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SOME THEORETICAL AND PRACTICAL ASPECTS OF REGIONAL INTEGRATION IN CENTRAL ASIA. ASSESSING THE POTENTIAL FOR ECONOMIC COOPERATION

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Abstract. Integration issues in Central Asia have been on the agenda both at the national and regional levels for three decades.

New geo-economic and geopolitical realities that have emerged along the perimeter

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of the region and affect the region itself, actualize the need for more confident and intensive integration. Despite the sufficient potential for cooperation and common problems in the region, the process of rapprochement between countries is rather slow. The key factor, which is not yet a priority at the interregional and bilateral level, is economic. This article is devoted to some theoretical and practical aspects of the analysis of the economic potential of integration in Central Asia through elements of a systematic approach, factor analysis, and focuses on the economic factor through the prism of assessing competitiveness at the intra-regional level.

Keywords: *Central Asia, integration, economy, competitiveness.*

ОРТАЛЫҚ АЗИЯДАҒЫ АЙМАҚТЫҚ ИНТЕГРАЦИЯНЫҢ КЕЙБІР ТЕОРИЯЛЫҚ ЖӘНЕ ПРАКТИКАЛЫҚ АСПЕКТІЛЕРІ. ЭКОНОМИКАЛЫҚ ҰНТЫМАҚТАСТЫҚ ӘЛЕУЕТІН БАҒАЛАУ

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Андатпа. Орталық Азиядағы интеграциялық мәселелер соңғы отыз жылда ұлттық деңгейде де, аймақтық деңгейде де күн тәртібінде тұр.

Аймақтың периметріндегі пайда болған жаңа геоэкономикалық және геосаяси жағдай аймақтағы елдер арасындағы неғұрлым сенімді және қарқынды интеграция қажеттілігін өзекті етеді. Ұнтымақтастық үшін жеткілікті әлеуетке және аймақтағы ортақ мәселелерге қарамастан, елдердің жақындасу процесі біршама баяу екендігі мәлім. Аймақтық және екіжақты деңгейде әлі басымдыққа ие емес негізгі фактордың бірі – экономика. Бұл мақала жүйелік көзқарас, факторлық талдау элементтері арқылы Орталық Азиядағы интеграцияның экономикалық әлеуетін талдаудың кейбір теориялық және тәжірибелік аспектілеріне арналған. Мақалада сонымен қатар аймақшілік деңгейде бәсекеге қабілеттілікті бағалау призмасы арқылы экономикалық факторға баса назар аударылады.

Түйінді сөздер: *Орталық Азия, интеграция, экономика, бәсекеге қабілеттілік.*

НЕКОТОРЫЕ ТЕОРЕТИЧЕСКИЕ И ПРАКТИЧЕСКИЕ АСПЕКТЫ РЕГИОНАЛЬНОЙ ИНТЕГРАЦИИ В ЦЕНТРАЛЬНОЙ АЗИИ. ОЦЕНКА ПОТЕНЦИАЛА ЭКОНОМИЧЕСКОГО СОТРУДНИЧЕСТВА

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Аннотация. Вопросы интеграции в Центральной Азии стоят на повестке дня как на национальном, так и на региональном уровнях на протяжении трех десятилетий.

Новые геоэкономические и геополитические реалии, возникшие по периметру региона и влияющие на сам регион, актуализируют необходимость более уверенной и интенсивной интеграции. Несмотря на достаточный потенциал для сотрудничества и общие проблемы в регионе, процесс сближения между странами идет довольно медленно. Ключевым фактором, который пока не является приоритетным на межрегиональном и двустороннем уровнях, является экономический. Данная статья посвящена некоторым теоретическим и практическим аспектам анализа экономического потенциала интеграции в Центральной Азии с помощью элементов системного подхода, факторного анализа, и фокусируется на экономическом факторе через призму оценки конкурентоспособности на внутрирегиональном уровне.

Ключевые слова: Центральная Азия, интеграция, экономика, конкурентоспособность.

Introduction.

The issues of regional integration in Central Asia have been on the agenda of the countries of the region since the early 1990s and are particularly relevant at the present stage in the new geo-economic and geopolitical realities. The development of regional integration processes is of interest not only to the five countries of the region, but also to extra-regional actors whose interests are directly or indirectly related to Central Asia.

Although regional integration in Central Asia has been an issue throughout the period of independence of these countries, no sustainable supranational groupings or common format of interaction has yet been established. The Consultative Meetings of Central Asian Heads of State can be considered an exception and a good practice. The first such meeting was held on 15 March 2018, and the fourth one in July 2022 [1]. The main issues covered by this format include the development of cooperation on joint responses to contemporary challenges and threats to regional security, prospects for expanding regional cooperation to

ensure sustainable economic growth, and cultural and humanitarian cooperation among Central Asian states.

The delayed institutionalisation of processes is related to a series of factors, among which it is necessary to highlight the lack of an explicit political will on the part of governments to integrate, the different level of economic development and structure of the economies themselves, as well as the specifics of the political system and the stages of statehood.

In addition, there are a number of unresolved issues, including border delimitation and demarcation, environmental and water management, the lack of updated energy and transport and logistics infrastructure, weak trade and economic cooperation, and the formal identification of the leader as an economic and socio-political hub - all of which hinder effective convergence and the formation of a common agenda. The process of mainstreaming and attempts to address these issues and related approaches can be seen as indicators of cooperation.

It should be noted that the post-

pandemic period has seen a series of developments within and between countries in the region that require both internal reforms and increased regional engagement:

- The "bloody January" in Kazakhstan, which led to the presence of the Collective Security Treaty Organisation (CSTO) Collective Peacekeeping Forces in line with the country's leadership's request for assistance in connection with the deteriorating situation;

- mass protests from 14 to 31 May 2022 in the Gorno-Badakhshan Autonomous Region of Tajikistan against the persecution of civic activists;

- mass protests from 1 to 3 July 2022 in Karakalpakstan against the attempted removal of the status of a sovereign republic within Uzbekistan;

- An armed border conflict between Kyrgyzstan and Tajikistan from 14 to 19 September 2022 and its further escalation;

- public outcry in November 2022 in Kyrgyzstan and Uzbekistan over the transfer of territory;

- Heads of State sign the Treaty of Allied Relations between the Republic of Kazakhstan and the Republic of Uzbekistan in Tashkent, Uzbekistan, on 22 December.

Separately, Russia's armed conflict with Ukraine, which took place in February 2022, led to significant changes in all interactions in the region. All the above developments were not only indicators of the fragility of state systems, but also pointed to the need to accelerate rapprochement and integration between the countries of the region. The most relevant aspect, but at the same time the most difficult one for accelerated rapprochement in the current realities, is seen as the economic aspect, including

trade cooperation and modernisation of transport and logistics infrastructure in the CA region. At the same time, it should be noted that the current realities represent not only a challenge but also an opportunity for the diversification of the economies of the region and the related process of intensification of trade aspects and logistics routes. In order to assess the potential for economic cooperation in Central Asia, one of the factors is the analysis of the competitiveness of the countries in the region.

Research Methodology.

Analysis of the development of regional integration, in particular the economic dimension, suggests looking at the rapprochement of countries through the prism of the process of liberalization of economic relations.

The liberal intergovernmental approach, proposed on the basis of the works of the American scientist S. Hoffman [2], is the direction of the intergovernmental theory of European integration, which firmly entered the science in the second half of the 20th century, is based on the leading role of national states motivated by national interests. Liberalization in this process reflects the removal of existing obstacles in international trade, in the promotion of factors of production and contributes to the creation of the most favorable regime between the integrating countries. This approach seems to be quite effective for the analysis of the economic aspect of integration. At the same time, the methodological basis and the choice of indicators for the analysis of integration processes in today's realities are also seen in the use of factor analysis and the use of a systemic approach, which will allow to explain sustainable links and

analyze the potential for cooperation, in particular economic, taking into account the relationship of the countries of the region among themselves and with external actors.

The economic factor in Central Asian integration: assessing competitiveness

In the context of integration analysis, it is important to emphasize that the foundation of any successful regional integration is precisely sustainable economic ties. The experience of the formation of the European Union (EU) and other sustainable associations shows that the development of successful political integration is always preceded by processes of deepening trade, financial, industrial and manufacturing relations. Without such a foundation, the association risks becoming unsustainable. In a sense, a prior expansion of economic contacts seems to be an important precondition for further promotion of cooperation between countries. Here, the main mechanism is seen in the fact that through economic cooperation, interdependence emerges within the organization, which contributes both to strengthening the economic and overall potential of each individual state and the entire integration association. Against this background, the common interests of the group members begin to coincide and a joint agenda and vision emerges. In this context, the above-mentioned EU is a good example, where this factor is a unifying factor for all states of the union.

In the active discussions on integration in Central Asia, the expert community pays little attention to the economic aspect, in particular the expansion of mutual trade, although this is one of the priority areas. The main pivot should be the development of commercial ties,

which would underpin the entire structure of the proposed association.

Of course, the implementation of this task requires the availability of appropriate resources and mechanisms. In this case, the CA countries should have the necessary economic potential to promote integration. If we look at the current state of the countries of the region, in economic terms all countries are strongly linked to external players. This applies to finance, investment, import of goods, export directions, etc. An analysis of the current state of the region's economies would therefore be relevant. From this point of view, an important indicator is the level of competitiveness.

In the era of economic globalization, in which the free movement of goods, services and capital is a key element, competition between states has reached a new level. Therefore, in today's realities, improving one's own competitiveness becomes the most important task facing all countries in the struggle for markets and resources. The prospects for economic development of a modern state are largely linked to this factor.

It should be noted that although there has recently been much discussion among experts on the rise of protectionist tendencies at both national and regional levels, the scenario of a complete reversal of globalization in the medium term seems highly unlikely. According to the famous American investor Mark Mobius, "it is a mistake to expect the end of globalization: even if countries try to become independent, they will still be forced to cooperate with each other" [4]. Consequently, it can be predicted that relatively free competition will determine the nature of international relations in the economic sphere for many years to come.

In this context, Central Asian

countries are no exception to the rule. Governments in the region are also paying a great deal of attention to enhancing the competitiveness of their economies and are therefore taking steps in this direction. In this context, an analysis of the situation in the Central Asian republics regarding this aspect is of great interest.

As a measure of the current situation in Central Asia, it is worth referring first to the assessment of international expert groups.

In particular, the rankings compiled by the world's leading organizations and institutions provide much insight into the overall picture in these states. From this point of view, the World Economic Forum's reports examining the competitiveness of the world's states are a reference point for many researchers and governments. Thus, according to their 2019 ranking, Kazakhstan is considered the most competitive Central Asian economy, ranking high 55th in the world [5]. Kyrgyzstan and Tajikistan are next, ranking 96th and 104th respectively. It should be noted that two other countries in the region - Turkmenistan and Uzbekistan - were not ready to participate in the ranking according to certain criteria.

Kazakhstan's leading position is also confirmed by other authoritative organizations specializing in economic issues. For example, the Center for International Competitiveness Studies of the International Institute for Management Development (IMD, Switzerland) in its latest ranking of 2022 determined the place of the Republic of Kazakhstan as 43 out of 63 states [6]. The country was the only representative of CA in the study of the Swiss institute. This study is not intended to determine the leader in the region, the analysis of such data is necessary for an overall assessment of

the potential of the countries in the region based on the definition of competitiveness.

For a more in-depth analysis of countries' economic potential, it is necessary to consider each state in the region according to specific criteria, based on which international competitiveness rankings are compiled.

First, it is important to analyze the basic economic indicators which contribute significantly to the overall assessment of a country's competitiveness. For example, GDP per capita, the size of the domestic market, foreign trade, the labor market and the macroeconomy are relevant criteria.

Kazakhstan is currently seen as the largest economy in the region, with a gross domestic product per capita of more than US\$10,000. Accordingly, the total volume of GDP exceeds \$200 billion [7]. This indicator is greater than those of the other Central Asian countries combined. At the same time, in Uzbekistan, with a per capita income of \$2,000, the size of the entire economy is only \$70 billion. In other states of the region, domestic markets are even lower. The low capacity of the economy together with weak purchasing power is seen as a big disadvantage in terms of the country's competitiveness. Moreover, this makes the local economy less attractive for investors and hampers the development of production and industry. In this context, Kazakhstan is also considered a relatively small economy in the world.

Another important aspect appears to be international trade as a catalyst for increased competitiveness. In 2021, Kazakhstan had the highest export and import figures. The Republic exported \$60.3 billion worth of goods, while supplies from abroad amounted to \$41.2 billion [8]. Thus, there was a positive

balance of trade. Last year, on the other hand, Uzbekistan's exports were \$16.6 billion and imports were \$25.4 billion. Thus, the trade balance was significantly negative. Trade turnover is relatively low in Turkmenistan, despite the considerable reserves of natural gas there. For example, over the same period, Ashgabat delivered \$8.86 billion worth of goods to external buyers and bought \$6.25 billion worth of goods from other countries [9]. In Kyrgyzstan and Tajikistan, the volume of international trade is less than \$10 billion. At the same time, imports far exceed exports in both countries. Thus, against the background of the region's energy-resource countries - Kazakhstan and Turkmenistan - the remaining three Central Asian states have a negative current account. Imports are financed mainly by external injections, which makes these countries rather financially vulnerable.

In terms of macroeconomic sustainability of the economy, the level of monetary reserves should be noted, which should act as a safety cushion during difficult periods. Kazakhstan stands out in this regard, where the assets of the National Fund and international reserves of the Central Bank together amount to almost \$90 billion by the end of 2021 [10]. Thus, the reserves here cover about half of the total GDP of the country. Uzbekistan's gold and foreign exchange reserves are equal to \$35 billion [11]. In Kyrgyzstan and Tajikistan, these figures are at the level of \$2 billion. It can be stated that in the context of accumulated reserves, Kazakhstan has a clear advantage.

The labor markets of Uzbekistan, Kyrgyzstan and Tajikistan are characterized by a significant job deficit against a demographic factor in the form of rapid population growth due to

a high birth rate. This is compounded by a relatively low standard of living and wages. This leads to an outflow of citizens to other states in the form of labor migration, including Kazakhstan. Ultimately, these republics lose, among other things, many qualified personnel. The opposite situation is observed in Kazakhstan, where, on the contrary, there is a shortage of workers. Therefore the flow of migrants from the above-mentioned Central Asian republics is partially directed to Kazakhstan. As a result, the labor market in Kazakhstan is more developed than in neighboring countries of the region.

Human capital is seen as an important competitive advantage of the country. According to the World Bank, as of 2020, Kazakhstan's human capital index on a scale from 0 to 1 was 0.63. These figures in Uzbekistan, Kyrgyzstan and Tajikistan were 0.62, 0.60 and 0.50, respectively [12]. The level of human capital is one of the important indicators of a country's competitiveness, as a high level of education and medicine correlates with the development of the state.

One of the key indicators of an economy's competitiveness can be considered foreign capital inflows. The inflow of foreign direct investment (FDI) is one of the factors of economic breakthrough of certain countries. Over the years of independence, Kazakhstan has attracted about \$400 billion in foreign direct investment (FDI) [13]. At the same time, the country accounts for more than 70 percent of all investment in Central Asia [14]. The role of Kazakhstan's government policy, which has long been aimed at attracting foreign capital, is worth noting in this matter. With the funds raised, Astana has managed to organize its own energy industry, namely the oil sector.

Thanks to this factor, Kazakhstan has achieved significant economic successes during its years of independence. FDI in Uzbekistan has been growing in recent years. Especially since the opening of the country's economy, external investors have become more active in investing in the country's economy. In particular, in 2021 alone, Tashkent attracted \$8.6 billion of money from abroad [15]. In Kyrgyzstan and Tajikistan, these figures are much lower.

Since attracting FDI depends to a large extent on the conditions created by the government, it is worth highlighting the investment climate. This is where the World Bank's Doing Business ease of doing business index comes into focus. In 2020, Kazakhstan ranked 25th highest among Central Asian countries. Uzbekistan was ranked 69th. Kyrgyzstan and Tajikistan were ranked 80th and 106th, respectively [16]. When analyzed by individual categories, Kazakhstan came in 4th overall in terms of formal compliance and protection of investor contracts. In addition, the country ranked 7th out of all ranking participants in minority investor protection.

Thus, according to the above analysis of the competitiveness of Central Asian economies, an imbalance can be seen between the countries of the region. And while Kazakhstan presents in certain indicators a more favorable background overall, the country also has a number of problems that have slowed down economic progress.

Moreover, in the context of increasing competitiveness, there are common problems for all countries in the region, such as the geographical factor, namely the lack of direct access of the region to the open seas. Due to their isolation, the republics have been at a disadvantage in

terms of international connectivity and trade from the outset.

Another obstacle, common to all the countries of the region, is the poor diversification of their economies. Energy exports are becoming the main source of budget revenues. This is particularly true for Kazakhstan and Turkmenistan, which are important players in the inter-regional energy market. This also applies to some extent to the economy of Uzbekistan, although its mining potential is much lower compared to the two states in question.

Nevertheless, despite these and other obstacles, Kazakhstan is the most economically successful, having managed to build a relatively competitive economy over the years of independence. At the same time, the country has taken steps to diversify its economy. In this context, in addition to the development of the manufacturing industry and the production of final goods, the transit potential of Kazakhstan is an important factor.

Uzbekistan, the most populous state in the region, is focusing on expanding its production capacity. The demographic potential, with the prospect of further growth, and the comparatively cheap labor force are seen as contributing factors in this matter. At the same time, it has to be noted that Tashkent is starting to experience difficulties with its energy sector. Natural gas reserves are gradually decreasing. Against the background of increasing consumption, the country may soon become dependent on other countries for energy supplies, which may complicate the policy of accelerated industrialization.

Kyrgyzstan and Tajikistan have the potential to become major producers and exporters of electricity through the

development of hydropower. It should be noted that in recent years there has been a marked increase in demand for electricity supply in CA and the perimeter of the region.

Turkmenistan's main competitive advantage is its substantial gas reserves. But exploiting this potential is precisely hampered by geography. On the other hand, there is competition with other gas producers, in particular Russia. Importantly, Turkmen gas is oriented towards the Chinese market, as Chinese investments have been actively attracted in the process of modernizing the gas sector. But given the recent developments around the Ukrainian crisis, and the EU's rejection of Russian energy resources, especially gas, it is the Turkmen gas that could be sent to Europe. The problem of attracting EU FDI into the Turkmen gas complex has not been adequately addressed, firstly because of the liberal agenda towards Turkmenistan in the EU itself. Secondly, the uncertain status of the Caspian Sea at the time and the existing routes from Russia made Turkmen resources less attractive.

If the TAPI pipeline becomes operational to the south, Ashgabat could have new economic prospects. At the moment, TAPI is not feasible due to the difficult situation in Afghanistan.

Thus, the energy factor is also an opportunity to strengthen the competitiveness of countries in the region and to diversify logistics routes.

On the whole, the competitiveness overview of the countries of the region shows the uneven development of economic development and the multifaceted nature of economic problems and related energy, logistics and socio-demographic aspects.

Conclusion.

The issues of Central Asian integration and the prospects for its accelerated development are urgent and require more intensive interaction, above all at the economic level. However, despite attempts at closer cooperation between the countries of the region, the constraints that slow down integration processes will persist in the medium term. First of all, the Central Asian states need to pay considerable attention to economic diversification. With the low competitiveness of states, FDI inflows and labor outflows are slowing down and dependence on external actors, including migrant remittances and loans, is increasing, leading to economic dependence.

In addition to the above factors, the states of the region are vulnerable to both general internal and external threats, including economic, environmental, religious and politico-military ones. Global and interregional socio-economic and political instability and turbulence along the perimeter of the region make the need for convergence in Central Asia urgent. In such circumstances the sustainable development and existence of the countries of the region is seen in the prospect of integration on an economic basis, in the creation of a single supranational mechanism to address important challenges and prevent challenges.

So far, approaches have been proposed to institutionalize economic relations for all five countries in the region, but agreements on selected aspects aimed at increasing economic potential in the area of mutual trade, renewal of shared energy and transport infrastructure could provide a solid basis.

The new geopolitical and geo-

economic reality is not only a challenge, but also an opportunity for the region to focus on domestic economic potential and resources - natural and human capital.

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