trade agreements with Caucasian and North African states, plus Israel, Jordan, Syria, and the Palestinian Authority, so obviously democracy and "European" Christianity are no prerequisite for these preferences. Mexico and Chile also have such agreements, so distance need not be a bar, either. Indeed, the EU negotiated economic cooperation agreements with Russia and Ukraine in 1994, as well as Kazakhstan in 1995. These regional initiatives are targeted on noncandidate partners with a clear interest in reform—the so-called European Neighborhood Policy (ENP), which now encompasses sixteen states. The ENP offers graduated access to the single European market, together with financial and technical assistance.[45] Unfortunately, this policy, which excludes future membership, has "not exercised significant influence on the reform process in the CIS."[46] In consideration of recent popular opposition to immigrant labor within several EU countries, however, such trade agreements cannot extend to legally admitting workers from further east, where incomes are a small fraction of those in Europe and cultural norms quite different, too.

Late in 1999 the EU expanded its Technical Assistance to the Commonwealth of Independent States (TACIS) program to include the International Road Transport Transit Facilitation Project for the five Central Asian countries and some others. This initiative was to complement a UNDP program on trade and transport and the Special Programme for the Economies of Central Asia, also sponsored by UN regional organizations (Economic Commission for Europe and its Economic and Social Commission for Asia and the Pacific—ESCAP). The Special Programme catalyzed some Kazakhstan-Kyrgyzstan border arrangements, but lack of adequate funding and limited cooperation from Uzbekistan and Turkmenistan has limited the effectiveness of these United Nations initiatives.

The EU has also signed Partnership and Cooperation Agreements with Kazakhstan, the Kyrgyz Republic, and Uzbekistan, as well as Trade and Cooperation Agreements with Tajikistan and Turkmenistan. The partnership agreements were in force since 1999 but expired in 2006, to be replaced by a Development Cooperation and Economic Cooperation Instrument. The EU's more recent regional policy was contained in the Commission's "Strategy Paper 2002-6 and Indicative Program 2002-4 for Central Asia," published in October 2002, setting out technical assistance to the five countries in the amount of €150 million for 2002–2004, as well as 2005–2006. That's some € 3–4 per person, less than half the amount budgeted for the European members of the CIS, and far less than for the Mediterranean and Balkan neighbors. Total assistance for 1991–2004 was €1.13 billion, about half through the technical assistance program. The newly announced European Neighborhood and Partnership Instrument for 2007–2013 will allot €12 billion, 45 percent more than the previous period, for implementing ENP Action Plans with the sixteen partners plus Russia. This is besides loans from the European Investment Bank.[47] With Azerbaijan now included in the ENP with explicit concern for securing EU energy supplies, inclusion of Kazakhstan seems a logical extension.

EU objectives for Central Asia are security, stability, sustainable development, poverty reduction, and regional cooperation in energy, transport, and environmental issues. Border control, institutional building, and small and medium-sized enterprises are other objectives.

Under these EU programs Tajikistan has been the largest single recipient per capita, having been granted some €400 million during 1991–2006, mostly for humanitarian and food relief, plus support for human rights and education in that very poor republic. Efforts to curb the drug trade from Afghanistan through Tajikistan have been unavailing. Kyrgyzstan also has received small grants and encouragement to continue its democratic evolution. Together, from 1997 through 2004 the Union supplied a total of € 74 in budgetary assistance to these two very poor countries.[48] About € 50 million has also been spent in Kazakhstan, where the EU commissioner for External Relations and European Neighborhood Policy expressed optimism about future relations in a speech at the Eurasian National University in Almaty on October 17, 2006. Obviously, Kazakhstan's oil and gas reserves do attract the attention of European energy importers. The other major energy source, Turkmenistan, has up to now received very small expenditures, however, mostly devoted to technical education and rural development, perhaps owing to the totalitarian rule of the late

"Turkmenbashi" (chief of all the Turkmen), as Niyazov liked to be called. Since 1992, Uzbekistan has received €162 million, and in 2005 €11 million was devoted to small technical projects there. Nowadays Uzbekistan's capital has only a TACIS representation on account of Europe's disapproving view of the Andijon events and the refusal of the Karimov regime to allow an outside investigation. EU authorities, particularly the Germans, who assumed the presidency of the council during 2007, have expressed the hope gradually to restore contacts with this key Central Asian country and ease sanctions. In the past, influential German analysts have warned that their country, and the EU more generally, has lagged behind the USA, Russia, and China in "asserting a political and economic interest in the area."[49]

Overall, the European Community's expenditure of about € 1 billion over the last decade in Central Asia is a modest sum, just an indication of continued interest. Military aid and arms sales have been a small part of this. For example, the Europeans helped Kyrgyzstan with equipment to track and defeat terrorists on its mountain borders. To date, the results of the Europeans' efforts must be rated weak.

While preferential access and development aid from the EU are thus practical realities which might be expanded, particularly if democratic reforms progress in Central Asia, these do not conflict with the remaining options for the Central Asian states. Of the more than 170 regional agreements around the world, including the dormant ones within the CIS, the one which seems to this author the most intriguing for Central Asia would be ASEAN. Since this option has so far been neglected, it merits some considerable attention.

ASEAN—A Dynamic Group of Semideveloped Countries

The Association of South East Asian Nations, created in 1967 as a bulwark against communism, has expanded now to ten nations—including communist Vietnam in 1995—and is establishing special relations with China, Japan, and Korea.[50] ASEAN's free trade area, initiated in 1992, marked a modest acceleration of its economic accomplishments.[51] This arrangement includes a common effective preferential tariff, essentially a timetable for significant reciprocal reductions in industrial and agricultural rates, and a dispute settlement mechanism—one of the first *supranational* elements in this formerly *intergovernmental* alliance.[52] It is scheduled to be completed in 2010, when the newest members comply.

ASEAN is but the best known of numerous free trade agreements (FTAs) involving Asian countries. As of 2006 Asian countries had signed 183 of them, of which 148 were bilateral and 44 were within Asian subregions, similar to CACO. Central Asia is said to have 12 FTAs, though about half were not registered with the WTO.[53] Signing a free trade agreement is obviously not a singular event on the Asian continent, where the many treaty links are sometimes presented visually as a "noodle bowl."

With the accession of Vietnam and the opening to China, it's obvious that ASEAN is not limited to democratic, market-based countries, as is the EU. Nor do the boundaries of "Southeast Asia" necessarily exclude Tajikistan, Kyrgyzstan, or Uzbekistan. True, historical precedent does reinforce the idea of ASEAN+4 regional integration, which excludes former Soviet states as more "European," but this could change.[54] Furthermore, ASEAN's consensual style of decision-making, reflecting enduring concern for independence and sovereignty, would match the Central Asians' desires to preserve their new-found independence.[55] The medium size of most of ASEAN's members (Indonesia and oil-rich Brunei excepted) would make a better fit with the Central Asian countries than the European Union. Most of the ASEAN ten have grown rapidly during the last dozen years, and their formerly modest intraregional trade in manufactures has increased somewhat owing to diverse specializations.[56]

Central Asia is quite small in Asia's intraregional trade, however. According to figures from the International Monetary Fund (IMF), Southeast Asia's total trade (exports plus imports) with Central Asia in 2005 amounted to only $1.4 billion. That represented less than 1 percent of the ASEAN region's total within Asia. East Asia traded $12.6 billion with Central Asia, a similarly tiny proportion of the total trade of China, Taiwan, Korea, and Japan with all Asian partners. This could change.

Central Asian countries might well benefit materially from association with ASEAN. If Central Asia could break into the highly protected agricultural market in nearby Southeast Asia (over tariffs from 23 to 57 percent, except for Singapore, as of the late 1990s), Central Asia could expand its export of fruits, vegetables, and feed grains. These goods are already available cheaply in the Fergana Valley. With regard to future, dynamic areas of comparative advantage, regional blocs of developing countries increase attractiveness to foreign direct investment (FDI) because of economies of scale, scope, and agglomeration.[57]

The Asian Development Bank (ADB), the chief development bank for the whole region, has calculated that a pan-Asian free trade area would help every part of the region by some $46 billion annually, as contrasted with "fragmented" FTAs, which help only ASEAN.[58] This highly respected source of advice and financing is promoting the widest possible pan-Asian grouping, assuming free trade multilateralism is not presently feasible.

Specifically, it seems likely that growing imports from the more developed ASEAN countries will provide an indirect technological spillover, just as the latter gained from imports from the USA, Europe, and Japan.[59] With the level of technically trained manpower still available in Central Asia—particularly in Uzbekistan—foreign direct investment and imports of advanced products would be advantageous to growth prospects. Were the Central Asian states to be allowed to enter the ASEAN investment area, they might also benefit from multinationals' vertically integrated investments, owing to the lower wages paid. Several ASEAN firms have recently acquired subsidiary companies elsewhere in the region—for instance, Singapore Telecommunications LTD bought firms in Indonesia and Thailand.[60] An example of agglomeration economies which can spread to neighboring countries is the rapidly growing garment industry in Cambodia and the Lao Peoples Democratic Republic during the last fifteen years, which is owing to investments from other Asian economies constrained by rising wages as well as quotas on their direct exports placed by the Multi-fiber Arrangement. Most-favored nation treatment and the Generalized System of Preferences (GSP) have helped ASEAN's exports to the EU and North America in most cases.[61] All this would increase trade creation, if repeated for Central Asia. Trade creation would also occur if Uzbekistan were to reduce its protection of its household electronics, automotive, and refined petroleum industries, in which its neighbors would be competitive.

With the typically low official tariffs in Central Asia, the possibility of trade diversion would be minimal with accession to ASEAN, or indeed any other liberalizing group. Therefore, the long-run benefits from export expansion and imports of cheaper materials are unlikely to be offset by the distortion of trade in favor of inefficient member states.

Like other regional blocs, ASEAN holds out to smaller, weaker potential members increased bargaining power.[62] Its free trade area can be a "training ground" for broader liberalization, rather than an ultimate goal. New members, such as Tajikistan and Kyrgyzstan, lack the experienced human and physical resources to carry on multilateral or several bilateral negotiations by themselves. A grouping like ASEAN can be helpful here, as they pool efforts in Geneva. It is important to note that ASEAN membership by no means excludes accession to the World Trade Organization, as several of the new members have started negotiations to that end. ASEAN membership would doubtless also improve intergovernmental security cooperation regarding the threat of radical Islamic movements, such as Jemaah Islamiyah.[63]

Since the Central Asian countries have entered into regional trade deals with each other—and then violated their terms and spirit—a crucial question is whether ASEAN would provide better discipline than the several Central Asia-only bodies.[64] Neighboring countries like Singapore or Thailand have the ability and interest in monitoring policy in their ASEAN partners, and the reciprocal nature of tariff concessions gives them a means to enforce their will. But they are somewhat removed from the internecine quarrels that have troubled Central Asian relations—for example, over border questions or nonpayment of utility bills. Optimistically, ASEAN models might even encourage better macroeconomic, policy and infrastructural decisions in Central Asia, but according to two close observers, "it is not clear that ASEAN membership provides sufficient discipline and credibility to materially improve general economic policies."[65]

A diverse association of free and ex-socialist states of widely different levels of development, ASEAN has struggled to achieve its objectives. According to a study by the consulting firm McKinsey, nontariff barriers in various forms, opaque rules of origin, and various ad hoc disputes have characterized its practice. Outside and participant observers alike have called for accelerated tariff reduction and other measures to open these markets.[66]

An instructive example for Central Asia would be Vietnam. Following the decision in 1986 to reform its communist economy (*doi moi),* Vietnam has experienced fast growth—7.5 percent from 1990 through 2003, according to the World Bank. Nevertheless, as of 1997 it still had an average most-favored-nation (MFN) tariff rate of 19 percent—much higher for processed food—with its exports heavily directed to non-ASEAN members (except for Singapore). More generally, in the judgment of two specialists,

> Vietnam remains one of the most distorted economies in the region. The state sector still enjoys various privileges including access to land, capital, and quota allocation. An import substitution policy has been used to promote a set of capital-intensive and "strategic" industries, which are often run by join ventures between SOEs and foreign firms, and high protection is used to attract foreign investments. Preferential treatment of these industries imposes an implicit tax on small and medium-sized firms in the private sector, which are usually labor intensive.[67]

The similarities to their own situation would hardly need to be pointed out to Uzbek economists. From a common starting point Vietnam might show the Central

Asians the way to improve resource allocation by favoring industries with comparative advantage in the global marketplace. In its recently concluded negotiations with the WTO, Vietnam offered to reduce its tariffs, quotas, and other nontariff barriers to trade; accession by the end of 2005 was expected.[68] Its Communist Party has also committed itself to broad internal reforms, but as in Central Asia, implementation is the key. A simple simulation by Fukase and Martin indicated that a nondiscriminatory liberalization by Vietnam would increase its agricultural sales and also expand its manufacturing sector, owing to the import of cheaper materials. However, a newer study by D. Ronald-Hoist and others found that capital insufficiency and low skill employment would not be significantly eased until its capital markets are reformed to allow more FDI flows.[69]

Several studies have shown that trade liberalization in ASEAN would be beneficial, particularly to Singapore and perhaps Malaysia, but liberalization on an MFN basis would result in "substantially larger gains in trade and economic welfare."[70] Both Indonesia and the Philippines have accepted this proposition and promise to extend their ASEAN concessions to others on a nondiscriminatory basis. The examples of the Lao PDR, Vietnam, and Cambodia demonstrate that trade expansion for Central Asian exports (for example, chemical fertilizers) might be a significant gain, while trade diversion is unlikely from reciprocal reductions of tariffs, given their low nominal rates at present in Central Asia. Increased competition from ASEAN neighbors might also, at least in time, increase the efficiency of the Central Asians' manufacturing and processing industries.

While ASEAN would, in my opinion, provide some benefits to Central Asia without imposing itself too much on the treasured political independence of those states, I have to report finding no interest at all in ASEAN literature for expanding into the interior of Asia. The website of its secretariat has absolutely no links to Central Asia, though it does refer to ASEAN's relations with Russia. ASEAN has a "Regional Forum" for East Asia, none for Central Asia. Whether concerns of Japan and Vietnam to contain China will suggest that course is mere speculation at this point.[71]

Southwestern Competition?[72]

Considering their common Turkic and Islamic heritage, it is perhaps understandable that Central Asian countries would willingly join hands with Turkey, Iran, and Pakistan—non-Arab states which were all moderate and secular at the time of the 1977 Treaty of Izmir. In 1992 the five Central Asian states became members of their Economic Cooperation Organization (ECO), along with Afghanistan and Azerbaijan. Though ECO has broad objectives, including establishing a bank and insurance company, its shipping company was the first to operate. But all these common projects soon ran into financial difficulties owing to the failure of member states to make agreed contributions. Meetings have continued, but action has been scanty. Uzbekistan, in particular, will not agree to the ECO transit principle of unhindered passage of goods across its territory, a key route to the Persian Gulf ports, especially Bandar Abbas.

Iran has offered bilateral aid to Tajikistan, the country closest to it culturally and religiously. The Iranians are starting construction on an important road tunnel in that mountainous country. During Niyazov's last months Turkmenistan signed an agreement with Iran on April 12, 2006, to sell them 8 billion cubic meters (bcm) in 2006 at a price of $65 per thousand cubic meters, and 14 bcm in 2007.[73] In view of Niyazov's extremely optimistic estimates of available gas for export, this seems unlikely. Turkmenistan was also exploring the feasibility of a gas pipeline to supply growing needs in Pakistan and India with Kazakh and Uzbek gas.[74] This line would presumably go over Afghanistan. Pakistan and Afghanistan have also expressed interest in these energy pipelines, but security problems appear to be too much of a challenge to overcome for the present.

Little thanks to ECO, however, trade with the booming Indian economy has grown in Central Asia. India, a multireligious democracy, has lately shown considerable interest in energy and other investments in Central Asia, partly as a way of countering Chinese interests and partly for material advantage. India's state-run gas company GAIL agreed to build facilities in Uzbekistan to produce some one hundred thousand tons of liquefied petroleum gas at a cost of $50–60 million each.[75]

The World Trade Organization: Benefits of Multilateralism

The WTO functions to regularize trade policies, especially most-favored-nation (nondiscriminatory) treatment, and to resolve trade disputes. Standardization of commercial rules for international trade reduces transaction costs and increases welfare for all participants. Aside from everything else, WTO membership would benefit the Central Asian countries, assuming they could and would comply with the regulations agreed to. Like EU candidacy, WTO membership appears to be associated with (cause?) domestic reforms, which have been pursued slowly in Central Asia.

The WTO ideal is free trade multilateralism, which implies that each country's businesses should buy from the cheapest world supplier and sell to the most advantageous customer. Such an arrangement would create new foreign trade according to comparative advantage, at least in the long run, assuming that the country manages its macroeconomic and foreign exchange policies properly. Any import surplus would be financed by capital inflows necessary to economic development. A regional preferential trade regime, such as proposed by the Central Asian states but not yet realized, might adversely divert trade away from these most advantageous links. However, a regional agreement can be seen as a step toward broader multilateralism and might, as discussed above, have bargaining or other temporary advantages for the countries involved.

WTO membership requires a country to have a market economy with nondiscriminatory (most-favored-nation) and transparent policies with regard to trade. Only one of the Central Asian states now belongs to the WTO: Kyrgyzstan, which acceded in 1998. Kazakhstan applied for membership in 1996 and has participated in several working party meetings recently, as has neighboring Russia. Both Kazakhstan and Russia are now treated as "market economies," so that on their expected accession they will be somewhat protected from antidumping actions by the USA and others. Kazakhstan has deregulated its foreign trade—another requirement. Were Russia to benefit from WTO membership, demand for Kazakhstan's exports would certainly improve, provided that country can compete on quality with others. Foreign direct investment might be expected in Kazakhstan's metal-fabricating branches, too.

Tajikistan is moving slowly in its negotiations toward WTO membership. Uzbekistan has also applied to the WTO, but its application appears to be stalled, with no formal offers yet extended. Uzbekistan still engages in substantial state-trading and sets prices for its cotton, metals, and energy exports. Subsidies and off-budget credit have been reduced, but some transactions are not transparent. These are major economic obstacles to successful negotiations. Politics also counts. After the Andijon massacre in 2005, Uzbekistan may wait a long time, as China did after the similar Tiananmen Square incident of 1989.

Considering that 150 of the world's states now belong to the WTO, Central Asia may lose because of several states' exclusion from this body. WTO markets for Central Asia's textiles, leather goods, and chemical products would be attractive. As for trade with the wider world, Uzbekistan and Tajikistan have an interest in pressing the USA and EU to reduce their large and inefficient cotton subsidies.[76] WTO membership would facilitate joining Brazil and West African growers in that effort.

Regional preferences conflict with MFN, and any regional trade agreement (RTA) such as those launched in Central Asia would have to be approved by the WTO (under article 24 of the General Agreement on Trade and Tariffs, known as GATT, which preceded the WTO). But the WTO has looked indulgently on such arrangements in the developing world.[77] To quote Mike Moore, former WTO director-general:

> Regional trade agreements, working in parallel with general liberalization, can help countries—particularly developing countries—build on their comparative advantages, sharpen the efficiency of their industries and act as a springboard to integration into the world economy. In addition, they help focus and strengthen the political commitment to open economies and trade regimes, which is essential to maintain. They have also served as an important context for trade policy innovation (e.g., the EU on competition policy and APEC's [Asia-Pacific Economic Cooperation] work on information technology and trade facilitation). And regionalism can sometimes accelerate the pace of other regional and multilateral initiatives. . . . The contribution RTAs have made in their own right in promoting dialogue, cooperation, and peace should not be underestimated.[78]

That said, the WTO has warned against trade diversion and import-substitution schemes for small developing countries. Moreover, multiple memberships strain a country's negotiating capacity and can complicate business rules of origin, as well as health, and safety requirements. But the fact that many smaller nations want to join nearby RTAs anyway reflects an abiding weakness of the multilateral trading system.[79] While tariffs have come down, nontariff barriers (voluntary export restraints, orderly market agreements, dumping investigations, bureaucratic influence, etc.) have come to replace them on a massive scale despite WTO resistance.[80]

A Chinese Co-Prosperity Sphere?

The People's Republic of China joined the WTO in 2001 and has reportedly lived up to its commitments, except for the protection of intellectual property. In view of the PRC's strong growth and need of energy (and increasingly, skilled labor), WTO privileges would help open the Chinese market to Central Asian manufactures and perhaps food products. Trade with the neighboring Xinjiang-Uighur Autonomous Republic of the PRC has always been small for both partners, but new transportation links and political rapprochement should improve both official and unrecorded trade. Reportedly twenty thousand Chinese traders are now active in Kyrgyzstan, and trade volumes are up eight times since 2000, despite that country's chaotic political situation and moderate growth of incomes. China's total Central Asian trade was an impressive $9.8 billion in 2006.

With spectacular growth over the last three decades (11.5 percent in 2007) mounting reserves ($1.3 trillion as of mid-2007), China has the means and, evidently, also the desire to extend its influence throughout Asia. Concern about Uighur separatism has made it eager to propitiate the governments in Central Asia willing to control Uighur liberationists resident in those neighboring countries, where the Turkic Uighurs and their ethnic cousins live. China has also provided military supplies to its neighbors in the region. Trade between China and Southeast Asia is growing at an astounding 20 percent a year. China has signed bilateral cooperation agreements with the Philippines, Singapore, and Indonesia. Beijing and ASEAN have already agreed to a free-trade pact to take effect in 2010. Junta-governed Myanmar has received more than $1 billion in military hardware, and Tajikistan, Kyrgyzstan, and the Philippines (a former American colony, it should be remembered) have accepted military aid. Similarly, human rights abuses have not prevented Cambodia from receiving $200 million in Chinese loans.

The PRC has been a net oil importer since 1993, and its 8–10 percent growth rates since then make a secure oil supply a priority objective.[81] China fears that in an armed conflict, its marine shipping lanes from the Middle East through the Strait of Hormuz would be blocked.[82] Piracy and terrorism are also threats in the Strait of Malacca, through which half of all oil bound for China passes. Therefore China has bought rights to several Kazakhstani fields and made preliminary agreements for oil (and gas) development in Turkmenistan and Uzbekistan. In addition, China has made loans to Turkmenistan to rehabilitate wells there. Before Niyazov's death, the Chinese reportedly approved a lengthy pipeline for natural gas from Turkmenistan to China, via Kazakhstan, which already sends oil to China by rail and through a new pipeline they constructed.

Soon after the Andijon crackdown in Uzbekistan, China offered its understanding to visiting President Islam Karimov, along with $600 million in aid (previously negotiated) there. In 2006 the Chinese National Petroleum Company has offered to spend more than $200 million to prospect for oil and gas in Uzbekistan, though that country has neither a border nor a pipeline to western China. China is building a key road from Kashgar in Xinjiang to Osh, Kyrgyzstan, close to the Fergana Valley border with Uzbekistan.

In 1996 China inaugurated the Shanghai Cooperation Organization (SCO), as it is presently called, in which Russia and most Central Asian states are now members. Headquarters are in Beijing. Originally an anti-American talking club, the Chinese are pushing for some economic and military content, beyond joint exercises. Trade facilitation was first discussed at the Dushanbe summit in 2000, but security has remained the principal focus of this grouping. Proposals to join with China (or Russia) in trade matters have been not yet been carried through. As already mentioned, the Chinese are eager for assistance in stifling Uighur separatism with the assistance of Central Asian states. The Central Asian governments have usually complied. Whether the Central Asians will agree to Chinese bases or advisers is more doubtful, absent a greater outside threat. Aid and equipment are always welcome, of course. Turkic Central Asians, aware of Chinese incursions in late antiquity, as well as overwhelming Chinese numbers, are understandably cautious about closer ties with this alien force. Chinese diplomacy has succeeded in settling and demarcating the mountainous borders with Kazakhstan, the Kyrgyz Republic, and Tajikistan, but the SCO played no part in these bilateral agreements.

Return of the Russians?

As already described, the Eurasian Economic Community (EEC), which includes Kazakhstan, Tajikistan, Kyrgyzstan, and (since 2006) Uzbekistan, along with the Russian Federation, is still alive and has incorporated the Central Asian Cooperation Organization.[83] How this merger will affect things is still unclear. However, Russian officials insist that any preferences extended will not prevent them from joining WTO. Indeed, a joint position among the six with respect to WTO matters is one goal, if Belarusian objections can be overcome and Uzbekistan's presence not spoil the deal. The Karimov government's refusal to arbitrate differences with two long-established mining concerns in Uzbekistan certainly cannot help. Faced with a large tax bill, the Zerafshan-Newmont joint venture sold out to the Uzbekistan government for $80 million in July 2007, after no other bid was tendered.

Russian involvement in Central Asia has lately increased with its energy-based resources. Investments in explorations and in infrastructure have been active, but almost all in a bilateral framework with Gazprom, the Russian natural gas monopoly, doing the running. In return, Gazprom has promised higher prices to its Central Asian suppliers. Already Turkmenistan's new president has promised to send Russia more gas for the next two decades.

Coordinated Multilateralism

Whatever preferential grouping is considered, trade diversion is usually a negative consequence to be avoided. That would occur if Central Asian countries were induced to import from ASEAN, the EU, or China instead of lower-cost suppliers—India, Australia, Japan, or even North America for capital goods. Since Central Asian countries have low *de jure* tariffs, the most likely diversion would be through administrative preferences. An exception to the generalization about the effect of generally low tariffs is automobiles. Like Southeast Asia and India, which have created a protected market for assembling European brands, Uzbekistan produces Korean UzDaewoo sedans and minivans behind similar protection.

Free trade liberals such as the Australian economist Richard Pomfret believe that the failure of regional preferences in Central Asia may hide a long-term blessing, if these countries can be persuaded to accept multilateral trade liberalization under WTO auspices. In that case, integration and firm-level cooperation would naturally grow up stimulated by market forces, economies of scale, and mergers of regional firms. However, as already noted, both European and Asian precedents teach that regional preferences can usefully precede full application of free trade, because they hold out assurances of compensation for losses of domestic capacity from global competition.

Let us always remember that Central Asia is one of the most remote regions in the world, hardly the "hinge of Asia," as the great historian Owen Lattimore once wrote. All five countries are landlocked, Uzbekistan double-landlocked, and rail and road transportation to ports will always be expensive, if not always in the future interrupted by illicit stops by bandits and voracious border guards.[84] It is scarcely likely that revival of the Great Silk Road will do much more for Central Asia than to bring a few wealthy tourists and hardy adventurers to the region. Sea transport for merchandise from the Far East is so much cheaper, if a little slower. Air cargo transport has hardly begun from Central Asian countries, though it would have the potential to help export fruits, vegetables, and flowers from the bountiful Fergana Valley. Gold, uranium, and opium will of course also find a way.

All these difficulties mean that the Central Asian region (including Xinjiang and parts of Siberia) constitutes a natural trading area for manufactured products of low value/weight. That would include many everyday goods—detergents, simple textiles, fertilizers—as well as agricultural machinery. Some might be native brands, but there could and should be an opening for well-known foreign ones, processed within the region. The Central Asian states need only to open their borders to create trade in such items. They need fear little outside competition, except perhaps from China. If the Central Asian governments could agree on a division of labor in manufacturing lines—for example, Uzbekistan produces Case cotton pickers; Kyrgyzstan, combines from Navistar; Kazakhstan, John Deere tractors, etc.—the area would benefit from economies of scale without keen competition from the outside, because of transportation costs and the Central Asian low wage/productivity economies. All the governments need to do is commit to open markets and fair play for foreign investors. Agreements with the EU, ASEAN, or WTO might promote such multilateralism and economic reform and lead to an expansion of foreign investment in the manufacturing, extractive, agricultural, and touristic potential of this developing region of the world.

Policy Conclusions

Both theoretical reasoning and practical examples argue that the countries of Central Asia should liberalize their foreign trade on a nondiscriminatory basis without abandoning intraregional cooperation, which may involve sharing the market for such foreign investments as agricultural equipment, deepening intraregional transportation means, and possibly joint ventures. Joining ASEAN, also on an MFN basis, would further facilitate both trade and investment in the area while providing mentoring and nonthreatening discipline. For the intermediate future, the most promising trade partners within the region are oil-rich Kazakhstan and prosperous but energy-short Xinjiang-Uighur Autonomous Region of the PRC, with the expanding markets of Southeast Asia, Korea, India, Turkey, and Russia also worth pursuing more than slow-growing Europe. Owing to the natural protection of distance and transportation costs, a liberalized Central Asia would increase its intra-regional trade more than its extra-regional trade. That is, cooperation and liberalization would naturally lead to regional integration. A liberalized and integrated Central Asia, especially one carrying out democratic reforms, would also qualify for more generous assistance from the EU, Japan, and international financial institutions. It would also reduce tensions and the potential for instability and even war in this strategically sensitive area amidst the great powers.

Notes

An earlier, much shorter version of this paper appeared in *Central Asia and the Caucasus*, no. 5 (2005): 62–73.

1. As part of the unified Soviet Union, the Central Asian republics conducted little international trade, and that little was controlled by Moscow's foreign trade monopoly. Rail connections to China or southern Asia were not opened before the 1990s, and roads to the outside were poorly maintained and often closed.

2. In exchange for subsidized transportation, administrative services, defense, and much else, Central Asian countries had to sell their raw materials at below world market prices. After leaving the Soviet Union, Turkmenistan improved its terms of trade by some 50 percent by selling its natural gas at closer to world market prices, albeit via pipelines to the Russian Federation. This translated into a 19.5 percent gain in the country's GDP. For similar reasons, Kazakhstan benefited by around 7 percent of its GDP. But the other three Central Asian union-republics had been running deficits with the other republics, and together with minor changes in their terms of trade, they may have lost from the separation. David G. Tarr, "The Terms-of-Trade Effects of Moving to World Prices on Countries of the Former Soviet Union," *Journal of Comparative Economics*, 18, no. 1 (1994): 13.

3. As of 2005. Officially Uzbekistan now has 27 million inhabitants, mostly Uzbeks and Tajiks, but millions of Uzbeks also live in all the other Central Asian republics, plus some in Afghanistan and western China.

4. Tajikistan and Afghanistan are ethnically Central Asian, but linguistically West Iranian.

5. For obvious geographic reasons, all the pipelines traverse Kazakhstan. For a discussion of present and future pipelines, the reader may consult Dina R. Spechler and Martin C. Spechler, "Trade, Energy, and Security in the Central Asian Arena," in Ashley Tellis and Michael Wills, eds., *Strategic Asia 2006–07: Trade, Interdependence, and Security* (Washington, D.C.: National Bureau of Asian Research, 2006), 205–40.

6. Except for Turkmenistan under the megalomaniac dictator, Supramurat Niyazov (who died in late 2006), the others have converged to a rather similar brand of super-presidential authoritarianism, with only minor variation in freedoms of speech and association. See Jeannette Goehring and Amanda Schnetzer, eds., *Nations in Transit 2005* (New York: Freedom House, 2006). Kazakhstan's summary "democracy score" has deteriorated every year since 1997 and stood at 6.29 (1 is best; 7 is worst) for 2005. Uzbekistan was rated 6.43, having improved slightly in 2005. Kyrgyzstan is at 5.64, having been as good as 4.65 in 1997. Tajikistan is at 5.79, and Turkmenistan, 6.93.

7. The UN groups them under the Economic Commission for Europe.

8. For example, Uzbekistan's objective of self-sufficiency in energy and food is best served by

relying on imports of high-quality grain at world prices, rather than lower quality Kazakh supplies, which commercial buyers might prefer. The higher quality grain is paid for by state-regulated export of gold and cotton, also to world markets.

9. For a somewhat more detailed survey of these countries, the reader may wish to consult my "The Economies of Central Asia—A Survey," *Comparative Economic Studies,* forthcoming, or the longer essays on Uzbekistan, Turkmenistan, Tajikistan, Kyrgyzstan, and Kazakhstan in Gur Ofer and Richard Pomfret, eds., *The Economic Prospects of the CIS: Sources of Long Term Growth* (Northampton, Mass.: Edward Elgar, 2004). Richard Pomfret's *The Central Asian Economies Since Independence* (Princeton, N.J.: Princeton University Press, 2006) is the most authoritative recent monograph by a single author on the Central Asian economies.

10. For a detailed analysis of the energy and security situation in the region, the reader may refer to Spechler, "Trade, Energy, and Security."

11. As of 2005, the modest totals nonetheless composed 11.9 percent of Kyrgyzstan's small gross national income and 10.9 percent of Tajikistan's. The other three states received negligible assistance. *2007 World Development Indicators* (Washington, D.C.: World Bank, 2007), table 6.11. Both have also benefited from debt reduction.

12. Uzbekistan terminated American basing at Karshi-Khanabad in 2005, but some German airmen remain at the NATO base there.

13. In 2005 merchandise export/GDP ratios were 79 percent for Kazakhstan, 73 percent for Kyrgyzstan, 97 percent for Tajikistan, 106 percent for Turkmenistan, and 60 percent for Uzbekistan. World Bank, 2007, p. 318. The area's staple exports often pass through entrepôt markets, such as Switzerland or Bermuda. For a detailed analysis see Spechler, "Trade, Energy, and Security."

14. Uzbekistan has the highest general tariff rate—an average of 19 percent.

15. Russia's share in the Central Asian markets temporarily expanded following its 1998 devaluation. Despite poor rail and road connections, the Russian Federation remains a natural market for Central Asian goods, as judged by distances, as well as familiarity with market conditions.

16. Martin C. Spechler, "Regional Cooperation in Central Asia," *Problems of Post-Communism*, November–December 2002. Little has changed since 2002 in this regard, as will be seen below.

17. Information for this section comes from *Regional Cooperation in Central Asia, Final Report*, prepared for the Asian Development Bank, DAI, April 1998, to which I contributed chapter 6, "Trade and Payments Services," and Richard Pomfret, "An Assessment of Regional Organizations in Central Asia," report to the Asian Development Bank, March 2003.

18. As tangible evidence of risk-avoidance, Uzbekistan has constructed new roads from its capital Tashkent to the important cities of Andijon and Samarqand, since the Soviet-era roads traversed Kyrgyzstan and south Kazakhstan, respectively. Kyrgyzstan has given priority to a modernized road from its northern capital region to its poorer southern half, thereby avoiding a route through Uzbekistan. Tajikistan and Kyrgyzstan are trying to circumvent their dependence on routes through sometimes uncooperative Uzbekistan by securing new links to China.

19. There are a few exceptions. About twenty-one square kilometers on the Kyrgyz-Tajik border are disputed. Tiny Tajik and Uzbek enclaves within Kyrgyz territory are a source of friction; the Kyrgyz object to establishing corridors to the international borders.

20. The notion of restoring the famous "Silk Road," a medieval caravan route for luxury goods from China to the Mediterranean, is a bit of touristic nostalgia irrelevant to a world with air freight, container ships, and the Internet. Nevertheless, there are increasing road and air links among the Central Asian countries themselves and to western China to complement Soviet-era transportation ties directed to the center. A fiber-optic line has also been installed. The Asian Development Bank has funded installations to change railroad trucks from standard to Russian gauge on the Chinese border.

21. For example, Uzbekistan's Daewoo plant was intended to supply domestic demand for sedans and small vans and to export to nearby countries. Several of the countries could assemble agricultural equipment originating abroad for sale and service within the region.

22. Uzbekistan's *soum* coupons and currency were convertible (up to a $500 limit for individuals) until late 1996 and again since 2003, with some informal restrictions. The Kyrgyz *som* and the Kazakh *tenge* have been convertible to foreign currency for small transactions at fluctuating rates since the 1990s; the Tajik ruble, now replaced by the *somoni,* has been exchangeable; Turkmenistan's *manat* was inconvertible under the rule of the late President Suparmurat Niyazov.

23. Karlygas Yezenova, "ES gotov peredat' nou-khau economicheskoi integratsii Kazakhstanu, Uzbekistanu i Kyrgyzstanu" [The Economic Union is ready to bring know-how for the economic integration of Kazakhstan, Uzbekistan, and Kyrgyzstan], *Panorama*, no. 17 (April 1995): 3, quoted in Boris Rumer and Stanislav Zhukov*, Central Asia: The Challenge of Independence* (Armonk, N.Y.: M. E. Sharpe, 1998), 118.

24. For a detailed discussion of inconvertibility and Uzbekistan's long-delayed return to a convertible soum, the reader may refer to my "Returning to Convertibility in Uzbekistan?" *Journal of Policy Reform* 6, no. 1 (2004): 51–56.

25. Kyrgyzstan had many Russian specialists, some of whom had operated that republic's military and machinery plants in Soviet times.

26. E. M. Ivanov, *Ekonomicheskie otnosheniia Rossii so stranami tsentral'noi Asii* [Economic relations of Russia with the countries of Central Asia] (Moscow: Rossiiskii institute strategicheskikh issledovanii, 2006), 66–67, citing Uzbekistan's Ministry of Statistics. Curiously, the Uzbek government told the EBRD in 2003 that there were 3301 enterprises with foreign capital registered in their country, and that these firms accounted for 13.8 percent of total exports. I am indebted to a referee for this information.

27. Natalia Ushakova, "Central Asian Cooperation, Toward Transformation," *Central Asia and the Caucasus*, no. 3 (2003): 121. Ushakova is chief researcher at the Russian Academy of Sciences Center for Foreign Economic Research in Moscow.

28. The potentially positive role for such agencies was advanced in my "Regional Cooperation in Central Asia." I understand that such conditionality would be opposed by member governments and some outside critics.

29. Nursultan Nazarbaev, *Five Years of Independence*, 234, quoted by Pomfret, "An Assessment," 6.

30. The treaty was signed on October 10, 2000.

31. According to Russian officials, there are several million undocumented Central Asians working in the construction, agricultural, and other sectors of the Russian Federation. They are often abused, according to many reports. In 2006 the federation passed a new law dealing with foreign nationals and stateless persons. It provides for stricter control of migrant workers and does nothing to address the abuses they often encounter.

32. Radio Free Europe/Radio Liberty (RFE/RL), *Newsline*, February 25, 1999. He repeated the criticism in 2002.

33. Joanna Lillis, "Energy Profits Bring Foreign Policy Heft," TOL (Transition Online), April 24, 2007, www.tol.cz.

34. Kazakhstan and Kyrgyzstan conduct their cotton and most of their wheat exports on a normal commercial basis. I am indebted to a referee for this clarification.

35. See my "Central Asian Economies—A Survey."

36. Russia took a more indulgent attitude toward Uzbekistan's repression of the Andijon uprising. For an extended discussion of what happened there, see Martin C. Spechler, "Authoritarian Politics and Economic Reform: Past, Present, and Prospects," *Central Asian Survey*, forthcoming.

37. RFE/RL, May 13, 2007.

38. The principal European instrument for promoting democracy in Central Asia is the

Organization for Security and Cooperation in Europe. Compared to the weak influence of its election monitoring, however, its security and peacekeeping mission has been even less successful. See the survey of the German press and some other European views in Murat Laumulin, "Central Asia and the European Union," in Boris Rumer, ed., *Central Asia: A Gathering Storm?* (Armonk, N.Y.: M. E. Sharpe, 2002), 224–40.

39. Besides its North Caucasus fields, Russia gets natural gas from Turkmenistan, Kazakhstan, Uzbekistan, and Azerbaijan in that order.

40. Neill Nugent, ed., *European Union Enlargement* (New York: Palgrave Macmillan, 2004), 214.

41. Wlodzimierz Cimoszewicz, "The Eastern Dimension of the European Union: The Polish View," speech at the conference "The EU Enlargement and Neighbourhood Policy," www.msz.gov.pl/start.php. At the time, Mr. Cimoszewicz was Poland's minister of foreign affairs.

42. Nugent, *European Union*, 134. An American must admit the contradiction between the US government's free trade and development rhetoric and its outrageous $3 billion support for domestic cotton farmers, renewed in 2007 for another five years.

43. Antonis Adam and Thomas Moutos, "The Political Economy of EU Enlargement: Or, Why Japan Is Not a Candidate Country," in Helge Berger and Thomas Moutos, eds., *Managing European Union Enlargement* (Cambridge, Mass.: MIT Press, 2004), 290.

44. One might perhaps argue that Turkey, Georgia, and Armenia are culturally "European" because of language, religion, or geography, and hence are possible future candidates, but in Central Asia only the northern tier of Kazakhstan has any significant European population.

45. *The Economist*, June 25, 2005, 4. Russia would probably settle for visa-free entry and institutionalized political consultations, as it has with NATO.

46. EBRD, *Transition Report 2000* (London: European Bank for Reconstruction and Development, 2000) and K. Wolczuk, "Ukraine's European Choice," Policy Brief, Centre for European Reform, London, cited in Oleh Havrylyshyn, *Divergent Paths in Post-Communist Transformation* (Houndmills, Basingstoke, Hampshire: Palgrave Macmillan, 2006), 215.

47. "The European Neighborhood Policy," Creating a Ring of Friends Surrounding Europe," EU *Focus*, January, 2008.

48. Anna Matveeva, "EU Stakes in Central Asia," *Chaillot Paper* 91 (Paris: Institute for Security Studies, July 2006), 87–91. I am indebted to a referee for this source.

49. Laumulin, "Central Asia," 233. Keeping in mind that Laumulin has served as vice-director

of the prestigious and well-connected Kazakhstan Institute for Strategic Studies, it is perhaps natural that he emphasizes sources which urge more attention to Central Asia.

50. From rich to poor, Singapore, Malaysia, Thailand, the Philippines, Indonesia—the original members—then Brunei, Vietnam, Myanmar (Burma), Cambodia, and the Lao PDR. The last four joined in the late 1990s. Their total population exceeds 540 million with an average income of about $3500 per capita at purchasing power parity—a level of GDP per head not very different from Central Asia.

51. Shaun Narine, *Explaining ASEAN: Regionalism in Southeast Asia* (Boulder, Colo.: Lynne Rienner, 2002), 131ff. ASEAN's free trade zone is "riddled with exemptions, special cases, and non-tariff barriers." While intra-bloc total trade rose 129 percent in 2000–2006 to $400 billion, commerce with non members grew even faster, to $1.1 trillion, according to the IMF figures. *The Economist*, August 4, 2007, 36–37.

52. New members must also eliminate nontariff barriers, harmonize their customs nomenclatures, and implement the GATT Valuation Agreement. All these measures would be helpful to Central Asian trade.

53. Pradumna B. Rana, "Pan-Asian Regionalism: From Bilateralism/Sub-regions to Regionalism," Asian Development Bank, 2006. Rana is head of the Office of Regional Integration of the Asian Development Bank, Manila, Philippines.

54. ASEAN countries are in fact quite diverse culturally: Buddhist, Islamic, and Sinic. English is usually the language of intraregional meetings.

55. Douglas Webber, "Two Funerals and a Wedding? The Ups and Downs of Regionalism in East Asia and Asia Pacific after the Asian Crisis," in Finn Laursen, ed., *Comparative Regional Integration.* (Aldershot, Hampshire: Ashgate, 2003), 138.

56. Intraregional trade was 22 percent of ASEAN total trade as of 1999, as compared with 63 percent in the EU at that time. Ibid.

57. S. Andriamananjara and M. Schiff, "Regional Cooperation Among Microstates," *Review of International Economics* 9, no. 1 (2001): 41–51; P. Athukorala and J. Menon, "AFTA and the Investment-Trade Nexus in ASEAN," *World Economy* 20 (1998): 159–74. Japanese FDI is a strong force for regional integration in southeast Asia, especially monetary integration these days.

58. Rana, "Pan-Asian Regionalism."

59. O. Lumenga-Neso, M. Olarreaga, and M. Schiff, "On 'Indirect' Trade-Related R&D Spillovers," Policy Research Working Paper 2580 (Washington, D.C.: World Bank, 2001).

60. "China Isn't Only Game in Asia," *Wall Street Journal,* May 12, 2005, A13.

61. The EU does not grant GSP status to Myanmar because of its human rights record, but as a member of WTO, that country must be granted most-favored national treatment. This experience might well be relevant in the case of Uzbekistan, Turkmenistan, or even Kazakhstan. On the other hand, the EU does grant special GSP "regional cumulative rules of origin" provisions for processing operations carried out within ASEAN. Reportedly this helped Lao PDR garments to enter the EU. E. Fukase and W. Martin, "Economic Impacts of ASEAN Free Trade Area Accession for the Lao People's Democratic Republic," in M. Than and C. Gates, eds., *ASEAN Enlargement: Impacts and Implications* (Singapore: Institute of Southeast Asian Studies, 2000).

62. Former prime minister Lee Kuan Yew mentioned this in the *Straits Times*, January 23, 2001. Quoted in Webber, "Two Funerals," 145.

63. B. Desker, "Islam in Southeast Asia: The Challenge of Radical Interpretations," *Cambridge Review of International Affairs* 16, no. 3 (October 2003): 415–28.

64. Assuming the presidents in Central Asia wish to liberalize, WTO membership might give them "cover." Eskender Trushin and Eshref Trushin, "Kazakhstan and Uzbekistan: The Economic Consequences of Membership in the World Trade Organization," in Boris Rumer, ed., *Central Asia and the New Global Economy* (Armonk, N.Y.: M. E. Sharpe, 2000), 197. The authors are experienced Uzbekistan nationals.

65. Emiko Fukase and L. Alan Winters, "Possible Dynamic Effects of AFTA for the New Member Countries," *The World Economy* 26 (2003): 853–71.

66. Hadi Soesastro, "Accelerating ASEAN Economic Integration: Moving Beyond AFTA," Center for Strategic and International Studies Working Paper, March 2005. Soesastro is an Indonesian economist.

67. Emiko Fukase and Will Martin, "Free Trade Area Membership as a Stepping Stone to Development; The Case of ASEAN," World Bank Discussion Paper 421 (Washington, D.C.: The World Bank, 2001), 112. SOEs are state-owned enterprises.

68. Vo Tri Thanh, "Vietnam's Trade Liberalization and International Economic Integration: Evolution, Problems, and Challenges," *ASEAN Economic Bulletin* 22, no. 1 (2005): 75–91.

69. Quoted *ibid.* This multisector study was circulated as a discussion paper by CIEM-NIAS (Hanoi) in 2002.

70. Fukase and Martin, *Free Trade Area Membership*, citing computable general equilibrium studies by D. A. DeRosa for the International Food Policy Research Institute in 1995, and J. D. Lewis and Sherman Robinson for the World Bank in 1996.

71. Akio Kawato's blog, "Japan-World Trends" calls for an ASEAN *for* Central Asia, but interestingly not an ASEAN *with* Central Asia. See akiokawato.com, November 14, 2006. This

Japanese journalist is well aware of the Chinese factor in the East Asian political and security balance.

72. This section relies on Richard Pomfret, "Central Asia Turns South? Trade Relations in Transition" (Washington, D.C.: Brookings Institution), 1999, and other more recent sources.

73. RFE/RL, April 13, 2006. A gas pipeline from the Nebit Deg field in Turkmenistan to Iran opened in 1997.

74. *International Gas Report*, January 2006, 15.

75. RFE/RL, May 22, 2006.

76. Richard Pomfret has estimated that Uzbekistan could benefit to the amount of at least 5 percent of its GDP if US/EU cotton subsidies were removed. "Development Issues for Central Asia," in K. Fukasaku, M. Kawai, M. G. Plummer and A. Trzeciak-Duval, eds., *Impact and Coherence of OECD Country Policies on Asian Developing Economies* (Paris: OECD, 2005).

77. Article 24 permits preferential trade agreements provided that members of the group eliminate tariffs on "substantially all [i.e., 80 percent or more] the trade" among members within a reasonable time (ten years or less in practice) and that if a customs union establishes a common external tariff, it must be no higher than before the formation of the customs union.

78. United Nations Conference on Trade and Development (UNCTAD), *Regional Integration and the World Economy* (New York and Geneva: United Nations, 2001), 13–14.

79. *Regional Integration and the Multilateral Trading System* (OECD, 1995), 81. This unofficial report found that existing regional and multilateral approaches had been complementary for trade and investments. So with the current Doha round in suspended animation, regional blocs may be the only way to go.

80. Even in the EU, such "frictional barriers" to trade are "extremely common." Richard Baldwin and Charles Wyplosz, *The Economics of European Integration* (Maidenhead, Berkshire: McGraw-Hill, 2004), 119.

81. China is also taking steps to reduce the growth of oil consumption. According to the International Energy Agency, Chinese oil demand will grow only 5.5 percent in 2006, because of higher prices domestically and use of hydropower.

82. According to Pang Xionqui, who also predicts a peak in Chinese oil production by 2012. James Schlessinger,"Thinking Seriously About Energy and Oil Future," *National Interest*, (Winter 2005–2006), 21.

83. As of mid-2007, Belarus, another member, is enmeshed in nasty discussions with the Russians over unpaid transit fees. Moldova and Ukraine are observers.

84. Gaël Raballand, "Determinants of the Negative Impact of Being Landlocked on Trade: An Empirical Investigation Through the Central Asian Case," *Comparative Economic Studies* 45, no. 4 (December 2003): 520–36. Curiously, this economist from the Sorbonne assumes Central Asian trade will go mainly to Europe. Being land-locked seems to reduce trade on all continents some 75–80 percent from the volumes predicted by gravity models, apparently because of costs and delays at border crossings. That would be in addition to the costs of land haulage, roughly double that by sea. N. Limao and A. J. Venables, "Infrastructure, Geographical Disadvantage and Transport Costs," *World Bank Economic Review* 15, no. 3 (2001): 451–79.

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