

Economic integration in Central Asia: challenges and opportunities

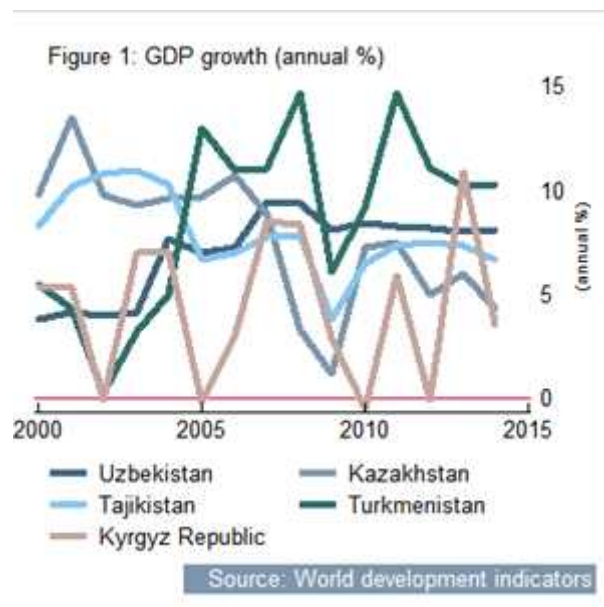
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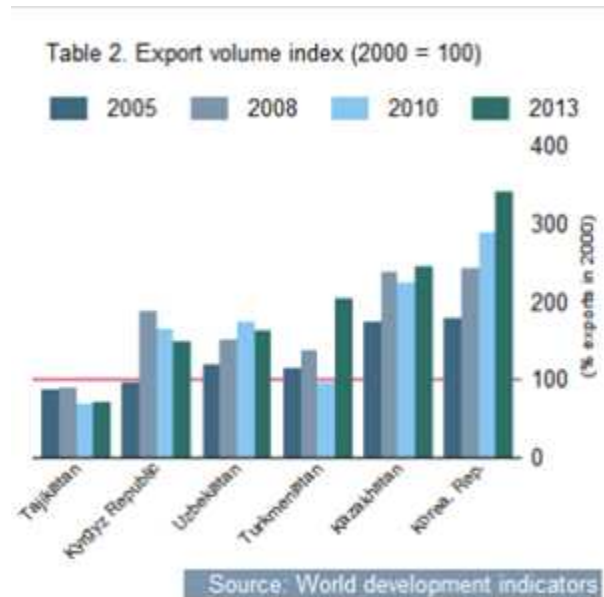
Central Asian economies, as evidenced by a weak correlation of annual growth rates (see Figure 1), are poorly integrated. Uzbekistan, the most populous country and predominantly an agrarian economy at the start of transition, was first to recover from the post-Soviet collapse in output.



Uzbekistan, unlike others, adopted a “gradual approach” to structural reforms making a social protection as a priority (see IMF Staff Uzbekistan country report, 2013). Since 2000, its growth rates have been constantly high at around 8 percent per annum. Kazakhstan, the second most populous country in the region and richest in terms of hydrocarbons, had experienced fast growth between 2000 and 2007, but has slowed down significantly as a result of the global financial crisis since 2008. Average growth rates for Kazakhstan has been at around 5 percent since 2009 (see IMF Kazakhstan country report, 2014). Tajikistan the third largest in terms of

population, affected by the 5-year civic conflict between 1992 and 1997, had high growth rates until 2005. The country was significantly affected by 2008 financial crisis; mainly due to the fall in remittances (see IMF Staff Tajikistan country report, 2008). Kyrgyzstan, an early and fast reformer, experienced too much internal turmoil and frequent civil unrest and also recorded the most volatile growth rates (see IMF Staff Kyrgyz Republic country report, 2013). The growth rates of Kyrgyzstan is very much depends on gold prices in international markets and remittances. Finally, the least populated Turkmenistan has huge reserves of gas deposits, but lags in terms of reforms and transition indicators. Volatile gas prices since 2008 caused fluctuations in Turkmenistan's GDP growth rates. Currently the country has the highest growth rates, driven by robust public investments and gas exports.

With the exception of Tajikistan, Central Asia experienced rapid growth of the export volumes since 2000 (see Graph 2). The increase in export volumes has been mainly driven by favorable external environment: for most of these countries, export growth was driven by the increased production of natural resources and their prices in international markets, like oil for Kazakhstan, gas for Turkmenistan, gold for Kyrgyzstan and gas, copper and gold for Uzbekistan.



Regional trade integration in Central Asia has remained low since the 1990s. Kurmanalieva and Parpiev (2008, p 1.), using data from 1996 to 2005, observe that Central Asian countries, relative to their level of income and geographical location, tend to overtrade with the rest of the world, but significantly under-trade within

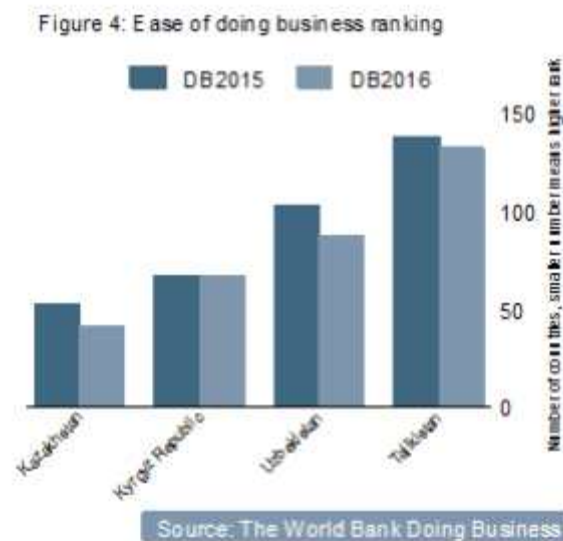
the Central Asian region. Part of the explanation lies in the so-called inter-industry trade, when the Central Asian countries mainly produce and export similar products, leaving little incentive for regional trade.



The lack of economic integration within the region does not allow the economies of the region to enjoy economies of scale from investments and this reduces investments into industries with high value-added. Atlas of Economic Complexity from Harvard University produces economic complexity ranking, according to which countries that produce more sophisticated products of wider varieties are ranked higher. This ranking is available for 3 Central Asian countries and for comparison we also plot this indicator for Russia and South Korea. As the figure shows Kazakhstan, more industrialized relative to all its regional neighbors, has lost in the ability to produce sophisticated and complex products. It seems that significant increase in oil production has reduced economic complexity of the country. Similarly, Turkmenistan, which increased production and export of gas, has also experienced worsening ranking in terms of economic complexity. Russia's ranking of economic complexity has also worsened. On the contrary, South Korea has significantly improved its ranking since 1995. Uzbekistan's ranking has been slightly improving between 2005 and 2010. Uzbekistan has significantly invested into new perspective industries like production of automobiles and auto spare parts, electronics and chemicals. The Economist reports that the complexity index predicts 73 percent of future growth across countries, so Central Asian economies need to pursue strategies to improve this score¹⁾.

¹⁾ See an article "Complexity matters" available on website of The Economist, last visited at url: <http://www.economist.com/blogs/freeexchange/2011/10/building-blocks-economic-growth>

The Central Asian countries have tried to address bottlenecks to greater trade and investment into the region. For example, overall infrastructure and institutional factors that impact overall business environment have seen a marked improvement²⁾. All countries, with the exception of Kyrgyzstan, have improved their ranking in the Logistics performance index, which measures efficiency of the clearance process, quality of trade and transport related infrastructure, ease of arranging competitively priced shipments, competence and quality of logistics services, ability to track and trace consignments, timeliness of shipments in reaching destination within the scheduled or expected delivery time³⁾. However, relative to South Korea, Central Asian economies still have large room for improvement, which may require both more investments and institutional improvement.



Moreover, boosting regional trade may also require improving business environment that theoretically may help private sector in this region to flourish and contribute towards integration into global economy. Recent Doing business report rankings, as Figure 4 shows, for Central Asian economies demonstrate that Kazakhstan, Uzbekistan and Tajikistan have significantly improved their ranking on the ease of doing business. However, the Central Asian countries are among the worst in terms of cross-border trade and have still large room for improvement. It is perhaps takes time to improve since these challenges are no easy to solve.

Importantly, these positive changes apparently suggest that at very high levels all nations in the region are willing to move towards economy based on sophisticated

²⁾ See Doing Business Report for these economies at www.doingbusiness.org

³⁾ Methodology for calculating index is available from the World Bank's website, last visited December 8, 2015 at url: <http://lpi.worldbank.org/international/scorecard>

and diverse goods production with high value added. It seems that there is a consensus that only this kind of economy will enable creation of decent jobs for equitable growth. The easy way to achieve this common goal is to help each other with the decreasing transit and transport costs through building efficient partnership.

[참고문헌]

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Date : 2016. 3. 15.



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