

# PROSPECTS FOR CENTRAL ASIAN INTEGRATION

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Division of labour and specialization play a central role in the rise of welfare according to the teaching of the classical economic theory. Transborder expansion is defined as a basic tool in the realization of the rise of welfare. However, crises in the capitalist economic system which stemmed from the First World War and 1929 Great Depression harmed to a significant degree international trade relations between 1914 and 1945. In spite of reductions in foreign trade, important attempts for the growth of free world trade appeared after the Second World War. The primary attempt in this way is General Agreement on Tariffs and Trade (GATT), established in 1947, which later transformed into World Trade Organization (WTO). After GATT entered into force, tariffs were reduced immediately in high-income developed countries, and fell to the level of %4 around 2000. In initial years of 2000, however, average levels of tariffs are about %20 in middle and low-income countries. Yet in general, there are significant reductions in tariff levels of the developing countries [1]. In accordance with this general trend in world trade, regional trade agreements, free trade areas and customs unions, and other economic integration models have become popular in the world after the Second World War. These trends toward regionalism contributed to the reduction of tariffs within the borders of the regional blocks, though not in the whole world. There are about 76 such regional organizations, established since 1948 up to the present time. The foremost example among all is European Union. Moreover, North American Free Trade Area between USA, Canada and Mexico; South Common Market between Argentina, Brazil, Paraguay, Uruguay, and Chile; Asian and Pacific Economic Cooperation between Asian and Pacific countries; Union of South-Eastern Asian Countries; and South Africa Customs Union should be mentioned here.

It is getting more and more difficult today for the less developed countries to isolate themselves from this rising global trend in a liberal era and

age of globalization. However, it is likely that these countries can be negatively influenced by this phenomenon when their levels of development are considered. In other words, there are strong tendencies toward regional integration since 1950s, because of the problems in terms of inability to grow and to spread welfare evenly in the society while experiencing economic and political liberalism. The preconditions of economic integrations are stated in the economic literature as a) geographical proximity, b) political closeness, c) equal levels of development, d) similarity in economic systems, e) close socio-cultural background [2]. Socio-economic similarity between countries seems to be very important when these preconditions are considered and Meade's theoretical analysis and experiments in regional integration in different parts of the world are analyzed. If countries which have parity go to integration, they will have similar benefits for welfare [3]. Integrative attempts between developed to developed or less developed to less developed have brought more beneficial results. EU and NAFTA can be mentioned here as successful examples a integrative experiments between developed countries.

## **Theory of Integration and Functionalism**

According to David Mitrany and his functionalist theory, an integration that would also create a 'working peace system' could only be established "from the bottom up, by encouraging forms of cooperation which bypassed the issue of formal sovereignty. Cooperation will only work if it is focused on particular and specific activities (functions) which are currently performed by states but which would be performed more effectively in some wider context. In functional cooperation, for some functions a global institution will be appropriate (i.e. an effective postal system should be universal). For some other functions regional, or even local, institutions will promote effectiveness"[ 4]. "States will have an interest in

cooperative relationships designed to find mutually acceptable solutions to common problems. The agenda of issues requiring cooperative action includes international trade, agricultural production, textile, the environment, communications, migration, health, investment, transportation, tourism, etc. States will share an interest in patterns of communications and transactions within units to be integrated. In this process, expectations of joint rewards will develop among elite groups, both in the governmental and private sectors. Ernst Haas assumed that integration proceeds as a result of the work of relevant elites in the governmental and private sectors, who support integration for essentially pragmatic reasons, such as the expectation that the removal of trade barriers will increase markets and profits. Elites anticipating that they will gain from activity within a supranational organization framework are likely to seek out similarly minded elites across national frontiers. As a result of a learning process, power-oriented governmental activities can evolve toward welfare-oriented action”[5]. According to the concept of ‘spillover’, developed by Haas, or what Mitrany called the concept of ‘ramification’, successful cooperation in one specific sector will lead states to cooperate in other sectors. As institutional and economic cooperation expand, in the latter stages a certain level of political integration will also be required. The European integration process, which started with the *European Coal and Steel Community* and later reaching the ultimate formation of *European Union*, today seems to be the most successful example of such a journey in human history.

### **Background for Integration in Central Asia**

The countries which have been transiting from centrally planned economies to free market economies are called as transition economies. Some of such countries (Czech Republic, Estonia, Latvia, Hungary, Poland, Russian Federation, Slovakia, Slovenia) have overcome transition recession, economic decline, and high inflation in a short period and become developed economies. However, some other transition economies such as Azerbaijan, Armenia, Georgia, Kazakhstan, Kyrgyz Republic, Uzbekistan, Tajikistan, and Turkmenistan could not enjoy a notable economic growth because of budget deficits and increasing debts. These countries,

except for Armenia and Georgia, have considerable commonalities and similarities in terms of economic systems and socio-cultural background. These economically and politically small countries also are highly interdependent in relation to their economic legacies.

Although the European integration process started with the initiative of two century-long hostiles, France and Germany, after the Second World War, commonalities that formed European identity to a certain degree, created a suitable ground for the flourishing of European integration. Europe has a common historical experience that provided it with a common political, legal, and cultural legacy. Such historical phenomena as Ancient Greece, the Roman Empire, Christianity, Renaissance, Enlightenment, scientific and industrial revolutions, nationalism, colonialism, democracy, modernity, etc. created a common cultural ground leading to a sense of common European identity and integrated community [6].

Central Asian states did not experience a world war against each other in their history. Moreover, their commonalities are no less than those in Europe. Central Asia, or ‘Turkistan’ as its proper historical name, has constituted a common cultural space in which Turkic-originated languages have been spoken, the Hanafi school of Sunni Islam has pervaded, and cultural similarities in rituals, in cuisine, etc. have dominated [7]. They shared experiences of creating common empires or khanates such as the Golden Horde State, Timurid heritage, Bukhara, Khokand or Khiva khanates, etc. They experienced struggle against Tsarist Russian occupation of their region [8]. They also experienced commonly an intellectual movement, that is, the *Jaded Movement*, in the last quarter of the 19<sup>th</sup> and early 20<sup>th</sup> century. Jadedi intellectuals promoted the idea of Pan-Turkism and worked for an autonomous or independent Turkistan. Their newspapers such as *Turkistan*, *Kengash*, *Vakht*, and *Qazat* were widely read and influential in the region. The *Basmachi Revolt* was another common historical experience that continued until the mid-1930s in the region [9].

Soviet rule and the Red Army eliminated most of these historical legacies, however, Soviet experience itself formed another common legacy in the history of contemporary Central Asian republics. They became part of the Union of Soviet Socialist Republics, and so experienced a

system of integration under Moscow. Due to the Soviet economic legacy, the economies of the constituent republics of Central Asia became interdependent. For more than half of the 20<sup>th</sup> century, they became part of a single unified economic space and infrastructure system. Moreover, Soviet period deeply influenced almost every aspect of life in these countries. It shaped the perceptions and identities of ordinary people, but perhaps more influentially the ruling elites in these republics. Their memory of past was shaped either through Soviet society or educational system in which they grew up or through the Communist Party with which they learned politics [10]. Throughout the region, there is still a Russian-speaking elite who share some habits and traditional connections with each other [11]. Many patterns of behavior that developed during the Soviet period still prevail among Central Asian societies. Sovietization policies that continued for 70 years created a common soviet culture in the region in addition to their common ancestral culture. Although the societies in different Central Asian republics understand the native languages of each other as they are very similar, the Russian language has become a common interethnic communicative language in the region. All these commonalities and entrenched habits in terms of Soviet legacies created a suitable ground and a common cultural base at both societal and governmental level for any cooperative attempt toward an integration process in Central Asia [12].

### **Economic Integration in Central Asia**

Globalization brings new challenges for national economies and forces them to be competitive in order not to remain outside the global economy. Less developed or developing countries, including post-soviet Central Asian republics in transition, are in the most difficult situation in this process. Regional integration might be an effective way for Central Asian states to avoid underdevelopment and not to become a field for exploitation of great economic powers. The disintegration of the Soviet Union brought several economic problems in the initial years of independence, as the Soviet economic system made the economies of the former Soviet republics highly interdependent. In order to minimize the negative side-effects of the disintegration, the Commonwealth of Independent States (CIS) was established in 1991.

The Almaty Declaration confirmed “adherence to cooperation in formation and development of common economic space, European and Eurasian markets”. (Almaty Declaration. 1991. P. 103-104). However, the process of integration within the framework of CIS went slowly, and the bodies of CIS worked inefficiently. In order to invigorate the integration process, Nazarbaev, the President of Kazakhstan, introduced the idea of a ‘Eurasian Union’ in 1994. Nazarbaev regarded Russia, Kazakhstan, Ukraine, and Byelorussia as core states in the regional integration as they are close enough to each other in terms of their level of economic transformation and living standards. This nucleus would begin its evolution through the mechanisms of a Customs Union and Central Asian Union. Central Asian Union would be a stage in the wider context of integration. On April 30, 1994, the leaders (Nazarbaev, Karimov, and Akaev) of three Central Asian republics (Kazakhstan, Uzbekistan, and Kyrgyzstan) signed the Agreement about Common Economic Space creation in CAU framework. In order to realize the agreement, a number of additional documents were adopted in the fields of migration, military-technical cooperation, banking, etc. As a further step, Russia, Byelorussia, Kazakhstan, and Kyrgyzstan initiated the formation of a customs union in 1996. In 1998, Common Economic Space was transformed into the Central Asian Economic Community (CAEC), and it was joined by Tajikistan. During his official visit to Kazakhstan in 2000, Russian President Vladimir Putin confirmed his support of Eurasian Union initiative, and in the same year the Eurasian Economic Community was established [13]. In 2002, the four countries, Kazakhstan, Kyrgyzstan, Uzbekistan and Tajikistan proclaimed the Central Asian Cooperation Organization (CACO) as the successor to the CAEC. Thus, there have been several initiatives involving Central Asian republics toward establishing an organization for regional cooperation, such as the Economic Cooperation Organization (ECO), Central Asia Cooperation Organization (CACO), Eurasian Economic Community (EEC), the Special Program for the Economies of Central Asia (SPECAs), GUUAM, Shanghai Cooperation Organization (SCO), and Asian Development Bank’s (ADB) Central Asia

Regional Economic Cooperation (CAREC), since the independence [14, pp. 183-195].

In spite of all these efforts, an effective integration process has suffered from institutional and legal weaknesses up to the present time. This failure, for the most part, stemmed from absence of well-educated technical personnel and experts having sufficient formation and know-how of a free market economy and the lack of strong and stable political will in all the related countries. Newly independent republics which had lost their independence under the rule of Moscow have been hesitant to give up part of their sovereignty to a higher mechanism, through which they might be vulnerable to the hegemony of Russia or of each other. In a 1994 comment, President Nazarbaev said: "Since the time of the establishment of CIS, roughly 400 agreements have been adopted. However, as yet there have been no substantive results because individual national governments continue to reject certain provisions and interpret the meaning of the agreements in their own interest" [14, p.185].

### **Economic Cooperation Between Kazakhstan and Kyrgyzstan**

Today Kazakhstan and Kyrgyzstan have the greatest potential for the creation of a Kazakh-Kyrgyz Economic Union. They have very good neighborly relations. They have introduced substantial reforms for economic liberalization. Both countries have the freest market and most liberal economies in Central Asia. Kazakh investment in Kyrgyzstan is substantial and ever-increasing. Kazakhstan today hosts as many Kyrgyz labor migrants as Russia, numbering nearly 200.000, and the number is on the rise. Leadership and societies in both countries are much closer to each other. In the summer season of 2007, about 80 percent of tourists in Issyk-Kul Lake are from Kazakhstan. Kazakh-Kyrgyz economic union as an initial step would play a very important role for further integration of Central Asia [15]. However, even such a target should start with small steps, and concentrate on cooperation in specific sectors at the beginning.

In a Central Asian integration process, compared with European integration process, big words have been uttered before action. It missed the reality that actions speak louder than words. Instead of initiating great projects such as a Eurasian Union or a Central Asian Union, it

would be more effective and operative if two countries, Kazakhstan and Kyrgyzstan, much closer to each other in terms of geographical proximity, economic interdependence, and cultural affinity, deepen functional cooperation in specific sectors with strong and effective legal and institutional mechanisms. Great integrative attempts at the first step, without completing necessary previous steps, would be slow-moving with an inactive decision-making authority, ineffective coordination and operational capacity due to the wide bureaucratic context. There should be small and precise targets within easy reach, and all necessary steps in terms of institutionalization and operation should be taken to attain concrete results. An institutional framework between the two countries should be operationally focused, in terms of supporting, funding and implementing specific programs and projects designed to support the effective integration of the two national economies on specific sectors. If they become successful in such an effort without violating the reciprocity, equality and sovereignty of each other, they will realize that both sides gain from the process and improve the level of their development. When they widen the zone of effective cooperation in additional sectors, by adoption of the notion of a win-win game and mutual trust, an economic integration step by step will be realized. Economic integration across the regions of two countries will be mutually beneficial because it introduces new goods, enhances specialization, encourages efficient allocation of production factors and a more effective division of labor, increases per capita output, and enhances welfare. As a result of the rising volume of regional trade, the number of people engaged in commercial activity would grow impressively. New linkages across borders would create dynamism in the neighboring economies that would bring new opportunities for investment, commerce, transportation, employment, and profit. Rising extensive scale (through a larger space) in economic activities raises research productivity, leading to an industrial revolution and a true and knowledge-based growth at regional level [16]. In further steps, an effective economic cooperation will require the creation of some mechanisms for political integration. There is the most suitable ground for and a certain level of evolution of the above-mentioned processes in these two neighbors, Kazakhstan and Kyrgyzstan, since

their independence. If they can create a strong center of attraction with a more institutionalized and highly profitable economic integration, it will magnetize the other Central Asian republics into this formation. Such an integrative formation will also make these countries united and a greater entity in a stronger and more advantageous position vis-à-vis broader integrative attempts toward the region, under the initiatives of the regional economic powers such as China or Russia.

In conclusion, Central Asian countries in general suffer from different economic problems and lack of sufficient economic growth and welfare because they could not establish efficient mechanisms for the reinvigoration and further improvement of their legacy of regional interdependence. When long-lasting and highly interconnected geographical and human realities of the region are considered, the borders and limitations on cross-border transactions seem to be great hindrance in the way of their real development. Artificial and unnecessary restraints prevent them from pooling their energies and potentials into a regional synergy. Such an economic integration together with socio-political liberalization and democracy will make the region more able to cope with the challenges of global forces. They will also be more able to establish relations with the regional and global powers on equal terms.

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