Underlying dynamics of regional (dis-)integration in post-Soviet Central Asia

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Underlying dynamics of regional (dis-)integration in post-Soviet Central Asia

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Abstract

This thesis explores the potential for external actors to promote regional cohesion in post-Soviet Central Asia through a study of the requisite factors, internal to the region, for regional integration to proceed. Specifically, the thesis explores the potential benefits from economic integration, through a study of trade potentials, and the absence or presence of demand for and supply of regional integration policies. The study finds that Central Asian republics may benefit from economic integration through increased intra-regional trade potential as well by pursuing, jointly, trade facilitation with external partners. The study also finds that demand for market enlargement through regional integration from the Central Asian business community is limited owing to the scarcity of growth-oriented businesses. This dearth stems from under-appreciation of free market business models and lack of business skills, as well as business environments, which discourage business growth. Regional economic integration policies are pursued by some Central Asian governments, namely the Kazakh and Kyrgyz governments, though this takes the form of a wider Eurasian integration, not Central Asian regionalism. To the extent integration policies are pursued, they are a reflection of government preferences not bottom-up driven demands by the business community.

The thesis further finds that the pursuit of Eurasian integration is detrimental to the development of Central Asian regionalism, as the prominent role of Russia in the Eurasian framework, discourages participation of other Central Asian republics. The Kazakh pursuit of regional leadership through promotion of Eurasian integration, therefore, contributes to regional fragmentation. Similarly, Uzbekistan's protectionist policies cause fragmentation, for instance by encouraging the Kyrgyz government's pursuit of Eurasian integration. Moreover, the political structures of the Central Asian republics are found to be detrimental to trade facilitation and regional integration policies as powerful elites have vested interest in the *status quo*. Consequently, attempts to promote regional cohesion in Central Asia by actors external to the region are deemed to be premature.

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Table of contents

List of tables

List of graphs

Abbreviations and acronyms

AFTA	ASEAN Free Trade Area
ASEAN	Association of South East Asian Nations
ASEM	Asia Europe Meeting
CACO	Central Asia Cooperation Organization
CAR	Central Asian republic
CAREC	Central Asia Regional Economic Cooperation
CES	(Eurasian) Common Economic Space
CGE	computable general equilibrium
c.i.f.	cost, insurance and freight
CIS	Commonwealth of Independent States
CMEA	Council for Mutual Economic Assistance (COMECON)
CSTO	Collective Security Treaty Organization
DOTS	Direction of Trade Statistics
EaEU	Eurasian Economic Union
EBRD	European Bank for Reconstruction and Development
ECO	Economic Cooperation Organization
ECU	Eurasian Customs Union
EDB	Eurasian Development Bank
EEC	Eurasian Economic Commission
EU	European Union
EurAsEC	Eurasian Economic Community
FDI	foreign direct investment
FSU	former Soviet Union
FTA	free trade area

GBAO	Gorno-Badakhshan Autonomous Province
GDP	gross domestic product
GVC	global value chain
IBC	International Business Council
ICG	International Crisis Group
IFI	international financial institution
IMF	International Monetary Fund
ISAF	International Security Assistance Force
i/w	interview with
IWPR	Institute for War and Peace Reporting
JIA	Young Entrepreneurs' Association
KNB	Committee for National Security of Turkmenistan
KZT	Kazakh *Tenge*
MENA	Middle East and North Africa region
NDN	Northern Distribution Network
NDS	National Development Strategy of Tajikistan
NGO	non-governmental organisation
NLS	non-linear least squares
NTB	non-tariff barrier
OLS	ordinary least squares
PRC	People's Republic of China
RCA	Reporting Central Asia
RF	Russian Federation
RFE/RL	Radio Free Europe/Radio Liberty
ROW	rest of the world

RTA	regional trade agreement
RVC	regional value chain
R&D	research and development
SCO	Shanghai Cooperation Organization
SCT	supply chain trade
SMEs	small and medium sized enterprises
SNB	National Security Services of Uzbekistan
SOE	state-owned enterprise
SPPT	Union of Industrialists and Entrepreneurs of Turkmenistan
SPT	standardised trade potential
TMT	Turkmen *Manat*
TPP	Chambers of Commerce and Industry of Tajikistan
TRIMs	trade-related investment measures
TRS	technical regulation and standards
UNDP	United Nations Development Programme
USD	United States Dollar
USSR	Union of Soviet Socialist Republics
UZS	Uzbek *Som*
WDI	World Development Indicators
WEO	World Economic Forum
WTO	World Trade Organization

Introduction

Over the past ten years states external to post-Soviet Central Asia have sought to facilitate regional, economic cooperation between the Central Asian republics (CARs) through interregional frameworks. In 2004 Japan initiated the Central Asia plus Japan dialogue, an interregional framework *inter alia* aimed at facilitating regional cooperation in Central Asia. Later, in 2007 the European Union (EU) launched a Central Asia strategy, similarly committed to bringing the countries closer together through political cooperation and economic development; while the Republic of Korea (henceforth Korea) introduced its Korea-Central Asia Cooperation Forum, also with intentions of facilitating greater regional cohesion in Central Asia. Even earlier, countries neighbouring the region, notably Russia and China, sought to cooperate and integrate with the CARs in wider regional frameworks. Russia has engaged Central Asia through a series of post-Soviet integration frameworks culminating in the Eurasian Economic Union (EaEU), while China has sought integration with Central Asia through the Shanghai Cooperation Organization (SCO), which also involves Russia. Meanwhile attempts at fostering regional cohesion amongst the Central Asian republics alone have failed. In a review of Central Asian area studies, Sally Cummings (2012: 135, 169), thus, concluded that external actors have served to temper regional tensions between the Central Asian states and facilitated the management of shared challenges, where intra-regional cooperation has disappointed.

Central Asia faces many significant challenges of a cross–border nature. Indeed, the cross-border nature of environmental and other challenges in Central Asia leaves the region susceptible to wars motivated by for instance access to resources (Ibid: 153). This points both to the relevance of cooperative solutions but more fundamentally, also, the need to manage relations so as to avoid instability, or in the worst case, war. Islamist terror and drug trafficking are examples of challenges of a transnational nature, which affect Central Asia. Hizb ut-Tahrir is active in all Central Asian states; and while not espousing a violent ideology, it may be a step on the ladder of radicalisation towards militancy (Ibid: 115-117). Similarly, the use and distribution of water and energy resources are strongly interlinked and of a cross-border nature. Whilst downstream countries, Kazakhstan, Uzbekistan and Turkmenistan, are dependent on upstream countries, Tajikistan and Kyrgyzstan, for river flows; the latter are dependent upon the former for electricity supplies. 90 per cent of water resources for Central Asia originate in Kyrgyzstan and Tajikistan, which are only allocated 0.4 and 11 per cent of available water, while Kazakhstan, Turkmenistan and Uzbekistan together receive 73 per cent (Ibid: 152). The lack of cooperation has led to a situation in which upstream countries pursue expensive hydro-electricity projects, which would augment their domestic electricity supplies, while destabilising the irrigation systems of the downstream countries. The only way to escape this situation is through a cooperative solution.

Twenty years since independence, regional cohesion in Central Asia continues to be weak, however. This begs the question whether the factors requisite for regional cooperation to proceed are present in Central Asia, and by extension, what the role of an external actor seeking to facilitate regional integration could, or should, be. As Irina Gurova and Maria Efremova (2011: 59) have noted, students of Central Asia have not given sufficient consideration to the question of prerequisites for economic integration within the post-Soviet space. This thesis will seek to explore these themes.

Economic development and integration

The Soviet Union brought previously unknown levels of development in terms of infrastructure, human and technological development to Central Asia. However, in the two decades since gaining independence socio-economic development has lagged behind, creating problems of unemployment and poverty. We do not have to look far to see how economic opportunities for all citizens are critical for societies' political stability. In December 2010 a Tunisian fruit vendor in protest against seemingly unjust hindrances to his small business unknowingly triggered what has come to be known as the Arab Spring. Protests across the Middle East and North Africa (MENA) have seen ordinary people demand improvements to their economic situation and opportunities as well as political freedoms. The Arab Spring has not reached Central Asia but has unnerved Central Asian leaders and even caused Russian officials to encourage reforms in Central Asia (Laruelle and

Peyrouse, 2013: 17);[1] and for good reason. The levels of poverty and inequality in Central Asia are high, and political freedoms for people to openly express their frustration are lacking; a socio-economic picture not unlike that of the MENA-region. While nation-wide protests leading to regime change have hitherto been limited to Kyrgyzstan; Kazakhstan has seen a series of protests with roots in people's demands for improved socio-economic conditions.

Unemployment, poverty and authoritarianism encourage the youth to join Islamist groups, including the banned Hizb ut-Tahrir (Spechler, 2008: 5). Thus economic development is directly linked to the region's hard security challenges. Kazakhstan, which was previously thought less at risk of Islamic terror, saw a number of terrorist attacks in 2011 (Zenn, 2013). The terror risk is augmented by the proximity of Afghanistan, and the approaching withdrawal of International Security Assistance Force (ISAF) troops. Afghanistan poses additional challenges to the CARs, not least the issue of drug trafficking. Economic development is thus a challenge with direct, potentially positive, security implications both as regards domestic social instability as well as intergovernmental relations over resource use, as noted above.

Whilst the issue of water and energy, may seem an obvious starting for studying regional relations given the need for cooperation on the issue; I believe the very perception of it as an integral part of the republics' national securities acts to undermine efforts towards cooperation on this issue. Moreover, as others have pointed to before, the sensitive issue of cotton production is intimately linked to the problems of water management, and the two cannot be separated (Partzch, 2011: 178). Given the vested economic interests in the cotton industry, as discussed below, a solution to water management problems is unlikely to be found without addressing fundamental issues of economic, and thus political, structures. Similarly, the challenge of drug trafficking has economic aspects including corruption and organised crime, in some cases linked to political elites, while also

[1] Alexey Malashenko, for instance, has highlighted how the Arab Spring is being keenly studied in Tashkent, Uzbekistan (Chatham House, 2013).

inherently being a security issue addressed through border management and with potential links to Islamic militants (Cummings, 2012: 150).

An underlying assumption of the current study is that cooperation in the area of economics, specifically trade, may build trust between the states, political and non-political actors and thereby smooth cooperation within other areas. The focus in the thesis is therefore on economic integration, trade facilitation in particular, which has historically been seen to facilitate such trust-building between nations in conflict – for instance in the case of European and Southeast Asian integration.

The CARs all share the legacy of Soviet central planning, unfamiliarity with open, market economies and the rule of law. During the Soviet era, the republics were all dependent on Moscow for economic transfers. These were the poorest republics of the Union of Soviet Socialist Republics (USSR) in per capita terms; economies on the margins of the Soviet economic complex supplying industry in the Western parts of the Union with raw materials in the form of oil, gas, cotton and grain. Industry was only rudimentarily developed and anything from machinery to consumer goods was imported from other Soviet republics; thus, they all faced stark challenges in terms of economic development (Dawisha and Parrott, 1994: 28). The breakup of the Soviet Union not only involved establishing independent state structures and institutions but also independent economies. As the vertical integration that characterised the Union vanished, new economic systems needed to be developed. This was a significant challenge in a part of the world that had not, prior to Russian colonisation and subsequent inclusion in the USSR, known of modern state structures.

During the Soviet era, Central Asian economies were part of a closed trading system, the Council for Mutual Economic Assistance (CMEA), based on nearly complete specialisation, not necessarily founded on comparative advantages. Since then the geographical, as well as the sectoral, patterns of trade have gradually changed. However, a study by the European Bank for Reconstruction and Development (EBRD) (1999: 90-92) showed that after nearly ten years of transition, in 1997, the five Central Asian states continued to export significantly more than expected to other transition economies, relative to their trade with the EU and the rest of the world (ROW). The figures indicate that the Central Asian economies had failed to integrate with the world economy, and that potential for further trade with the ROW was significant. The CARs, thus, had not turned their location at the centre of the Eurasian landmass into a driver for economic growth.

The five post-Soviet Central Asian states are surrounded by some of the world's more dynamic economies, including China, Russia, India and the EU. The failure to integrate with such centres of economic growth may be explained by a range of factors: landlockedness and distance to markets, the legacy of the USSR infrastructure, small domestic markets, and partial (or non-existent) economic and political reform. Moreover, all these factors are arguably compounded by the lack of cooperation between the states. As Vladimir Paramonov and Alexey Strokov (2006: 2) have phrased it: '*The history of Uzbekistan is a success story when there were integration processes and there was a free movement of capital, goods and people. ... On the other hand the history of Uzbekistan is the history of failure when there was economic disintegration'*.

The global economy today is increasingly dominated by trade in intermediate goods through regional and global value chains, which only works to amplify the need for integration through trade facilitation and infrastructural links. Marléne Laruelle and Sebastien Peyrouse (2013: xviii) have recently highlighted that most contemporary studies of Central Asia ignore such questions of globalisation and the link between economic development and geopolitical choices. While it is beyond the scope of current study to identify possible future comparative advantages of the Central Asian states, a consideration of Central Asia's potential for integrating in regional and global value chains is warranted.

The assumption underlying the study is that socio-economic development requires openness to trade and integration into the world economy, and that this may facilitate expansion of domestic production and economic growth. Openness to trade enables import of technological and human capital advances, and specialisation according to comparative advantage. Moreover, it is assumed that a reduction of inequality is necessary to ensure that economic growth is sustainable and promotes stable societal relations, and that effective economic exchange depends on the development of strong institutions. Economic integration can be an instrument to achieve these objectives as it entails market enlargement and increased openness to trade and, in the right specification, may prompt institutional development. These assumptions will be further developed in the following chapter.

Research questions

Regional integration within Central Asia has hitherto largely failed, including cooperation on the issues of water use and energy sources, which are perceived as critical to the viability of the respective states and their economies. On issues of both hard security, such as terrorism, and economics, wider regional initiatives have had greater success, for instance in the form of the Shanghai Cooperation Organization (SCO) and the Eurasian Economic Community (EurAsEC), the former including China and Russia, the latter only Russia. This suggests, as noted above, that external actors may facilitate regional cooperation. Within the literature on interregionalism -that is, cooperation between two distinct regions- the notion of 'regionalism through interregionalism' has developed. This concept describes the situation by which interregionalism leads to region-building in the less cohesive of the two interacting regions. The thesis sets out to explore whether the requisite factors for regionalism to develop in Central Asia are present and for external actors to play a role in facilitating regional integration.

The academic literature has explored a tendency toward ineffectiveness of regional forums involving Central Asia. However, there has been less effort in identifying which prerequisites for regional integration are missing; thus enabling a debate about potential remedies. As demonstrated with the issue of water and energy, it is hard to imagine a way forward that does not involve regional cooperation. Identifying the prerequisites for integration, and which are present or missing, will be an essential stepping stone for moving forward. As the Chinese general and military strategist Sun Tzu allegedly noted: tactics without strategy is like noise before defeat.

The research questions to be explored are:

1. *Would economic integration impart economic benefits on the Central Asian republics?*
   1.1. *Where do CARs have unexploited trade potential?*
   1.2. *Are their patterns of trade similar?*
   1.3. *Could intra-regional integration boost trade extra-regionally?*
2. *Are factors requisite for economic integration to happen present in Central Asian republics?*
   2.1. *Is there demand for economic integration in the Central Asian republics, and if not, why not?*
   2.2. *Is there (potential for) supply of economic integration policies in Central Asian republics, and if not, why not?*
   2.3. *Is there regional leadership to drive Central Asian regional integration?*

Following an exploration of these questions, I will discuss the potential for actors external to the Central Asian region facilitating regional economic integration.

Definitions and scope

In 1993 the former Soviet Central Asian republics themselves adopted the term Central Asia as a designation for their five countries (Akiner, 1994: 32). A clear spatial delimitation of what is covered by the term Central Asia has, however, been elusive, which reflects that such definition cannot be made solely with reference to geography but must take into account factors such as culture, economic links, historical bonds and self-perception (Ferdinand, 1994: 1).

The term region is not understood purely as a geographical label. The term also includes economic, social and political values and objectives, which are shared by the states comprising the region. Regions are dynamic entities, which interact with both domestic and external stimuli, continuously adjusting states' interests. Region-building contains a functional dimension, as regions differ in accordance with the role they are supposed to play, for example within the realms of the economy or security. It follows that regional forums can overlap as their membership is defined by the role they perform (Hänggi, Roloff and Rüland, 2006: 5). For instance, the region (post-Soviet) Central Asia may be seen as a construct, coexisting with overlapping constructs such as Eurasia. The construct of Central Asia considers Russia an external force, whereas the concept of Eurasia includes Russia as an authority internal to the region (Qoraboyev, 2010: 225). With this in mind, Russia is, thus, not a typical external actor to the region of Central Asia. Rather it is a promoter of an overlapping regional construct, namely Eurasia. Similarly China is contiguous to Central Asia with its Western province Xinjiang, which has both natural and cultural features and challenges in common with the CARs.

With that in mind, it should be clear that by defining the five post-Soviet Central Asian republics as the region of study, I do not suggest that this is a definitive entity. However, it is recognised that there are natural and man-made phenomena -from geography over history and culture to infrastructure and language- that tie the five countries together. Furthermore, the nature of the challenges some of these phenomena pose are not only common to the five republics but rely on a cooperative response. As Uzbekistan's President Karimov has written '*the Central Asian region is a knot of various political, economic, military, transport and ecological problems'* (Karimov, 1997: 4).

Forces of globalisation have impelled cooperation between states, particularly among developed countries. Cooperation enables states to reap mutual benefits by allowing each other influence over domestic regulation; each state benefiting by influencing the other in a *quid pro quo* (Jackson and Sørensen, 2003: 282-283). Cooperation between states can be more or less formalised through institutions but often refers to more informal interaction based on non-binding agreements (UNDP, 2005: 23). Integration can be seen as one particular form of cooperation, whereby states manage the forces of globalisation. Cooperation itself being a diffuse concept escaping precise definition and, thus, framework for study, I will in this thesis apply a framework for the study of regional integration as an expression of cooperation. Integration as a concept involves two main ideas; firstly, it refers to '*the degree of coherence in a system or* [secondly] *a process which increases the degree of coherence in a system*' (Kelstrup, 1998: 18). The thesis explores the desirability of such cohesion on an economic level, and the requisite factors for a process increasing such cohesion to occur.

The exploration of Central Asian integration with the world economy focuses in particular on relations with the European and Asian continent, between which Central Asia is located. In this context, the EU and its member states act as a proxy for Europe as a whole. During work on the thesis the role of ASEAN was given particular consideration. However, as the data in the following chapters will illustrate, trade relations between Central Asian republics and ASEAN member states currently is limited. Moreover, fieldwork in the region revealed that ASEAN and its member states are considered relatively insignificant players. Consequently, within Asia, the thesis is primarily focused on exploring relationships between the CARs and China, Japan and South Korea.

Methodology

In answering the research questions I intend to employ two diverse methodologies. The first cluster of research questions addresses the issue of trade potentials and thus requires a quantitative approach. The issue of trade agreements and integration schemes are traditionally studied *ex ante* by means of a computable general equilibrium (CGE) model. However, as elaborated upon below, I will instead employ a gravity model approach, which has traditionally been used for studying trade potentials between economic regions, particularly in the case of transition economies. The second cluster of questions, meanwhile, commands a qualitative approach. Within the theoretical framework of *The Logic of Regional Integration* (Mattli, 1999), which outlines the requisite forces for integration to occur, I will analyse various qualitative sources, from policy statements to interviews with relevant stakeholders throughout the region.

Gravity model

Ex ante studies of economic integration typically employ CGE-models, which are comprehensive economic models describing all elements of an economy and their interactions making them apt for evaluating policy choices (Burfishcer, 2011: 10-11). However, this approach has certain drawbacks. As the models consist of a large number of underlying equations, the results are difficult to evaluate. Also, the CGE is a simulated rather than estimated model, which leaves its reliability uncertain (Anderson and van Wincoop, 2001: 3). Most importantly, owing to the complexity of such models, their use involves detailed data, which can be difficult to obtain for developing economies. I have made serious attempts to obtain data for the countries in question but was only able to obtain such for Kazakhstan and the Kyrgyz Republic. In this regard, it should also be noted that the quality and veracity of statistics published by Central Asian republics is often considered questionable. Consequently, simpler methodologies may be preferable.

Instead, I have chosen to employ the gravity model of trade, which has become a '*workhorse'* model of trade studies (Cernat, 2003: 7); advantages of which include the ease of access to the necessary data (Baldwin and Taglioni, 2006: 1). The gravity model takes its name from Newton's law on gravity. It was suggested in 1962 by Jan Tinbergen that a similar functional form could be applied to trade flows: that is, that a trade flow between two countries could be determined as the product of their economic mass with the factor of proportion determined by the degree of trade resistance between them (Helpman, Melitz and Rubinstein, 2008: 442). The specifics of the model and its application will be outlined in detail in chapter 3.

Whilst the model has become standard for studying economic integration *ex post* (Baier and Bergstrand, 2009: 63), it is not without merit in addressing the research question posed above. Four types of applications of the model can be discerned. Firstly, the gravity model is employed to study the cost of trade barriers, the so-called border effect. Secondly, the model is used to explain trade patterns, separating inter- and intra-industry trade. Thirdly, the model is, as mentioned, often employed to study, *ex post*, the effects of regional trade agreements (RTA); and, fourthly, the model can be used to calculate the trade potential between two economic regions (ITC, 2003: 3-4).

Gravity model studies of regional integration schemes include one or more dummy variables to represent the economic impact of the RTA. The model is then estimated, and the effect of the RTA evaluated on the basis of whether the parameter estimates are statistically significant, and of their operational signs (Cernat, 2003: 9). As this approach is directed at *ex post* studies, it is not appropriate for current purposes. Conversely, employing the model to study trade potential is highly pertinent. For such purposes, a gravity model is estimated on the basis of a sample of countries judged to be representative of international trade flows. This model is then used to calculate potential trade flows of the countries under study. Comparing the expected trade flows with observed trade, allows inferences of the extent to which the trading partners have further trade potential (ITC, 2003: 4). Specifically, if the expected trade flows are higher than observed trade, the model is interpreted to indicate that the two trading partners have unexploited trade potential. Conversely, if expected trade flows are lesser than observed trade, the model is interpreted to suggest that the two partners are over-trading, that is, trading above the level expected given the bilateral characteristics of their economic relationship. This is the approach taken in the following to explore trade potential within Central Asia and of Central Asian republics with international trade partners. The emphasis will be on Europe and Asia representing two of the three major poles in the global economy between which Central Asia is located. In order to explore the economic potential inherent in regional integration *ex ante*, I furthermore apply the model in a novel way by contrasting the benchmark model with alternative models, which simulate different configurations of regional integration within and beyond the Central Asian region.

If unexploited trade potential between the Central Asian republics and the trading partners is suggested by the following gravity model analysis, it would suggest that in the long run, trade levels will converge towards the expected without the need for characteristics of bilateral relationships to change. If, however, the analysis finds that the CARs trade more than expected with a given trading partner, it suggests that to increase exports to these partners, the CARs would need to actively implement policies aimed at this (Ruiz and Vilarrubia, 2007: 6). Furthermore, the results from simulating Central Asia as a single region, and contrasting of these with the results for the CARs individually will give an indication of whether the states would benefit from integrating regionally.

The specific estimation procedures of the gravity model applied is explored further in chapter 3. It should be noted, however, that for current purposes the model serves to study trade volumes and that the estimation cannot be extended to draw conclusions regarding the impact of country-specific explanatory variables such as the impact on trade of the quality of infrastructure and institutions. Such analysis requires a different estimation methodology to the one employed in this thesis (Bacchetta et al., 2012: 109).

Qualitative analysis

The second part of the analysis will address the forces for and against economic integration within the region. The analysis will be framed by Walter Mattli's *The Logic of Regional Integration* (1999), which is outlined in the next chapter. Briefly, the framework suggests that two primary forces are required for regional integration processes to take off: firstly, a demand for integration stemming primarily from domestic business actors seeking the development of a regional market, and secondly, supply of regional integration demonstrated in national leaders' willingness to cooperate with partner states.

The data for the analysis of supply and demand principally rests on interviews conducted, primarily in the region in the autumn of 2013. I have conducted 108 formal interviews with 118 participants including government officials, business association representatives, businessmen and -women, local academics, experts and NGO representatives, representatives of the international community and donor organisations. These groups of stakeholders were chosen on the basis of the theoretical framework, which suggests that the business community are most likely to advocate and demand regional integration, while integration policies are supplied by governments. Academics, experts and representatives of the international community were included so as to triangulate the information given by stakeholders with a direct role in the processes under study. Moreover, the latter group were instrumental in gaining data on the role of external actors in the region. A full list of the 108 interviews is provided in the bibliography. The majority of interviewees have asked for anonymity, in most cases allowing disclosure of their profession. To ensure anonymity when referencing the interviews as sources, the reference provided is a code generically referring to the participants' profession, for instance "i/w BA" indicates interview with representative of business association. A key to the referencing of interviews is given in appendix F and the relevant key included in the list of respondents in the bibliography. Where anonymity has been fully waivered, the respondent is referenced with surname, number with which the person is listed in the list of interviewees in the bibliography, as well as the relevant key, for example "Drakinos (#99/IF)" indicate that the interviewee referenced is Alkis Drakinos, a representative of an international financial institution, full details listed as number 99 on interviewee list.

Interviews were conducted primarily in capital cities or provincial capitals. Fieldwork in Central Asia involved visits to Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan between 24 August and 28 November 2013. Participants were identified through my personal and professional network and through snow-balling.

Interviews were guided by a semi-structured interview guide formulated on the basis of theory. Interviews were not audio recorded with a view to ensuring as free an exchange as possible. With Central Asia being dominated by authoritarian governments and subject to Soviet legacy, it was my expectation that participants would be more comfortable talking about economic relations and policy, in many cases considered high politics, if the interview was not recorded. All interviews were instead documented in hand-written notes during interviews with notes subsequently typed on my laptop and saved as encrypted files. Interviews were coded according to theoretical concepts upon return to London during winter and spring 2014. Given the lack of *ad verbatim* transcription of interviews, few direct quotes are included in the text. When I have opted to include excerpts of interviews, these will either be paraphrased or short phrases or terms, which I recorded *ad verbatim* in my notes. The latter will appear italicised in quotation marks, the former merely in quotation marks.

The majority of interviews were conducted in English; a few in Scandinavian languages and one in a combination of German, Russian and English. In the case of the few interviews that were conducted in Russian or in English but where the participant requested the presence of an interpreter, a local professional interpreter or a local research assistant, all subject to confidentiality agreements, were employed by me to facilitate the interview.

In addition to interviews, the analysis is based on other primary sources, including online news and analytical articles, as well as secondary literature.

Overview

The following chapter outlines the theoretical underpinnings of the project. This includes both theories of international trade and economic integration, which underlie both the assumptions of the study, the gravity model approach and subsequent analysis of trade performance and potential, as well as potential for regional economic integration. Additionally the chapter outlines in more detail the theoretical framework for studying the underlying dynamics of regional integration as well as theories on interregionalism and so-called regionalism through interregionalism.

Chapter 2 presents a literature review serving to illustrate the state of, and differences and similarities between, the economies of the region, as well as intra- and extra-regional trading relationships and existing studies thereof. Furthermore, the chapter gives an overview of historic and existing integration schemes and cooperative frameworks; as well as existing relations between the CARs and the EU and Asian partners. In chapter 3 the gravity model to be applied in the analysis is presented along with the findings of its application on trade within Central Asia and between Central Asian republics and global trade partners with a focus on Europe and Asia. Moreover, the chapter presents an analysis of the potential benefits to regional integration, including the impact of suggested integration schemes on extra-regional trade. The chapter addresses the first cluster of research questions, that is, whether economic integration may offer economic benefits to Central Asian republics in the form of increased trade potentials.

In chapter 4 I analyse the underlying dynamics believed to enable regional integration processes. The chapter, thus, explores the second cluster of research questions, namely whether there is demand on part of business communities for regional integration, and whether regional governments are likely to supply regional integration. Chapter 5 subsequently discusses the potential role of external actors in facilitating regional integration in Central Asia. Lastly, the conclusion will discuss the findings, draw out conclusions and point to perspectives for policy making as well as for future research.

Chapter 1 Theoretical framework

This chapter introduces the theoretical underpinnings for the assumptions and research questions outlined in the introduction, while at the same time introducing the theoretical framework guiding the subsequent analyses. Section 1.1 outlines the theory of international trade, the links between openness and growth, the importance of efficient institutions for economic development as well as the theory of economic integration with a particular emphasis on less developed economies. Section 1.2 then outlines the theoretical framework for analysing the factors facilitating integration processes. As opposed to classic political science theories on regionalism and regional integration, the chosen framework focuses specifically on what factors are requisite for economic integration schemes to develop. Lastly, section 1.2 also introduces the theory of interregionalism, specifically the concept of regionalism through interregionalism.

1.1 International trade and economic integration

This section initially presents a brief outline of the principles underlying the theory of international trade, which implies that exchange of goods contributes to the creation of economic wealth. Secondly, the section considers the links between trade and growth, as well as the role of institutions in economic development, before turning to economic integration theory with which I will seek to draw together the strains of thought on trade, growth and institutions.

1.1.1 Theory of international trade

The existence of distinct political entities and the consequent potential for impediments to trade yield problems outside the scope of traditional economics and has, thus, given rise to the field of international economics. The latter can be divided into a pure theory of international trade, which deals with causes, structure, effects, volume, and gains from international trade and assumes that trade takes place as barter; and a theory of international money focused on the issues arising from *inter alia* balance-of-payments disequilibria (Gandolfo, 1994: 3-5). In the following, I present the basics of the pure theory of international trade in order to establish the benefits to economic development from trade; the theory contains two fundamental models the classical, or Ricardian, theory, and neo-classical theory.

Orthodox theory holds that international trade benefits nations by allowing them access to goods at lower prices than under autarkic conditions or by providing access to collections of goods that would be unattainable under autarky (Ibid: 54). Orthodox international trade theory starts from the assumption of perfect national mobility and perfect international immobility of factors of production, and the assumption of perfect mobility, nationally and internationally, of produced goods. Classical theory suggests that trade is possible and will benefit countries involved, when there is a difference between comparative costs of production of a given good, and when the terms-of-trade fall between the (extreme) comparative costs being equal to neither. A great advance of international trade theory was the demonstration that even in cases when one country has absolute advantage in production of all goods, international trade is not only possible but beneficial to all countries involved (Ibid: 8). As long as the two conditions are met -difference in comparative costs and terms-of-trade lying between these- international trade is beneficial to all involved countries, each producing according to its comparative advantage.

Neo-classical theory explains the presence of international trade with variations in factor endowments, technology and tastes between countries.[2] Such variations result in differences of equilibrium price ratios between countries, which create scope for international trade; similarly to classical theory, international trade is possible when the international price ratio (terms-of-trade) lie between the internal equilibrium price ratios (Ibid: 42).

Gains from trade

According to neo-classical theory, the gains from trade can be divided into a consumption and a production gain; both represent an increase in a country's welfare.

[2] Giancarlo Gandolfo (1994: 5) argues that the Heckscher-Ohlin theory can be considered a special case of neo-classical theory in which factor endowments and tastes are held constant.

The consumption gain represents a welfare increase for the consumer in that international exchange allows a shift in consumption to a more cheaply priced good, thus, allowing the consumer to consume more of it or freeing up income for other consumption. The production gain works to increase welfare by making production patterns more efficient through specialisation (Ibid: 56-57).

International trade is beneficial for the world as a whole, as well as individual countries. The maximum welfare of society can be interpreted as the maximum of consumption possibilities. Under autarky, consumption possibilities equal production possibilities. Under conditions of international trade, consumption possibilities are expanded by the consumption gain; consequently, international trade represents an increase in society's welfare (Chacholiades, 1978: 427-431).[3]

Theory of commercial policy

Imposition of various trade barriers are often referred to as expressions of protectionism, which can be defined as a government intervention causing divergence between domestic and world relative prices of the same goods (Gandolfo, 1994: 134). Protectionism can be based on economic motivations, such as the argument on infant industry protection according to which developing industries require protection in order to reach a level at which they can compete internationally. Alternatively, protectionist initiatives can be based on non-economic motivations such as national security considerations. Protectionism is thus not necessarily irrational but can be an expression of non-economic considerations trumping economic objectives (Ibid: 135-137, 141-142).

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[3] The explanation for why international trade is beneficial for individual countries and the world as a whole follow Miltiades Chacholiades (1978), whose explanation is based on a Paretian welfare function. The latter involves the general ethical assertion that it is advantageous to make one person better off without making anyone worse off; that is, it does not involve interpersonal comparison (Chacholiades, 1978: 417). Social welfare functions aim to establish the socially optimal allocation of resources and rewards in an economy based on interpersonal comparison, and thus require value judgements. Social welfare functions express the welfare of society as a function of individuals' utility. Pareto optimality defines economic efficiency at which production and consumption cannot be reorganised with a view to improving utility of some without being to the detriment of others. In a paretian welfare function, welfare is improved (diminished) if as a minimum one person's utility is improved (diminished) without change to any other's utility (Henderson and Quandt, 1980: 286, 308).

When talking of barriers to trade, one typically distinguishes between tariffs and non-tariff barriers (NTBs); the latter including *inter alia* quantitative restrictions, duties and subsidies, as well as standards and regulations. The imposition of a tariff leads to reduction in demand of the good, an increase in the domestic supply of the good and a decrease in imports of the good. Overall, a tariff represents a net cost for society because the consumer surplus (the excess of the price that consumers would be willing to pay over that which they actually pay, rather than forego the good) is reduced by more than the sum total of the tariff revenue and increase in producer surplus (firms' profit), which together represent the economic benefits to society (Ibid: 109-110).[4] In the general equilibrium, the effect of a tariff on the volume of trade can be divided into the import and export effect; both decrease by the sum of the consumption and production effects. Thus, the net result of a tariff imposition is a reduction in the volume of trade. Though the imposition of a tariff has a fiscal revenue effect, the net result is a social cost represented by the decrease in the value of real national output (Ibid: 112-116).

A tariff imposition will improve the terms-of-trade of the country imposing the tariff by causing a decrease in the international relative price of the imported commodity. However, the improvement in terms-of-trade for the tariff-imposing country will come at the expense of its trading partner(s). Though it is not possible to determine whether world welfare is increased or decreased, for the individual country there always exists an optimum tariff situation superior to free trade. This, however, disregards the fact that trade partners, plausibly, will retaliate by introducing tariffs of their own seeking to recover part of their loss. Such retaliation may continue through a tariff war, the result of which cannot be determined *a priori* (Ibid: 116-122). It is important to note, however, that small countries cannot influence world prices and therefore generally lose out from imposing trade barriers (Hoekman and Kostecki, 2009: 32).

[4] It can be argued that the economic cost of protection in addition to the reduction of the consumer surplus includes administrative costs from customs and border controls. Assuming full employment, such administrative costs represent a straightforward cost; however, if this is not the case the administrative costs can involve an employment effect (Gandolfo, 1994: 111).

Other barriers to trade include quotas, subsidies, duties, embargoes, and state trading. The effects of import quotas are similar to those of tariff imposition, though the government does not collect fiscal revenue (Gandolfo, 1994: 123). Tariffs are superior to quantitative restrictions for a number of reasons, *inter alia*, that they are transparent, maintain the link between domestic and foreign prices, thereby ensuring that the more efficient producers stay in business and reduce lobbying incentives (Hoekman and Kostecki, 2009: 185-187). Export duties have the opposite effect to tariffs by inducing producers to shift their supply from foreign to domestic markets, the domestic price decreases to the benefit of consumers and detriment of producers. The net result, however, is also a social cost (Gandolfo, 1994: 125-126). Embargoes are used to ban trade in specific commodities with certain countries with a view to exerting political pressure or blocking access to technology. Through state trading a government can conduct a country's international trade by itself, creating monopolistic-monopsonistic power (Ibid: 134-135).

Technical regulation and standards (TRS) can also inhibit trade, when they vary between countries. For instance, to the extent that variation in TRS raises the cost of production, they may act as a barrier to entry, thus, inhibiting cross-border trade. The facilitation of international trade in the face of market segmenting-TRS, thus, requires mutual recognition of standards or harmonisation thereof. Developing countries, in particular, are disadvantaged by TRS as they often lack facilities to comply with or check compliance with standards (Hoekman and Kostecki, 2009: 236-240). Latterly, trade-related investment measures (TRIMs) can act as a trade barrier. TRIMs are used to ensure that foreign investors meet certain standards of performance, for instance the use of domestic inputs in production. Local content requirements are the most prevalent form of TRIMs. While equivalent to a tariff imposition local content regulations are considered inferior to tariffs because the government does not earn revenue (Ibid: 260).

It is clear that from a traditional economic perspective, tariff and other trade barriers distort the international market. According to orthodox theory, liberalising trade policy, or eliminating trade barriers, brings benefits on two levels. For the economy as a whole, resources are allocated more productively as they are directed towards activities in which the economy enjoys a comparative advantage.

Meanwhile, consumption opportunities expand as the increased efficiency in production leads to income increases and improved opportunities for buying foreign goods and services. These gains are also found at industry-level, where more productive firms in the industry expand at the expense of less efficient firms, which either contract or fail. Heterogeneity within industries is a key source of welfare gain from economic liberalisation (Ibid: 32-33).

Nevertheless, in the real world elimination of tariffs and other barriers may not necessarily increase economic efficiency, nor will the imposition of further barriers necessarily decrease efficiency. According to the 'theory of second best' once one or more Paretian conditions are violated, it does not automatically follow that the second best situation is that in which all remaining conditions are satisfied.[5] In other words, one cannot *a priori* determine if eliminating or replacing one violation of Pareto optimality with another will improve or worsen the situation.[6] This has direct implications for considerations of real world economies where distortions and restrictions to free trade are rife; paradoxically a protectionist policy can improve on an (already suboptimal) situation (Gandolfo, 1994: 142-144).

Illicit trade

Refinements have been made to the orthodox theory of international trade; for instance, a loosening of the assumption of absolute immobility of factors and accommodating for the uncertainties characterising real world trade. Of particular interest in the case of Central Asia is the economic effect of illicit trade.

Previously smuggling was considered to improve economic welfare as it represented an avoidance of tariffs and other trade restrictions, thus amounting to a partial removal of such. However, this is now considered a simplistic analysis. The cost of illicit goods will lie between the domestic and international prices of the goods; the nearer the price is to the domestic price, the more likely that illicit

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[5] Pareto efficiency or optimality requires that no one can be made better off without making someone worse off (Chacholiades, 1978: 417).

[6] Apart from the particular case where there is only one violation of Paretian conditions, when the elimination of this necessarily will mean an improvement from a suboptimal to the Pareto optimal situation (Gandolfo, 1994: 142-44).

trade represents a reduction of welfare. Where legal and illegal trade in the same commodity exist, it has been demonstrated that the illegal trade represents a reduction of welfare. Certainly, if one takes into account the reasons for which a trade restriction was introduced, it follows that illicit trade represents a reduction in welfare as it circumvents this aim (Ibid: 247-250).

More relevant to the current case is perhaps another perspective according to which illicit trade entails the use of primary factors of production. Consequently, it modifies the economic structure so that legal economic activity cannot be determined independently of illegal economic activity; and it becomes incorrect to claim that illegal economic activity necessarily reduces welfare. A third perspective considers how legal trade can provide a cover for illegal trade, in which case the former becomes an input to the latter; again, it is possible that the illicit trade either improves or reduces welfare (Ibid: 250-251). Related to this is the economic effect of bribery, a practice underpinning informal trade reducing the efficiency of economic exchange, cf. below discussion of institutions.

While this suggests that the consequences of illicit trade in Central Asia are not straightforwardly negative, there are arguably factors related to the pervasiveness of illegal trade, which hinders economic development. Firstly, illicit trade in Central Asia covers both informal trade in basic goods for the consumer, as well as trade in illegal goods, such as trafficking of drugs and people. Bringing the former into the legal economy may boost national economic growth by facilitating the development of the small businesses involved and raising tax uptake (Byrd and Raiser, 2006: 3). Furthermore, bringing the informal trade in legal goods into the formal economy could free up administrative resources to fight trade in illegal goods, as well as free up resources for the general economy by eliminating the bribery involved in informal cross-border trade.

1.1.2 Openness and economic growth

I shall now turn to the links between international trade and economic growth. In the neo-classical, or Solow, growth model, sustained economic growth is explained by, exogenous, technological progress, which raises the efficiency of labour. Factors such as increases in investment, while contributing to growth, can only do so transitorily as it results in a new steady state of the economy, not sustained economic growth (Mankiw, 2003: 210). In other words, technological progress represents a growth (sustained) effect, whereas investment represents a level (transitory) effect (Lucas, 1988: 12). To determine if the openness of an economy, and the international trade that follows, contributes to sustained economic growth, it is thus critical to determine if it represents a level or a growth effect.

According to Robert Lucas (1988: 12) liberalisation in the form of removal of trade barriers merely represents a level effect that can shift the economy upward but does not lead to consistently higher growth. However, modern endogenous growth theory links international trade to sustained economic growth as it seeks to explain from where technological progress arises, considering it endogenously. As opposed to the neo-classical growth model that assumes diminishing returns to capital, endogenous growth theory suggests that capital has constant returns to scale. This distinction stems from the inclusion of knowledge as a form of capital; logically knowledge does not exhibit decreasing returns but can even be argued to involve increasing returns (Mankiw, 2003: 222-224).

Paul Romer (1986) and Lucas (1988) provided early and seminal contributions to the theory of endogenous growth. Both criticised neo-classical growth theory for its single-minded emphasis on technological change as the explanatory variable behind growth, noting how it inhibits such theory from explaining the diversity in growth rates observed across the world (Romer, 1986: 1012; Lucas, 1988: 17). Lucas brought to the fore the theory of human capital, which he distinguishes from technology; the latter referring to a factor common to all countries (Lucas, 1988: 15). Noting that neo-classical theory predicts a tendency toward factor price equality and equality in growth rates, which is not observed in the real world, Lucas demonstrated the inadequacies of neo-classical growth theory accounting for the effect of international trade (Ibid: 16-17). According to Lucas, human capital and the accumulation thereof represent an alternative engine of growth, which facilitates the explanation of variable growth rates (Ibid: 40). In a similar vein, Romer suggests that growth in the long run primarily is driven by the accumulation of knowledge, which he theorises as an input with increasing marginal product (Romer, 1986: 1003). Furthermore, Romer notes that the creation of new knowledge has positive externality effects, not only between firms but also between countries (Ibid). Growth in a country, which is not leading the world economy, reflects, at least in part, imitation of knowledge in leading economies (Ibid: 1008). It follows that openness is theoretically linked to higher growth, as openness better allows for imitation.

Economic growth, basically, can be said to embody two factors; on the one hand increases in input, and, on the other, increases in output per unit of input or productivity increases (Krugman, 1994: 66). Productivity growth has two potential sources: a domestic, which is associated with innovation, and an international, associated with imitation or absorption. Internationally driven productivity growth is, as suggested, naturally linked to the degree of openness of an economy (Edwards, 1998: 386-387). Economies starting with a relatively low stock of initial knowledge will tend to imitate faster than those with a high stock of knowledge (Ibid); the equilibrium growth rate of poorer economies depend on their initial level of knowledge and the cost of imitation. If the latter is lower than the cost of innovation, a poorer country will grow relatively faster than an advanced economy causing a tendency towards convergence (Ibid: 383-384).

Following the logic of endogenous growth theory, more open economies are better able to absorb technological advances from leading economies (Ibid). It follows that liberalisation may be conducive for economic growth. However, this notion has not been uncontested. The empirical literature was initially inconclusive, partly owing to differences in proxies for liberalisation and openness of an economy, and has been vulnerable to related methodological criticisms (Greenaway, Morgan and Wright, 2002: 230).[7] At its most basic, liberalisation can be thought of as tariff reduction. Following the theory of second best, liberalisation will entail the switch to more efficient instruments, such as tariffs instead of quotas (Ibid: 231). Such conceptual ambiguity has been reflected in the empirical literature, where a simple measure of liberalisation has been changes in nominal tariffs, while more sophisticated proxies for the openness of an economy have

[7] See for instance Rodrik, 1995.

included the combination of trade policy instruments into indices. Whereas the simplicity of the former allows for straight-forward comparisons, the complexity of the latter may better reflect the degree of openness of an economy but meanwhile inhibits comparisons over time or across countries (Ibid: 231-33). Consequently, studies have ranged from finding positive links between openness and economic growth to finding no association – a common feature of the studies generally being a lack of robustness in their findings (Ibid: 234).

There has, furthermore, been scepticism of the causality of the relationship suggesting that it is growth that leads to openness and not vice versa (Edwards, 1993: 1388). More recently it has, however, been demonstrated that higher growth rates do indeed follow trade liberalisation and some suggest that no economy has developed without opening up and integrating with the world economy (Hoekman and Kostecki, 2009: 18-19).[8] Today economists generally accept that trade performance is a significant driver of economic growth (Schiff and Winters, 2003: 32-33).

1.1.3 Distributional aspects of trade and economic growth

Introduction of trade may involve winners and losers. This can be demonstrated with an example of the effects of international trade on workers and landlords: say a relative increase in the price of the land-intensive, as opposed to the labour-intensive, good is caused by international trade, the economy will specialise in its production, and the relative income of landlords as opposed to workers will increase, leaving the worker relatively worse off (Chacholiades, 1978: 408).

[8] For instance, Jeffrey Sachs and Andrew Warner in a 1995-study found that open developing economies grew by an average of 3.5 percentage points faster than closed developing economies (Hoekman and Kostecki, 2009: 16). David Greenaway, Wyn Morgan and Peter Wright in a dynamic panel analysis introduce three proxies for liberalisation in order to establish robustness of their results and find that there is indeed a positive relationship between liberalisation and economic growth (Greenaway, Morgan and Wright, 2002). Also, Sebastian Edwards has found, using different proxies for trade policy, a significantly positive relationship between openness and productivity growth, which was confirmed when the author constructed a composite index for trade policy. Further, when testing the results robustness against inclusion of such variables as institutions, political and macroeconomic instability, the association held (Edwards, 1998).

Furthermore, while it is well-established that lifting people out of poverty requires sustained economic growth, it is also increasingly recognised that robust economic growth does not automatically ease poverty levels (Stiglitz, 2002: 78). In fact, extremes of inequality can significantly hamper sustained economic growth, particularly when it involves political and social instability (Ibid: 155). Thus, reducing inequality in itself becomes an instrument to sustained economic growth.

Given the lack of access to detailed statistical data, and the consequent use of the gravity model for subsequent analysis, I will not be able to address the distributional impact of the CARs increasing trade with one partner over another as the gravity model does not allow for this.

1.1.4 Institutions

Transitions in the post-Soviet world were not merely transitions from planned to market economies but also societal and political transitions. While many institutions in the Soviet Union had names similar to institutions in the West, which are key in the running of a market economy, they had different functions in the Soviet system (Ibid: 138). Many post-Soviet states, including some of the CARs, followed a shock-therapy transition path, ignoring the fact that market economies and the institutions supporting them had developed over decades in the Western world (Ibid: 139). Market economies to a large extent rely on economic exchanges, which implicitly involve interpersonal relationships, and, thus, trust. Such trust is in developed market economies underpinned by legal systems and the rule of law (Ibid: 158). In his seminal work, Douglass North examines the importance of institutions for economic performance with a central focus exactly on the way in which human cooperation allows economies to reap the gains from exchange, and how institutions can facilitate or hamper such cooperation (North, 1990: vii).

North defines institutions as the rules of the game in society, or the constraints, which shape human interaction by structuring incentives for political, social and economic exchange (Ibid: 3). The central argument is that institutions in modern, developed economies lower the transaction costs involved in economic exchange, thereby allowing economies to reap the benefits thereof and grow at a higher rate than economies, where fewer, less complex transactions take place. At a low stage of economic development, economic exchange involves small-scale production, local trade -characterised by repeated exchanges between the same actors- and cultural homogeneity, which reduce the need for third party enforcement or adjudication. Transaction costs of exchange are low, but so is the level of economic specialisation and, thus, economies at this stage tend to be small (Ibid: 34). In traditional societies, the lack of formal rules and institutions were compensated by dense social networks (Ibid: 123). The increased variety and number of exchanges involved in modern economies call for more complex agreements, and personalised exchange, thus, becomes less effective (Ibid: 34). In other words, for developed economies trust needs underpinning by third party enforcement; credible institutions and consistent enforcement of the rule of law.

According to North, institutional development hinges on the interplay between institutions and organisations. The latter are formed to assist individuals in taking advantage of the opportunities created by institutions; as organisations evolve, institutions are altered. Importantly, North acknowledges that individuals are not rational but act on imperfect information according to subjective interpretations (Ibid: 8, 16). Consequently, the persistence of imperfect institutions, such as inadequate property rights, are at least partially explained by insufficient information and subjective constructs, while the existence of institutions, which facilitate efficient economic exchange, are a product of the concurrence between such institutions and the private objectives of the power brokers (Ibid: 16). Modern European economies saw the development of voluntary enforcement mechanisms through merchant organisations and guilds, alongside the state emerging as a trustworthy adjudicator (Ibid: 128). The state in early modern Europe gradually began acting as a protector and promoter of merchants as it saw increased potential in extracting revenues from them. Meanwhile, as the state in these early days was not a wholly credible enforcer, voluntary organisations developed to keep it in check and protect the merchants, who themselves were acting on the incentives created by potential for economies of scale in increased trade (Ibid: 35).

Today, economic exchange in modern, developed economies take the form of impersonalised exchange with third party enforcement. This is critical for the successful development and growth of modern economies, which are characterised by complex economic exchanges (Ibid: 35). North suggests that many traditional economies, particularly those dominated by bazaars, lack the incentive structure to develop modern economic institutions which support impersonal exchange through third party enforcement owing to the prevalence of widespread, relatively impersonal exchange and small, high-cost transactions (Ibid: 123). Indeed, North suggests that bazaar, as well as traditional or tribal, economies historically have required an external impetus for change and development (Ibid 125). Like Lucas and Romer before him, North's work also highlights the inaccuracy of neo-classical growth theory, which predicts convergence over time of economic performance, and suggests that institutions play a critical role in explaining divergent economic paths (Ibid: 3).

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The above outline of trade theory and related economic theories indicates that what is needed for attaining sustainable economic development in developing countries is not merely openness to trade to facilitate growth through technological and human capital advances and specialisation but also policies aimed at reducing inequality and developing institutions, which facilitate efficient exchange. In the next section, I shall turn to economic integration theory relating it to these propositions.

1.1.5 Liberalisation and economic integration

Within the field of economics integration refers to the elimination of forms of discriminations, for instance the removal of barriers to trade, and can, as previously noted, be understood as process and also as a state of affairs. Bela Balassa (1962: 1) in his seminal work on economic integration defines the former as '*measures designed to abolish discrimination between economic units belonging to different national states*', and the latter as '*the absence of various forms of discrimination between national economies*'. The focus of the thesis is on enablers of a process of integration. However, it should be noted that integration as state of affairs can be subdivided into different types. Balassa identifies the following five ideal types: free trade area (FTA), customs union, common market, economic union and complete economic integration – each representing a higher level of integration (Ibid: 2).

Rationales

As shall be elaborated upon below, the enlargement of markets through economic integration offers possible gains from increased competition, economies of scale, increased consumer choice and potential reduction in internal inefficiencies of firms (Schiff and Winters, 2003: 31). However, evidence of such benefits accruing from regional integration is sparing, while evidence in favour of unilateral liberalisations (understood as removal of discriminatory barriers) abound (Ibid: 51). Thus, it can be argued that in terms of trade performance alone, regional integration schemes are inferior.

Broadly speaking three motivations for regional integration can be discerned: firstly, the aim of attaining better access to foreign markets; this particularly goes for attaining access to larger markets and (potential) trade partners with high trade barriers. Secondly, international agreements on integration can act as focal points for domestic reform as well as increase the credibility of a country's commitment to reform. Thirdly, certain political objectives require economic integration, including the facilitation of club goods such as improved infrastructure or the resolution to shared problems – such as the use of shared natural resources (Hoekman and Kostecki, 2009: 479-481). Other political objectives relate to the forces of globalisation; integration offers a means of retaining sovereignty through pooling as well as meeting the drive for increased efficiency through enlarged markets and increased competition (Schiff and Winters, 2003: 6). Less productively, international trade agreements can be used to give the appearance of reform or strengthening of relationship without having actual substance (Hoekman and Kostecki, 2009: 481).[9]

[9] For developing countries industrial development was through the 60s and 70s a rationale for economic integration, the idea being infant industry protection within a wider area than the national economy. However, the economic rationale for this is flawed (see for instance Gandolfo, 1994: 135-137) and such integration schemes must therefore be based on non-economic objectives (Schiff and Winters, 2003: 65).

Effects of economic integration

As noted, it is now widely accepted that a strong international trade performance is an important source of economic success. Reduction of trade barriers through economic integration can be a means to increasing trade performance. However, as demonstrated by the theory of second best, partial reduction of barriers does not necessarily optimise an economy's trade performance. Thus, to judge the effects of economic integration schemes one must consider its net effect on trade.

Jacob Viner (1950) in his pioneering work on customs unions established the net effect of such to be determined by their trade creating and trade diverting effects. The former refers to the improvement of resource allocation following economic integration; that is, the elimination of trade barriers leading to trade in commodities not previously traded between partners. Lifting of trade barriers allow for production to shift to the more efficient producers. Trade diversion on the other hand, refers to the diversion of trade from more efficient producers in non-partner economies to less efficient producers in partner economies made lucrative by the abolition of intra-union trade barriers. This in effect means a worsening of resource allocation (Gandolfo, 1994: 148).

The net effect of four factors determines whether the establishment of an FTA represent a move towards free trade or in fact increase discrimination. The four factors are: production effects, consumption effects, terms-of-trade effects and administrative economies. The latter straightforwardly affect real income by increasing or lowering administrative costs (Balassa, 1962: 24). Both the production and consumption effects have trade creating and diverting elements. When referring to trade creation and diversion in the broad sense, it is as a product of the two (Gandolfo, 1994: 150).

Production effects can either be negative or positive. Negative production effects occur when the integration scheme causes a shift in source of supply from lower-cost foreign (non-partner) to higher-cost partner country suppliers, that is trade diversion; positive production effects occur when the integration scheme conversely causes a shift in supply from a more expensive domestic to a cheaper partner-country supplier, that is trade creation (Balassa, 1962: 23). It is impossible to make precise *a priori* judgements on the net production effects of specific integration schemes but certain rules of thumb exist. Integration between competitive, rather than complementary, economies is more desirable because competitiveness facilitates efficient reallocations of resources when intra-industry trade is more prevalent (Ibid: 29, 33). Furthermore, intra-industry trade gives rise to less adjustment costs than inter-industry trade as jobs lost to consumer shifts can be offset by job expansion owing to increased foreign demand of similar goods. Also, political opposition to inter-industry trade may be stronger as less competitive industries will fight it. Intra-industry trade does involve adjustments but injury is generally at the firm not industry level, which typically reduces the likelihood of lobbying (Hoekman and Kostecki, 2009: 482).

Proximity can similarly be assumed to favour positive production effects if it leads to the (re-)establishment of continuity of economic flows, which are otherwise hindered by national borders. This assumption rests on notions such as lower transport costs in cases of proximity as well as similar tastes across consumers (Balassa, 1962: 39-40). Latterly, it can be assumed that positive production effects will be larger where initial tariffs are relatively high on trade between the participating countries, where the tariff level on non-partners is low, and the lower the tariff level is in export markets outside the area (Ibid: 44-45). Trade diversion occurs only when an economy's production costs are out of line with the costs and prices in the rest of the world. If a country has low tariffs before entering into economic integration scheme this will not be the case, and trade diversion unlikely (Schiff and Winters, 2003: 34).

The consumption effect arises from efficiencies of exchange owing to the equalisation of price ratios, which diverged as a consequence of pre-integration tariffs. Similar to the production effect, consumption effects can be negative or positive; the former arising from discrimination against third countries and the latter from the abolition of discrimination between member states. Consumption effects tend toward the positive, that is, trade creating, when consumers substitute partner country goods for domestic rather than foreign goods (Balassa, 1962: 57-59). Given changes to trade patterns, positive consumption effects will be larger, when initial differences in price ratios are high between member countries. Negative effects, or trade diversion, occur when consumers have to substitute more expensive foreign goods, from partner economies, for cheaper goods from non-member economies, which have become non-competitive following an integration scheme (Gandolfo, 1994: 149-150). Trade diversion will be less when the price ratios of traded goods differ less between partner and non-partner economies (Balassa, 1962: 59).

As a rule of thumb, the more trade conducted between (prospective) partner countries as opposed to between partners and non-partners, the more likely it is that the consumption effects of integration will be positive; likewise, the smaller the degree of trade with non-partners by prospective members, the unlikelier are negative consumption effects. Further, the higher the initial tariff level between members, the greater is the distortion remedied, and thus the greater the gain from integration. As the assumption is that proximity and competitive production structures facilitate positive production effects, so one can also assume that the greater the degree of competitiveness between members, the greater the consumption effects, as this implies substitutability of goods and thus higher likelihood of trade increases. Likewise, complementarity with non-members is akin to low-substitutability and thus indicates a lower degree of trade diversion (Ibid: 60-61). Certain factors mitigate the trade creating and diverting effects. Goods produced in different countries are rarely perfect substitutes, which along with transport costs and other non-tariff barriers limit the shifts of imports. Thereby both the costs of trade diversion and benefits of trade creation are moderated (Schiff and Winters, 2003: 35).

Terms-of-trade are affected by integration in the short term via trade diversion and exchange rate adjustments. Trade diversion shifts the reciprocal demand of members' for foreign goods, that is members' demand for goods from another country and vice versa, and causes an improvement of their terms-of-trade; *ceteris paribus*, the greater the shift, the greater the improvement (Balassa, 1962: 63). Meanwhile, the need to equilibrate balance of payments post-integration will lead to exchange rate shifts depending on the height of pre-integration tariffs in the individual member countries. Currencies in countries with higher tariffs are likely to depreciate as other member countries may encroach upon their markets. In the long run, terms-of-trade are influenced by the income effect, whereby an increase in real income deteriorates the FTA's terms-of-trade, and the substitution effect, whereby terms-of-trade deteriorate if a productivity increase leads to a general reduction in the price level. Conversely, if the productivity increase is focused in the import-competing sectors, the price reduction will favour the terms-of-trade (Ibid: 63-64). It has been questioned, however, whether terms-of-trade effects are a noteworthy source of gain in the case of developing countries (Cooper and Massell, 1965: 461); and improvement of terms-of-trade rarely acts as a rationale for economic integration (Schiff and Winters, 2003: 65).

To summarise, for the world economy, integration will *ceteris paribus* increase static efficiency when the participating economies are of a competitive structure, the greater the pre-integration difference in cost of commodities produced, the larger the size of the union, the higher the proximity, the higher the level of pre-union tariffs, and the greater the degree of pre-union economic exchange between participating economies. As noted, an additional factor is administrative economies, which in the case of a free trade area (as opposed, for instance, to a customs union) are likely to be negative as increased administration is likely, cf. below (Balassa, 1962: 68).

Economic activity is fundamentally about increasing welfare; consequently economic integration schemes must be judged by their effect on welfare. Four aspects of welfare are influenced by integration: change in the quantity of goods produced, change in the degree of discrimination between foreign and domestic goods, redistribution of income between countries as well as within countries (Ibid: 10-11). The former two aspects represent potential welfare, or efficiency, changes; whereas the latter two are distributional aspects of welfare.

Efficiency can be evaluated in terms of static and dynamic effects. Static efficiency refers to the economy working on the frontier of its production possibilities, while dynamic efficiency improvements involve pushing that frontier outwards, and thus represent the real test of economic integration schemes (Ibid: 13-14). Static efficiency concerns increased (decreased) potential welfare, where the quantity of goods and services produced with given inputs increase (decrease).

Additionally, static efficiency refers to efficiency in exchange, an improvement of which through removal of tariffs and other forms of discrimination, also represents an increase in potential welfare (Ibid: 11). Dynamic efficiency, meanwhile, refers to the hypothetical growth rate of national income, which can be achieved with given resources and savings ratio (Ibid: 13). The main factors affecting dynamic efficiency are technological progress, the allocation of investment, dynamic inter-industry relationship in production and investment along with uncertainty and inconsistencies in economic decision-making (Ibid: 14). Dynamic benefits of integration relate to larger market size and increased competition. Firstly, larger markets facilitate economies of scale, which can operate at a number of levels. For instance, certain production techniques or equipment, which may increase efficiency, only become viable at larger scale production; higher rates of output economises certain non-proportional activities such as planning, design and research; and production of larger quantities can allow for specialisation within the labour force (Ibid: 122).

Furthermore, with respect to the size of markets, it is instructive to consider per capita income. When there is a rise in income per head, the consumption of goods which experience increasing returns (typically manufactured goods) tend to show a disproportionate increase. Consequently, higher per capita income reflects larger markets for goods experiencing increasing returns (Ibid: 107). It follows that for sectors experiencing increasing returns, that is, in which productivity depends on the size of the market, a widening of the market through integration should theoretically contribute to productivity growth. This suggests that integration can boost economic growth – though this may be a level, or transitory, effect (Ibid: 108). The larger market affects diffusion of technological change through different industries in addition to the effects on specialisation. Furthermore, it can be speculated that larger markets reduce the risk and uncertainty with respect to the introduction of new products or processes, suggesting that quantitative measures may underestimate the correlation between market size and productivity (Ibid: 112).

A further source of dynamic gains from integration is intensified competition, which contributes to elimination of inefficient producers and stimulates technological change. Enlarging markets de-personalises market competition and may thus make competition more efficient as the individual manufacturer will be less fearful of encroaching on competitors' markets and of retaliation. Also, market enlargement is likely to untie monopolistic and oligopolistic markets shifting the former towards the latter and reducing the scope for collusion in the latter (Ibid: 164-66). Economic integration, furthermore, can contribute towards reducing the risks and uncertainties involved in international trade, and thereby augment it. International agreements, if credible, will serve to reduce uncertainties with respect to erection of future trade restrictions as well as changes to such barriers; though without complete harmonisation of economic policies some risk and uncertainty will persist (Ibid: 179). Reduction of risk and uncertainty, particularly with respect to investment decisions, is critical for developing economies integration into the world economy.

Policy integration

Policy integration occurs when countries negotiate agreement on the treatment of goods and/or firms; this is distinguished from agreements by which foreign goods and firms are treated as domestic which does not constitute integration (Schiff and Winters, 2003: 149).[10] Integration can occur through intergovernmental policy coordination, harmonisation or recognition of standards. It involves deliberate government action, which goes beyond national treatment seeking to reduce market segmentation stemming from differences in regulatory regimes (Ibid: 151-153). By reducing transaction costs policy integration can increase competition and facilitate elimination of market failures. While most integration schemes merely reduce market segmentation by limiting the use of national trade policy, policy integration can facilitate implementation and enforcement of a trade agreement, and can enhance the gains from forming a trade bloc (Ibid: 147).

Policy integration facilitates the internalisation of externalities; that is, situations under which the actions of one government negatively affect another country's

[10] National treatment is sometimes referred to as 'shallow policy integration' (Schiff and Winters, 2003: 151).

economy. This raises the possibility that cooperation under an economic integration agreement may over time increase trust between member states, thus, facilitating cooperation in other policy areas (Ibid: 164).

Developing economies

Developing economies face a series of challenges, which economic integration - or specifically market enlargement- may alleviate. Developing markets in themselves have a restrictive effect on economic development; that is, industry will struggle to develop without a certain level of domestic demand and profitable export opportunities. Obstacles to the latter include both international trade barriers and the more developed production structure of modern economies (Balassa, 1962: 153). Whether less developed economies seek to develop their industrial sector via nurturing a few branches of manufacturing or seeking the parallel development of several industries, they face challenges. The latter, for instance, will involve supply limitations, while the former requires building capacity ahead of demand (Ibid: 153-55). Integration will not absolve developing economies of this type of dilemma; however, enlarged markets may prove a means through which to release external economies. For instance, larger markets contribute to the spread of existing knowledge among given industries across countries and increased competition within industries is likely to lead to a higher rate of technological change (Ibid: 155-156).

It has been suggested that integration efforts involve more substantial benefits from increased competition for developing countries vis-à-vis developed, because small economies have more scope for exploiting economies of scale and reducing monopolistic power (Schiff and Winters, 2003: 52). Empirical studies have, however, not confirmed this directly. Indirect empirical evidence suggests that gains depend on the level of intra-industry trade, which tends to be of less significance between developing countries (Ibid: 47). In summary, there may be important gains from increased competition and scale economies involved in integration for developing countries; however, such gains are not automatic but depend on policy, such as ensuring low barriers to entry and free competition (Ibid: 54).

Domestic supply constraints are key to releasing potential trade gains as they explain the lack of trade-led growth and diversification in poor economies. Improving supply capacity, reducing transport costs from remote areas and increasing farm productivity is necessary for potential trade gains to be utilised (Hoekman and Kostecki, 2009: 564-565). Industrial development is a pillar of economic development, which is why less developed economies often protect their manufacturing sector in an effort to nurture it. This, however, implies a bias against smaller entrepreneurs, who particularly find it difficult to obtain credit (Ibid: 553). Furthermore, the tariffs and subsidies employed to promote industry do not incentivise competition and acquisition of knowledge; rather as they are output-based, the incentives are for greater production, which means that firms will seek to increase output in the least costly way – not seeking technological advances in production methods (Ibid). The potential liberalising trend of FTAs along with the competitive pressure of enlarged markets may alleviate such protectionist tendencies of developing economies.

Acquisition of knowledge and technology transfer often occurs through foreign direct investment (FDI), which can be boosted by the lowering of trade barriers. Potential knowledge transfer through FDI is three-fold. Local firms will increase productivity by copying technology introduced to local competitors affiliated with foreign firms. Entry of a foreign affiliate also intensifies local competition forcing local producers to use existing resources and technology more efficiently, as well as forcing them to search for new, more efficient technology. However, foreign firms may seek to limit knowledge spillover, and may even negatively impact the productivity of domestic companies. Foreign firms are likely to engage the best skilled workers and their entry may reduce the market share of domestic companies, thus, shrinking their scale economies (Schiff and Winters, 2003: 133-134).

Critical to attracting investment is the institutional environment. That is to say that general policy reform ensuring *inter alia* a sound macro-economic policy and protection of property rights is more important than integration. A stable macroeconomic environment, liberalisation and privatisation raise returns to all factors and thus foster investment. Accordingly, it is not the regional integration scheme itself that will encourage investment but it may enhance investment potential by boosting credibility of a country's commitment to reform (Ibid: 102-103). Credibility in and of itself is critical for reform to succeed. If reform efforts are not judged by investors to be credible, they are unlikely to respond positively. Lack of credibility can stem from a government's historic tendency towards reform reversal, or the risk that a shift in government leads to shifts in policy. Moreover, raids on firms or investors by kleptocratic regimes strongly deter investment (Ibid: 107). The benefit of an integration scheme is not only that it can help 'lock in' reforms but its potential for altering incentives for behaviour and policy. By permitting punishment of non-compliance, an integration scheme can incentivise desired behaviour as well as increase credibility of reforms (Ibid: 108).

For developing countries, integration schemes involve certain challenges. For instance, entering an integration scheme erodes trade tax revenues. This happens directly as tariffs are reduced or eliminated between members and indirectly when trade diversion occurs as imports shift from external imports subject to tariffs. This is a challenge particularly for developing countries because they tend to rely more on import tariffs as this is a more reliable and easy source of tax revenue. Consequently, entry to an integration scheme may need to be accompanied by efforts aimed at increasing tax take from other sources such as excise, sales or value-added taxes – and ensure that an alternative source of tax revenue is in place before the integration scheme takes effect (Ibid: 94). A further tax-related problem is the downward pressure on indirect taxes caused by integration schemes. With free flow of goods across borders, governments may be tempted to capture more of the trade by lowering indirect taxes (Ibid: 98-99). In the case of developing countries, which often struggle to bring in sufficient tax revenue, such downward pressure can be considered problematic. On the other hand, a shift towards more direct taxation may have the effect of increasing domestic demand for improved accountability of public spending, potentially contributing to improved governance.

For developing countries it can furthermore be a problem, when some members of a trade bloc account for a disproportionate share of the bloc's import-competing production, and thus tariff-free trade. Other members are likely to feel a need for compensation (Ibid: 96-97). As is suggested in section 1.2 below, the participation of an undisputed regional leader willing to compensate partners may help alleviate such concerns.

Developed and developing country integration schemes

Determining the desirability of economic integration is a case-by-case exercise, which cannot be separated from the question of who participates or how it is implemented. The level of trade between economies does not necessarily make for a useful indicator as proponents of the 'natural trading partner'-argument have claimed; trade flows, for instance, can be high because of distortions and thus need curbing rather than nurturing (Ibid: 66-69). Certain rules of thumb can be discerned, however. For instance, for any given country, a larger country is preferable to a smaller as the former is more likely to satisfy import demand without price increases, and also less likely to reduce price on target country's export goods by ceasing imports from the ROW, where price is determined by world price plus external tariff (Ibid: 68).

For developing countries it is preferable to integrate with a large, developed economy, which can supply the developing country's entire import demand as in that case domestic prices will fall to the level of those in the developed partner country. Thereby the country may benefit from both increased consumption and reduced production cost of high-cost domestic substitutes. What is critical is how frequently and by how much the developed partner's costs exceed the international minimum – for instance on many products the EU, pioneering developed-developing country integration schemes, is not the least-cost producer. Secondly, the developing partner must be confident that prices will indeed fall to the level of the developed partner. If imports continue from third countries, which still face a tariff, the domestic price will not fall undermining the potential for gain (Ibid: 73). Furthermore, any curtailment of competition between developed economy-partner firms in the developing country market will undermine the potential for price reduction. In that case, the developing country government would lose tariff revenue, firstly, to domestic consumers to the extent that prices fall, and secondly, to foreign producers to the extent prices rise above the level experienced before integration. The former is merely a transfer within the developing country, whereas the latter would represent a transfer to the developed country (Ibid: 74).

In the case of developed-developing country integration schemes, it is likely that the developing partner should gain if it is closer to world average rather than being extremely poor in capital and skills; in the latter case, it is likely to gain only if the partner country is extremely rich (Ibid: 70). A regional integration scheme between smaller, developing countries, on the other hand, is likely to have only trade diverting, not creating, effects. This is because in the face of unchanged consumption level, consumption is shifted from more efficiently produced, and thus cheaper, foreign imports to less efficiently produced goods from the partner country no longer facing tariffs but unable to fully provide for the market. The result is trade diversion and at the aggregate a loss for both developing countries (Ibid: 35). Furthermore, while empirical surveys of the effect of integration schemes on growth are not methodologically robust, they nevertheless consistently show that integration of developing countries does not stimulate growth, whilst it may positively affect growth in the case of developed-developing country integration (Ibid: 123). Studies have for instance suggested that the latter is likely to generate productivity gains through knowledge transfer from the developing partner (Ibid: 125).

It has also been suggested that integration between developing countries can delay economic transformation because it skews development towards low-R&D intensive industries, whereas developed-developing country integration favours the development of R&D-intensive industries in the developing country, thus, advancing economic transformation. Developing countries, thus, should choose a partner with a high stock of knowledge (Ibid: 129). Attraction of FDI from knowledge economies however typically requires strong protection of intellectual property rights (Hoekman and Kostecki: 2009: 403-404). Thus, for the developing countries to reap the benefits of integrating with a developed, knowledge economy, institutions are likely to require strengthening. Again, this suggests that integrating with an external actor may, if this be a developed country or region, support the long-term economic growth of developing states through development of more efficient institutions.

Integration schemes will stimulate investment to the extent that the expected returns are raised and/or costs are lowered. This is unlikely to be the case for integration between developing economies, whereas it has been suggested that for integration of developed and developing countries the rate of return on capital could increase in both economies. Typically, integration schemes reduce transaction costs of tradables relative to non-tradables. The former is commonly assumed to be more capital-intensive than the latter, thus, the integration scheme will increase demand for capital and raise its rate of return. Also, lower tariffs and trading costs on capital equipment can reduce the price of investment goods, increasing the rate of return and accumulation. Integration with a developed country, furthermore, can raise the efficiency of the financial sector in the developing country (Schiff and Winters, 2003: 114). Evidence is sparing but suggests that increased investment is most likely when integration occurs between developed countries, less likely when between developed and developing, and least likely in case of integration between developing countries (Ibid: 121). The removal of internal barriers in an integration scheme may encourage producers to allocate their operations across all member states more efficiently. This may stimulate vertical FDI, where the members differ in factor endowments, for instance in the case of developed-developing country integration, the developing country can attract labour-intensive activities (Ibid: 119).

The argument for improved market access through integration schemes is at times used to argue the superiority of integration schemes over unilateral liberalisation because the former involves preferential trading access. This is, however, only part of the story. The preferential access to foreign markets gained by producers come at the expense of domestic consumers and government revenue, and thus represents a transfer of resources. The state's tariff revenue is transferred to either foreign producers or domestic consumers. The size of the transfer depends not only on volume of trade diverted or created, but overall volume of trade in affected commodities – and transfers can be significant (Ibid: 36). This is critical particularly for the case of integration between developed and developing countries, where the latter are at higher risk of losing. Developing countries typically import relatively more than developed countries, which means that the flows on which revenue is lost will be relatively higher than on the flows from which they gain. Furthermore, developing countries tend to have higher tariffs; consequently, producers in developed countries stand to gain more than producers in developing countries.[11] Here again, the question of compensation becomes relevant.

The tendency of integration schemes to be between neighbouring countries can partly be explained by motivations such as reducing the risk of conflict or sharing of resources. There is, however, also the possibility that a regional group of countries constitute a 'natural market' for certain goods that are, for reasons of tastes or excessive transport costs, not traded with the wider world (Ibid: 71-73). As for Central Asia one could perhaps make exactly such a case given the countries' shared historical experiences and remoteness from world markets. Reduction of transaction costs related to customs clearance is another common rationale for neighbouring country integration (Ibid).

As previously noted, entering an economic integration scheme can be a means of signalling and establishing trustworthiness around a commitment to reform and trade liberalisation. Integration between developing countries is unlikely to deliver on this front; in fact, it may have the opposite effect. When integrating with a developed country, such an effect is arguably more likely. However, the developed partner, expected to act as the enforcer, must be large and stable and have sufficient interest in the developing partner to make it worth its while to take disciplinary measures (Ibid: 102).

Supply chain trade

In recent years, supply chain trade (SCT) has come to dominate world trade patterns. The trend towards SCT opens opportunities for low-income countries, which may, for instance, supply foodstuffs to global retailers or become specialised suppliers of intermediate goods that build on particular comparative advantages (Hoekman, 2014: 17). The share of value added accruing to a developing

[11] A solution to this is unilateral tariff reduction. Empirical studies of Latin American economies have supported this conclusion, showing that regional integration had a lesser effect on their trade flows than the unilateral liberalisations they undertook (Schiff and Winters, 2003: 43).

economy may in the first instance be small, but may gradually increase, whilst in the shorter term participation in SCT also bring employment benefits (Ibid: 18).

This trend demands open and transparent trade and investment regimes for the benefit of domestic as well as foreign companies. The burden of tariffs and NTBs on both imports and exports affects decisions regarding location of foreign investment but also enable or prohibit the integration of domestic firms in regional or global value chains (RVCs and GVCs). Trade policies, which restrict imports or raise the costs thereof, damage the ability to import intermediate inputs and services and thus damage a country's ability to participate in SCT. A variety of policies may impact on a firm's ability to engage in GVCs, the marginal value of one change may be offset by other cost-inducing policies. Consequently, it is increasingly necessary to approach trade policy and trade facilitation in a comprehensive manner considering not only tariffs but also customs procedures, rules of origin, quality standards and infrastructure *et cetera* (OECD, 2013; Hoekman, 2014: 1).

The ASEAN Free Trade Area (AFTA) is an example of a multilateral policy framework aimed at enabling its members to tap into SCT. By eliminating intra-regional trade barriers enabling supply chains to be created, AFTA enables leveraging intra-regional division of labour and specialisation with a view to increasing exports to ROW (EBRD, 2012b: 64). AFTA reflects the 'flying geese paradigm', which suggests that as the lead goose divests of its labour-intensive production in favour of more capital-intensive production, the low-productivity activities are transferred down the chain. The paradigm is contingent on FDI and the involvement of multinational companies, which facilitate the transfer of technology (Ibid).

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In summary, the initial presentation on economic theory suggests that economic development requires openness to trade alongside reduction of inequality and institution-building. As the above discussion of economic integration suggests, this may represent a means through which developing countries can simultaneously move forward on these parameters. Integrating with a developed partner economy, can potentially boost the trade performance of the developing country, as well as open the economy to technology and knowledge transfers, which in the long run can lift growth levels. Furthermore, institutional reform is likely encouraged and may even be boosted by the enforcement role played by the developed partner. The trend towards SCT augments the need for trade facilitation policies, and approaching trade facilitation in a comprehensive manner. As suggested by the AFTA, regional integration may also be a means by which to integrate in GVCs.

1.1.6 Analysing economic potentials of Central Asian trade integration

As I have outlined in the introduction, the traditional method of studying integration *ex ante* is by CGE models. Owing to lack of relevant data, this is not possible in the case at hand. Therefore, the following analysis will alternatively model expected trade flows between CARs and international partners. This will enable an indication of whether there is further potential for trade between Central Asia and the ROW as well as whether regional integration may carry benefits. However, as is possible with CGE models, this approach inhibits analysis of the distributional, welfare effects of integrating with the suggested regions. Likewise, the impact of informal trade lies beyond the scope of this methodology, which is otherwise detailed in chapter 3.

1.2 Achieving regional integration

A first step towards examining region-building is to consider its preconditions. As Gurova and Efremova have noted (2011: 59), scholars have not given sufficient consideration to the question of prerequisites for economic integration within the post-Soviet space. Region-building can occur through two complementary processes. Regionalisation represents bottom-up processes of trade-driven interactions and transactions by private and other non-state actors. The process incurs increasing interdependency of societies and economies within the region, while diminishing -relatively- external interdependencies. Regionalism, on the other hand, is a top-down process of intentional policies designed to manage the process of regionalisation concerning both economic and security-related challenges in a given region. Regionalism can occur through highly informal policy-coordination as well as through regime-building or inter-governmental, supranational institutions (Hänggi, Roloff and Rüland, 2006; 4).

Theories of regional integration were initially concerned with ensuring the avoidance of war. Federalists approached this through proposed supranational levels of government, while functionalists were concerned about establishing the most efficient form of governance introducing the mantra that '*form follows function'* (Rosamund, 2000: 1-2, 32). The European experience of integration provided a case for further study and theorising on regional integration leading to the development of neo-functionalist theory, which explored the interplay of economic and political integration (Ibid: 2). Neo-functionalism is largely focused on the processes of ongoing integration, and thus less appropriate for studying the processes that instigate integration; though Ernst Haas did identify pluralistic social structures, economic and industrial development and common ideological patterns as requisite factors for successful integration (Ibid: 69). To put it differently, the theory does not explore the process that lead country *a* and country *b* to decide to cooperate; the focus instead is on what integration in one area can or should lead to, and how (Ibid: 58). Accordingly, the theory's key concept is 'spill-over', which describes the process by which one element of integration forces the next. Also technocratic, supra-national institutions play a key role in the explanation of integration representing an apolitical impetus for the spill-over processes (Wæver, 1992: 74).

Neo-functionalism along with federalism has been seen as a normative medium for the promotion of European regional integration (Rosamund, 2000: 8, 23). The main debate within the study of integration theory has been between neo-functionalist and intergovernmentalists (Ibid: 2). With liberal intergovernmentalism theorists sought to move beyond the *sui generis* characteristics of neo-functionalism applying only to the European case of integration, creating a general theory of integration (Moravcsik, 1994: 29-30). This strand of theory offers a perspective on what causes integration by conceptualising demand and supply for integration. Demand stems from national governments, and is largely explained by the existence of negative, international policy externalities creating incentives for policy coordination (Ibid: 41). Supply, meanwhile, is represented by responses of the institutions of integration to intergovernmental bargaining (Ibid: 37). While liberal intergovernmentalism does provide the opportunity for explaining the initialisation of integration schemes, its focus is on the operation of existing schemes with supply driven by intergovernmental institutions.

In a study of Eurasian integration processes Anastassia Obydenkova found that contrary to the theories of neofunctionalism and liberal intergovernmentalism, functional pressures are not sufficient to drive integration. The study suggests that factors missing are voluntary and publicly supported associations as well as democratic regimes (Obydenkova, 2011: 97). Further exploring such ideas, I will base my analysis around Walter Mattli's *The Logic of Regional Integration* (1999). The framework, like intergovernmentalism, also operates with demand and supply as key variables, but primarily at the national level. Where the supply and demand in liberal intergovernmentalism are seen as separate, staged processes (Moravcsik, 1994: 73), *The Logic of Regional Integration* considers demand and supply in parallel. That is, demand is to be found at the level of national societies and business communities, and supply from national governments; the latter mediated by international factors. The framework is designed to explain instances of regional integration, which are voluntary in nature, and is explicitly focused on the creation of groups set up in response to another regional grouping (Mattli, 1999: 41). Mattli has recognised, though, that his findings are useful in exploring the potential of regional groupings generally (Ibid: 17).

1.2.1 Demand for integration

The first of the two key factors identified by Mattli is a demand for integration; this is theorised to derive from domestic business actors seeking the development of a regional market. The explanatory variable here is economic gains from market exchange. The benefits to economic actors from economic integration have been treated in more detail above; they include potential for economies of scale in production and exploitation of a country's comparative advantage. Trade barriers make international trade and investment risky and incur potentially prohibitive costs through uncertainty and risks such as unexpected tariff changes, changes to non-tariff barriers, risk of late delivery or an unanticipated price hike. It is, thus, business actors keen on increasing trade and investment, who are expected to demand the elimination of risks and costs through market integration (Ibid: 46-50).

Consumers are among the most likely to gain from market enlargement but as their individual gains are marginal they are less likely to organise and push forward demands for integration. As noted above, there are also likely to be losers from economic integration, in the short if not the long term. Such groups, particularly import-competing sectors, are likely to lobby against integration schemes, and will thus act as a countervailing force to any potential demand for integration (Hoekman and Kostecki, 151). Liberalisation of trade policy may over time shift the balance of power favouring the export-oriented economic actors, which *ceteris paribus* are more likely to have a liberal stance (Ibid: 38).

1.2.2 Supply of integration

The second main prerequisite is supply: the willingness of national governments to integrate. The main variable suggested by Mattli is economic growth. Assuming that political leaders care about maintaining autonomy, they will be less likely to engage in integration schemes which diminish this, when an economy is experiencing significant growth. In times of economic difficulty, leaders are more likely to pursue an economic policy that may improve the economy's performance (Ibid: 50-51). Thus, the willingness of a national leader to engage in cooperation with other states depends on the political pay-off. In a democratic state, this pay-off is directly linked to national economic growth as that is key to re-election. In an authoritarian state this link is mediated by the particular power structures and links between the political and economic elite, which keep the leader in power. In addition to the political power struggles, also bureaucratic resistance or inertia can hinder a political leader from committing to or implementing desired policies (Schiff and Winters, 2003: 86).

As established in the previous section, unilateral liberalisations are generally superior to regional integration schemes, where mere trade performance is concerned. Thus, for a political leadership interested in liberalising trade policy, the integration scheme must involve greater expected gain vis-à-vis unilateral measures (Hoekman and Kostecki, 2006: 38). Meanwhile, certain developing countries may be interested in foregoing some national income, if the integration scheme is likely to assist the country in developing an industrial sector (Schiff and Winters, 2003: 65). Expected gains, however, do not necessarily have to be quantifiable. For instance, international agreements on trade or integration can offer support to a political leader wishing to push through trade policy reforms in the face of bureaucratic resistance. Alternatively, the pay-off of an integration scheme can relate to the potential for improving relations with partner countries, thus allowing for the resolution of non-economic difficulties in bilateral relations. Increased trade involves an increase in economic exchanges, which may facilitate mutual understanding and trust (Ibid: 189-190). Latterly, one can imagine that for weaker states regional integration offers a means to more effective governance through resource pooling and collective action on shared challenges (Ibid: 203-204).

Following an analysis of collective action dilemmas Mattli concludes that the likelihood of regional integration is greatly enhanced by two complementary supply-side factors. One the one hand, an undisputed regional leader prepared to compensate less-willing states will increase the likelihood of an integration process succeeding (Mattli, 1999: 55-56). In trade blocs a situation may, for instance, occur by which some countries suffer trade diversion, while others gain. The former are likely to feel a need for compensation; particularly so if trade policies, not just trade, is imbalanced (Schiff and Winters, 2003: 96-98). Compensation, however, is a complicated matter illustrated by the fact that costs are direct and apparent, whereas benefits are diffuse and accumulate over the long term. Nevertheless, addressing it may be indispensable as history has seen regional integration schemes falter on the failure of compensation schemes (Ibid). Compensation schemes are critical to fostering a sense of community or cooperative spirit on which potential appeasing effects of integration would rest. Such are more likely when integration occurs between relatively balanced partners, who perceive benefits to be evenly distributed (Ibid: 188).

The second supplementary supply-side factor outlined is commitment institutions (such as the European Court of Justice or the Commission in the case of the EU) ensuring that all participants play along with the commonly agreed rules increases the likelihood of the national political leadership playing along (Mattli, 1999: 53-55).

1.2.3 Regionalism through interregionalism

Globalisation and associated interdependencies have been accompanied by developments in the structures of governance leading to a multi-layered international system of different actors and entities with varying capacities to act and engage (Doidge, 2011: 31-32). Such developments have renewed the academic interest in regions but also the interaction between regions, so-called interregionalism. Research in the field has covered issues such as the forms and functions, culture, degree of institutionalisation and collective identity building such relationships involve (Hänggi, Roloff and Rüland, 2006: 6-12).

Functions of interregionalism have been defined to include balancing of international relations, institution-building, rationalising, agenda-setting and collective identity formation (Doidge, 2011: 34-48; Hänggi, Roloff and Rüland, 2006: 11). The balancing function can operate at two levels. One the one hand, balancing can be focused on increasing a region's autonomy and avoiding marginalisation in the global system. On the other, balancing can be a means of reducing the influence of other global actors (Doidge, 2011: 35-36). The function institution-building refers, on the one hand, to institutions as the product of interregionalism -both at the regional and interregional level- and the way in which such institutions contribute to the institutionalisation of global political relations (Ibid: 36-37). Rationalising involves the use of interregionalist structures to manage the complexity of wider multilateral negotiations (Ibid: 38-39), while agenda-setting indicates the use of interregional fora to cooperatively set the agenda at the international level (Ibid: 38). Latterly, the function of collective identity making suggests that interregional dialogue can build or strengthen the identity of a region engaging in such interaction (Ibid: 45-48). This function is of particular interest for current purposes.

The function of collective identity formation is most relevant where the collective identity of one region in the interregional relationship is weak at the outset (Ibid: 48). This builds on the notion that collective identity formation is prompted by external stimulation (Ibid: 47). One conception of such dynamics is that of 're-gionalism through interregionalism', which according to Heiner Hänggi (2003: 199) works through two dynamics. At one level, interregional cooperation can strengthen the degree of cohesiveness of both regions, particularly the less cohe-sive of the two. Secondly, interregional relations may be used by individual states to pursue their own regional objectives (Ibid: 199). The Asia-Europe Meeting (ASEM) in its early years provides an example of both mechanisms. The need for the Asian partners in ASEM to coordinate positions internally drove closer re-gional cooperation and cohesiveness among East Asian member states (Ibid: 209-212). Moreover, it has been argued that ASEM was used by East Asian member states, Singapore in particular, to foster greater regional cohesiveness with a view to establishing East Asia as a Triad region (Ibid: 212).

Another relevant perspective of interregionalism is the concept of '*external co-gency*' whereby integration is stimulated by external pressure. External cogency can be positive in the form of expected benefits from integration -the most com-monly given example of this being the Marshall Plan's impact on European inte-gration- or negative in the form of a common external threat. Examples of nega-tive cogency include the presence of a common external enemy or danger (Doidge, 2011: 37-38). Latterly, it should be noted that collective identity for-mation in response to external stimuli may be reactive or adoptive. That is, the weaker region in the interregional relationship may respond to the external stimuli of the other region by adopting or accepting the positions posited by the other, or by adopting a different stance (Ibid: 47). As noted above, Mattli's framework, while being generally applicable, is aimed specifically at voluntary groupings that organise in response to an original group. Parallel to the notions of reactive or adoptive identity formation, Mattli suggests that responses may either be to seek to integrate with the original group, or set up a competing regional grouping (Mat-tli, 1999: 61).

Building on the notion of commitment institutions as key to successful integration, and the credibility developed countries can bring to a developed-developing country integration scheme, chapter 5 will discuss the potential for regionalism through interregionalism in Central Asia. The logic of this idea is what lies behind initiatives such as Central Asia plus Japan and the EU's Central Asia strategy, as outlined in the subsequent chapter, namely that the external actor facilitates region-building in the less cohesive region, in this case Central Asia. The question to be explored in the following chapters is whether the basic conditions for regionalism to unfold in Central Asia are present, or whether attempts at regionalism through interregionalism are premature.

1.3 Summary

According to theory, international trade provides benefits in the form of lower prices and wider variety of goods to consumers as well as production gains to producers through specialisation. Protectionist trade policies amount to interventions in free trade that result in diverging prices. Whilst non-economic motivations may lie behind protectionist policies, such barriers reduce trade at a cost to society. Liberalising trade policy allows more efficient allocation of resources towards an economy's comparative advantage as well as increased consumption opportunities. Once transgressing the optimal situation of no barriers, it is however impossible *a priori* to determine whether elimination or the replacement of any one barrier to trade will improve the economic allocation of resources. The second best situation may be one in which other measures are moved (further) away from optimum. In the real world, where trade barriers are widespread, paradoxically, a protectionist policy can improve on an (already suboptimal) situation.

Changes to trade policy may create winners and losers. Groups that benefit from any one protectionist measure, for instance, may lose out from changes to this, whilst others will gain. An example of this, pertinent to Central Asia, might be in relation to informal trade, where restrictive trade policies have led to significant informal trade in both legal and illegal goods, as further explored below. Illicit trade modifies the economic structure so that legal economic activity cannot be determined independently of the illegal economic activity. While this suggests that the consequences of illicit trade in Central Asia are not straightforwardly negative, there are arguably factors related to the pervasiveness of illicit trade, which hinders economic development. Bringing informal trade in legal goods into the official economy would benefit state coffers through increased tax take but also businesses, which may allocate their funds more efficiently and grow their businesses. On the other hand, those currently benefiting from barriers to trade may no longer be able to collect bribes or earn rents.

Economic growth has been showed to be positively related to knowledge creation and human capital, and through this international trade. Two sources of economic growth can be discerned: domestically generated innovation and internationally sourced imitation. Openness to trade facilitates the absorption of superior technological standards from more advanced economies. Economic growth also mandates distributional considerations because extreme inequality has been shown to inhibit sustained growth. For Central Asian societies, where inequality is high, this is a pertinent consideration, though beyond the scope of subsequent analysis.

Economic exchange requires trust between transacting parties. In developed economies such trust is underpinned by institutions such as the rule of law and third party enforcement thereof. This reduces transaction costs and enables more complex transactions, facilitating economic specialisation. In Western economies such institutions were developed through interplay with organisations representing economic actors. Organisations both enabled market actors to take advantage of the opportunities economic institutions provided and allowed the shaping of these institutions. Traditional, bazaar-based economies have been suggested to lack the incentives, and thus require external impetus, for the development of market economic institutions.

Regional economic integration involves market enlargement, which can boost competition, enable economies of scale and increase consumer choice. The driving forces behind regional integration include obtaining access to larger markets and markets protected by high trade barriers, creating a focal point or credibility behind domestic reforms, and political objectives, such as shared use of resources.

The key measures for evaluating the benefits of economic integration revolve around the notions of trade creation and trade diversion. Trade diversion indicates that trade is shifted from more to less efficient producers, while trade creation reflects improved resource allocation through new trade or shifts in trade to more efficient producers. While evaluating economic integration schemes is an exercise specific to each scheme, certain rules of thumb can be identified. Economic integration is generally more beneficial, when occurring between competitive rather than complementary economies, between proximate economies, where pre-integration tariffs are high, the initial price ratios are high between members, and where there is a high level of trade between the participating economies, and relatively less with the rest of the world.

For developing economies, problems of economic development include low domestic demand, barriers to export markets, supply limitations and the need to build supply ahead of demand. Enlarging markets may alleviate some of these concerns by increasing potential demand and gaining access to foreign technology. Access to technology and investment is more likely to arise, when developing economies integrate with larger, developed economies. Such knowledge transfers are more likely to lead to productivity gains for the developing economy, and thereby growth. Developing-developing economy integration schemes on the other hand favour low R&D intensive industries and tend to shift consumption towards less efficiently produced goods, and are therefore typically inefficient. An added benefit of integrating with a developed economy may be that this adds credibility to the commitments and any related economic reforms. Accessing FDI requires a strong institutional and credible environment. Where reforms are not seen to be credible, economic actors are unlikely to respond.

The global economy is increasingly dominated by supply chain trade. Integrating with regional or global value chains necessitates a comprehensive approach to trade facilitation addressing tariffs as well as non-tariff barriers, qualitative standards and infrastructure. As such, policy integration aimed at reducing market segmentation arising from regulatory regimes is increasingly important.

Region-building can occur through two complementary processes: regionalisation and regionalism. The former denotes bottom-up processes of interaction between economic actors, whilst regionalism denotes a top-down process of intentional policies designed to manage the process of regionalisation.

Traditional theories of regional integration, such as neo-functionalism and liberal intergovernmentalism, are considered ill-appropriate for current purposes, as their main focus is on ongoing integration frameworks. *The Logic of Regional Integration*, on the other hand, is aimed at explaining the initiation of integration schemes. The framework emphasises both the need for a demand for integration, particularly on part of national business communities, and supply of regionalism from national governments. Demand arises from economic actors, who would gain from the further opportunities for market exchange offered by integration. This demand may be counteracted by vested interest in the *status quo*, such as from import-competing industries. Supply for integration policies is likely to arise, where economic performance is poor, and the political leadership expects political pay-off from economic integration through higher economic growth. Such supply may also be counteracted by strong interests against, such as a political elite or the bureaucracy with contrary interests. Unilateral liberalisation may be a more effective means of improving economic performance; therefore, supply of integration policy is likely to require demonstrable economic benefits over and above those of unilateral economic reforms. On the other hand, regional integration may offer other benefits such as raising the credibility of economic reforms and tying such into an international framework, or non-economic benefits such as building trust or sharing resources.

In addition to supply of and demand for regionalism, successful regional integration may be facilitated by an undisputed regional leader willing to compensate losers, for instance countries losing tariff income or experiencing trade diversion; and commitment institutions to lock in policies. An alternative to commitment institutions may be integrating with a developed economy, which can act as enforcer of agreed norms or rules, and infuse credibility to an integration project. This may be considered under the framework of interregionalism, which studies the interaction of regions. Interregionalism can be aimed at balancing in international relations, institution-building within or between regions, rationalising or setting international agendas, and contributing to collective identity formation. The latter may be referred to as regionalism through interregionalism, whereby the cohesiveness of the weaker of two regions is strengthened through interaction with another. Also relevant to this is the idea of external cogency, where an external actor either incentivises (positive cogency) or stimulates through threat (negative cogency) collective identity or region-building.

Chapter 2 Economies and integration of Central Asia

The five post-Soviet Central Asian states are surrounded by some of the world's more dynamic economies, including China, Russia, Turkey, India and the EU. Nevertheless, the CARs have not managed to turn their location at the centre of the Eurasian landmass into a driver for economic growth. A range of factors may explain this: landlockedness and distance to markets, the legacy of the USSR infrastructure, small domestic markets, as well as partial economic and political reform. These factors are arguably compounded by the lack of cooperation between the states.

The Soviet Union brought previously unknown levels of development in terms of infrastructure, human and technological development to the region; on the eve of independence the CARs were, thus, left with a certain potential to build on. Today, the CARs are still characterised by high levels of literacy, educational attainment, and health care, when comparing to countries at similar levels of economic development – but, on all these parameters, the CARs are exhibiting negative trends (UNDP, 2005: 42-43). While the states have all reached impressive growth levels after the initial transition period, their growth can be characterised as growth without development. The failure to build on their potential has led to social problems, which endanger the stability of the region and by extension the stability of the Eurasian landmass, most immediately of neighbouring provinces within Russia and China. Despite the fact that the region has experienced economic growth since the mid-to-late 1990s, poverty indicators have not improved significantly – save for Kazakhstan, which despite improvements in living standards has recently been characterised by social tensions in the form of labour strikes and Islamic extremism.

This literature review serves to demonstrate that the lack of integration with the world economy hinders economic development in Central Asia. The first section considers the economic development of and policies pursued by the Central Asian republics since independence. Section two, then, looks at trade patterns within the region as well as with the rest of the world, and the impact of the landlocked positions and infrastructure on trade and production structure. Latterly, section three considers historic and current attempts at regional integration within Central Asia and with external partners.

2.1 Economic policies and development post-independence

The breakup of the Soviet Union not only meant that the Central Asian republics had to establish independent state structures and institutions but also independent economies. As the vertical integration that characterised the Union vanished, new economic systems were needed. This was, and continues to be, a significant challenge in a part of the world that had not, prior to Russian colonisation and subsequent inclusion in the USSR, known modern state structures. The Soviet legacy was, on the one hand, an asset in the sense that the newly independent states emerged with a set of institutions, administrative infrastructure and educated populations. On the other hand, the legacy also acted as a restraint on transition as it involves a history of centralised planning (and, correspondingly, unfamiliarity with open market economies), absence of the rule of law, an oversized bureaucracy marred by patronage politics and a social contract threatened by the transition process (Luong, 2004: 1-2).

The CARs were, during the Soviet era, dependent on Moscow for economic transfers. These were the poorest republics of the USSR in per capita terms; economies on the margins of the Soviet economic complex supplying industry in the Western parts of the Union with raw materials in the form of oil, gas, cotton and grain. Industry was only rudimentarily developed and anything from machinery to consumer goods was imported from other Soviet republics. Thus, they all faced stark challenges in terms of economic development (Dawisha and Parrott, 1994: 28). The economic structure of the CARs and their related dependence on the wider USSR economy meant that the immediate disruption to their economies following the Union breakup was greater than elsewhere in the former Soviet Union (FSU) (Akiner, 1994: 23). As a consequence of the disintegration of the CMEA, industrial complexes collapsed which increased the commodity dependence of the CARs (Grafe, Raiser and Sakatsume, 2006: 163). The Central Asian republics already had the lowest standards of living in the USSR and the Central Asian industrial workers the lowest productivity among Soviet workers (Bondarevsky and Ferdinand, 1994: 37). Moreover, the CARs were at the same time faced with higher birth rates and relatively high ratios of dependents per wage earner placing high demands for employment and social services on the Central Asian governments (Akiner, 1994: 23).

In the following, I will briefly characterise the economies and post-independence economic policies of each republic and highlight similarities and differences. As previously noted, statistical data from Central Asian republics is generally considered of lesser quality, and thus, the statistical data presented in the following should be read with caution in mind.

2.1.1 Kazakhstan

Kazakhstan's main role in the Soviet economy was that of a supplier of primary products, particularly grain but also coal, oil and uranium. Manufacturing was developed only to a minor degree (Noren and Watson, 1992: 94). Despite Kazakhstan having the third largest GDP of Union republics, the republic had a poor economic record with decline in labour productivity and per capita GDP falling in the decades leading up to the dissolution of the USSR (Olcott, 1997: 206).

Economic policy

Upon independence the Kazakh government rapidly defined a market-oriented reform plan (Nazarbayev, 2008: 10-11). As a vast country with a thinly spread population of low purchasing-power, the Kazakh economy does not allow for economic growth built solely on the Kazakh domestic market (Zhukov, 2005b: 385). Moreover, given Kazakhstan's need to attract both FDI and international expertise to develop its oil sector, the country was amenable to international demands for liberalisation of its economy, and early upon independence began implementing shock therapy-style liberalisation reforms (Esanov, Raiser and Buiter, 2006: 46). In 1996 Kazakhstan also applied for World Trade Organization (WTO) membership (WTO, 2014a).

Initial reform steps included the abolition of subsidies, price liberalisation and privatisation of assets, which were completed through the first decade of independence, though many assets continued to be under state control (Gleason, 2003: 45-47). With the introduction of the Kazakh *Tenge* (KZT) in November 1993, from 1999 a floating currency, Kazakhstan also liberalised its fiscal and monetary policies successfully (Ibid: 45).

The initial reforms were followed up at the end of the 1990s with Kazakhstan's *Development Strategy to 2030*, which *inter alia* aimed at making Kazakhstan one of the 50 most competitive economies in the world with a diversified economic structure (Nazarbayev, 2008: 24-30). At the annual presidential meeting with foreign ambassadors, February 2014, Nazarbayev emphasised the need for foreign partnerships to underpin the most recent strategy for economic development, *Kazakhstan 2050*, particularly with a view to increasing technology transfer and local skills and knowledge through FDI (Weitz, 2014a). The importance Nazarbayev applies to this is clear from his later threat of sacking the government over its alleged failure to attract foreign investment (TengriNews, 2014a).

Kazakhstan's commitment to integrating with the global market, Europe in particular, is evidenced through the 2008 *Path to Europe* policy, which emphasises the adoption of European legal, technical and living standards (Kassenova, 2011: 50-51). In recent years Kazakhstan has, however, prioritised economic integration with former Soviet partners through the Eurasian Customs Union (ECU) and subsequent EaEU as further discussed below. President Nazarbayev has pursued these integration schemes *inter alia* to attract foreign investors (TengriNews, 2014b).

Economic performance

As a consequence of the rapid liberalisation, the economy contracted over the first years of independence. However, the increase in oil production combined with high oil prices transformed Kazakhstan into a world leader in terms of economic growth (Zhukov, 2005b: 38). Since 1996 Kazakhstan has seen impressive growth levels and from 2000 to 2007 GDP growth per annum averaged over 9 per cent. After a period of slow growth, immediately following the global economic crisis in 2008-9, annual growth returned to above 7 per cent of GDP in 2010-2011. President Nazarbayev has consequently sought to evoke comparisons with the so-called Asian Tigers by describing Kazakhstan as a Central Asian '*Snow Leopard'* (Schmitz, 2009: 11).

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
13.5	9.8	9.3	9.6	9.7	10.7	8.9	3.3	1.2	7.3	7.5

Table 2.1 – Annual GDP growth 2001-2011, per cent; Kazakhstan (World Bank, 2013)

Kazakhstan is considered to have an open economy with few quantitative and administrative restrictions on foreign trade (EBRD, 2010a: 120-121). For instance, the country has maintained low tariffs with a weighted mean applied tariff rate of 3.0 per cent over the period 2009-2013 (World Bank, 2014).[12] Joining the ECU, however, meant a near-doubling of (simple mean) applied tariff rates from 6.5 per cent to 12.1 per cent (Dreyer and Popescu, 2014: 1). On the Heritage Foundation's Index of Economic Freedom, which measures economic freedom on indicators covering the rule of law, limited government, regulatory efficiency and open markets, Kazakhstan is considered '*moderately free*' (Heritage Foundation, 2014a). Kazakhstan scored moderately on trade freedom (78.2), which reflects the use of NTBs in addition to the trade-weighted average tariff rate. Kazakhstan scored lower, however, on the other two indicators, which together with trade freedom indicate the degree of openness: investment freedom (40.0) and financial freedom (50.0); these lower scores reflect complex legal and regulatory systems (Heritage, 2014a).

The Kazakh economy is dominated by services and industry, which in 2011 were estimated to represent 56.9 per cent and 37.9 per cent respectively, while agriculture only made up 5.2 per cent of GDP (CIA, 2014a). A significant share of the labour force, meanwhile, is employed (2012 figures) in agriculture (25.8 per cent), while industry employs only 11.9 per cent. The majority of the labour force, 62.3 per cent, is employed in services (Ibid). The level of intra-republican inequality in Kazakhstan is significant and reflects the dominance of oil in the economy. Ac-

[12] Weighted mean applied tariff is the average of effectively applied rates weighted by the product import shares corresponding to each partner country. For comparison, EU member states have a weighted mean applied tariff rate of 1.0, while African countries typically maintain a level of around 10 (WDI).

cording to Kazakhstan's Statistics Agency average nominal income per capita in oil-rich Atyrau and main cities Almaty and Astana exceeded the national average by 2.4-1.8 times, while agriculturally dominated South Kazakhstan, Zhambyl and Almaty *oblasts* (provinces) had per capita incomes 23-40 per cent below average (Baimanov, 2014). The shadow economy is estimated to represent 25-30 per cent of the Kazakh economy (Kazakova, 2012).

One particular success story of Kazakh transition has been the adaptation of international standards in the financial services sector, leading to rapid development of financial institutions – though the industry has yet to be entrenched in local practices and capital and stock markets are yet to attract significant foreign investment (Gleason, 2003: 50-51). The Kazakh financial sector was by 2008 experiencing a domestic crisis relating to banks' overexposure to the domestic real estate market. These difficulties fused with the global financial crisis, but the country was in a position to weather the storms after accumulating oil earnings in the preceding decade (Pomfret, 2011: 139).

Kazakh oil reserves are estimated at 30 billion barrels, proven natural gas reserves to 1.5 trillion cubic metre and coal reserves to 33,600 million tonnes (BP, 2014: 6, 20, 30). The oil industry was in 2009 estimated to produce 1,785 thousand barrels per day of which 287 thousand barrels per day were consumed domestically (Ibid: 8-9). Western countries are the main source of FDI to Kazakhstan, and more than half of this investment is directed towards the energy and mining sectors (Weitz, 2013a). Kazakh government revenues are heavily reliant on the export of oil and minerals, which are in large degree exported to Russia, thus leaving the country vulnerable to the Russian economy, as was seen following the Russian financial crisis in 1998 (Gleason, 2003: 48-50). This reliance, now augmented through the ECU, was recently demonstrated when Nazarbayev ordered the Kazakh government to draw up a plan to protect the Kazakh economy from Western sanctions against Russia (RFE/RL, 2014a).

Liberalisation and economic diversification has not been pursued wholeheartedly as reflected by the underinvestment in physical and human capital. For instance, the National Oil Fund, which was set up in 2000, ostensibly to stabilise the economy and provide savings for future generations (Kalyuzhnova, 2008: 51), has diverted funds from the national economy. The Fund functions opaquely, thereby sustaining corrupt practices of rent extraction, and has hitherto only invested internationally, thus not contributing to the development of Kazakhstan's domestic economy (Zhukov, 2005b: 402). From 2014 the Fund is, however, set to start investing domestically in the Kazakh economy (TengriNews, 2013). Meanwhile, Samruk-Kazyna -which was created in 2008 as a merger of the previously independent funds Samruk, a national holding company intended to manage and privatise large state enterprises, and Kazyna, a national fund for development (Schmitz, 2009: 14, 25)- with the aim of cushioning the national economy from fluctuations in the world economy and supporting economic diversification (Samruk-Kazyna, 2009-2014), is, arguably, a vehicle for state involvement in the market. The Kazakh Prime Minister chairs the board of Samruk-Kazyna, which controls assets worth 45 per cent of GDP, and work according to presidential strategies (Delovoy Kazakhstan, 2014a). Samruk-Kazyna is now seeking to reform itself into a more commercial organisation (Ibid), though there are concerns that continued state interference may inhibit this (Khamidov, 2014). Also in the hydro-carbon sector the state has further increased its involvement by renegotiating agreements with existing foreign investors, thereby increasing the state's share in the sector (Schmitz, 2009: 9).

Despite the early application for WTO membership in 1996, Kazakhstan has not yet become a member. Entry to WTO is currently held back by three issues: veterinary and phytosanitary measures, the harmonisation of import duties with other ECU members, and subsidies, including in agriculture (Ospanova, 2014).

A World Bank study in 2012 suggested that with the then-setup of the ECU Kazakhstan was losing 0.2 per cent in real income per year as a consequence of joining the customs union with costs for businesses and consumers going up. The study suggested that the ECU had reduced real wages by 0.5 per cent and the real returns to capital by 0.6 per cent. Moreover, the study indicated that Kazakhstan's trade with the ROW was reduced by entering the ECU with a consequent negative impact on the import of technology from advanced economies, negatively affecting productivity over the long term (World Bank, 2012: 9).

The study also suggested that ECU membership may contribute to a shift in the structure of the economy away from services towards manufacturing (Ibid: 10). Meanwhile, the World Bank has previously found that WTO accession would result in 6.7 per cent gain in consumption, four to five times the positive effect of the optimistic scenario of ECU impact on the Kazakh economy (Ibid: 15). Positive impact from WTO accession is expected to arise from reform to FDI regulation, local content laws and improved market access *inter alia* (Ibid).

Kazakhstan scores well on regulatory efficiency in the Heritage Economic Freedom Index but the country's record on rule of law -measured by protection of property rights and freedom from corruption- is considered poor and the judiciary subject to political influence (Heritage Foundation, 2014a). According to both the EBRD (2013a) and Heritage Foundation (2014a), diversification remains one of the main challenges for Kazakh economic policy; the EBRD also emphasising the need to reform domestic capital markets (EBRD, 2013a).

2.1.2 Kyrgyzstan

Though Kyrgyzstan also exported raw materials during the Soviet era, its economic structure was different to its regional neighbours. Initially, industrialisation of the republic was also focused on agriculture and mining of raw materials but during World War II large industrial enterprises engaged in manufacturing for the military were moved from occupied parts of the USSR to Kyrgyzstan. Following the war, many continued to specialise in machinery and other types of output of heavy industries. However, like its neighbouring republics, Kyrgyzstan was reliant on the import of manufactured products, and on budget subsidies from Moscow, which were instantly withdrawn upon the breakup of the Union (CASE-Kyrgyzstan, 2005: 9-10, 12).

Economic policy

Kyrgyzstan's external debt eclipsed 100 per cent of GDP by 2000 with debt service swallowing over half the budget revenue (Denizier, 2006: 97). Primarily as a consequence of its need for international aid and investment Kyrgyzstan, thus, opted for a shock-therapy liberalisation of its economy after gaining independence

(Pryde, 1995: 117). This path was possibly also facilitated by a relatively liberal outlook on the part of President Akayev (Ibid; Gleason, 2003: 81). Early Kyrgyz reforms were aimed at establishing the legal and regulatory basis for an open market economy, the privatisation of small enterprises, reform to the financial services industry, and allowing ownership of land (Gleason, 2003: 66, 69-70). As the first FSU republic to join the WTO, Kyrgyzstan removed export restrictions in the late 1990s (Ibid: 66, 71).

Kyrgyzstan plans to join the Eurasian Customs Union in 2015, though it does not expect to meet all commitments prior to 2020 (RFE/RL, 2014b). This aim was listed in the country's 2012 *National Strategy for Sustainable Development for the Kyrgyz Republic. For the period 2013-17* (National Council for Sustainable Development of the Kyrgyz Republic, 2014) as one of the country's main priorities (Voloshin, 2013).

Economic performance

By 1997 the majority of Kyrgyz enterprises had been privatised which deprived the state budget of its main source of income. Tax revenues dropped from 27.1 per cent of GDP in 1990 to 13.5 per cent in 1996-2000 (Zhukov, 2005a, 313). Meanwhile, despite reducing the size of the public sector under international pressure (Gleason, 2003: 70), the state did not reduce expenditure sufficiently, thus, increasing its reliance on foreign transfers (Zhukov, 2005a, 313). Growth rates have been highly precarious since independence as the table below suggests reaching a high of 8.4 per cent annual growth in 2007 and a low of -0.5 per cent in 2010.

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
5.3	0.0	7.0	7.0	-0.2	3.1	8.5	8.4	2.9	-0.5	5.7

Table 2.2 – Annual GDP growth 2001-2011, per cent; Kyrgyzstan (World Bank, 2013)

The EBRD (2010a: 122-123) ranks Kyrgyzstan an open economy, which is also reflected in a moderate trade freedom score (75.2) on the Heritage Economic Freedom Index. The weighted average mean applied tariff of Kyrgyzstan was as low as 2.4 per cent over the period 2009-2013 (World Bank, 2014). The Heritage index scores Kyrgyzstan less open on the parameters of investment freedom

(60.0) and financial freedom (50.0), owing to weak legal enforcement and state interference (Heritage Foundation, 2014b). WTO-membership has led Kyrgyzstan to become the transit point for cheap Chinese goods to the region as a consequence of its open borders (EBRD, 2010a: 122-123), and the country attracts a high level of investment (Heritage Foundation, 2014b). FDI in 2011 amounted to USD 693.5 million, the vast majority of which is directed towards manufacturing (IFC, 2013: 13).

The Kyrgyz civil code outlines the basic principles of a free market, and equality under the law, and as such has been regarded one of the most progressive legal systems among former communist countries (Gleason, 2003: 75). The banking sector was, however, not reformed in compliance with international standards, and directed loans to loss-making state companies continued into the 1990s. The sector consequently went through a crisis induced by a high share of non-performing loans, despite improvements to the regulatory framework supported by the international community (Ibid: 74).

In 2013 services were estimated to account for 44.8 per cent of economic activity, followed by industry (34.4 per cent) and agriculture (20.8 per cent) (CIA, 2014b). With the agricultural sector losing access to inputs from FSU partners, the sector regressed into subsistence farming following independence (Gleason, 2003: 66). Similarly, small and medium-sized enterprises (SMEs) and individual entrepreneurs account for 42 per cent of GDP, nearly one fifth of this group are individual entrepreneurs (2011-figures) (IFC, 2013: 17). Many operate in the shadow economy which has been estimated at 39 per cent of GDP covering mainly trade, processing industry, construction, real estate deals, utilities, social and personal services (AKIpress, 2013). A survey has suggested that while the share of SMEs participating in the shadow economy has been on a downward trend, falling from 68 per cent in 2008 to 49 per cent in 2011, the amount of hidden revenue grew, over the same period, from 31 per cent to 37 per cent (IFC, 2013: 4).

Poverty is high in Kyrgyzstan with 52-57 per cent of the population living below the poverty line by the mid-90s. Poverty has remained at this level, or even increased (Zhukov, 2005a: 305). In 2005 48 per cent of the labour force was estimated to be employed in agriculture, 39.5 per cent in services and 12.5 per cent in industry (CIA, 2014b). Meanwhile, an estimated one fifth of the Kyrgyz population have emigrated for work. The vast majority (92 per cent), according to official statistics, have migrated to Russia. Kazakhstan is the second most popular destination with 8 per cent of Kyrgyz migrants located there (Beishenaly, 2013: 4-5). Despite over 40 per cent of migrants having post-secondary education, they are primarily employed in unskilled occupations. This indicates in the short term a brain drain impact on the Kyrgyz economy, and while the majority of migrants plan to return to Kyrgyzstan (Ibid: 10-11), they may in the interim be losing skills whilst working in unskilled occupations. Migrants, who typically act as self-employed in the trade and services sectors, return remittances, which ease poverty and reduce inequality overall, but also contribute to subnational discrepancies as remittances mainly go to Bishkek and Osh, and are rarely invested in production resources (CASE-Kyrgyzstan, 2005:38-39). The World Bank estimated remittances to amount to 31 per cent of GDP in 2012 (Chorshanbiyev, 2013).

The EBRD notes improvements to investment climate, banking sector and energy sector reform as key challenges to the Kyrgyz economy (EBRD, 2013b). Heritage on the other hand focus on the need for governance reform, particularly with a view to establishing effective rule of law, reducing political interference and strengthening property rights (Heritage Foundation, 2014b).

2.1.3 Tajikistan

Tajikistan's economy during the Soviet era was heavily reliant on transfers from Moscow. The economy was oriented towards external markets exporting primary products, including cotton and hydro-electricity. Consequently Tajikistan, despite some industrial production, was reliant on the import of both investments -with up to 60 per cent of the budget subsidised from Moscow- and of manufactured goods (Olimova, Kurbonov, Petrov and Kahhorova, 2006: 7-8).

Economic policy

Tajikistan's economic development was impeded during most of the 1990s by the country's civil war, though price liberalisation was undertaken quickly after independence (Cummings, 2012: 126). Following the war, under the influence of international financial institutions (IFIs), the Tajik government introduced structural reform aimed *inter alia* at improving governance, restructuring the banking sector, privatisation and land reform (Gleason, 2003: 88).

The National Development Strategy (NDS) sets out the Tajik government's firm commitment to furthering market economic reforms of the Tajik economy (Republic of Tajikistan, 2006: 5). The strategy aims to boost economic growth; triggering structural shifts of the economy, widening the private sector; improving the judiciary and law enforcement systems, and harmonisation with international standards (Ibid: 8). The NDS can be described as a roadmap in which timelines and figures do not match reality. The strategy, for instance, is considered disconnected from financial reality. While the government largely is committed to the implementation of the strategy, which was worked out with the support of the international donor community, ministers supposedly see it as a wish list for others (the donor community) to finance (i/w WS).

Economic performance

The civil war delayed transition and a return to economic growth, while significant parts of Tajik infrastructure were destroyed. Economic damages are estimated to have reached USD 7 billion (Olimova, Kurbonov, Petrov and Kahhorova, 2006: 9). Public finances and monetary policy disintegrated, and inflation was rampant reaching triple-figure annual rates. By late 2000, external debt exceeded 100 per cent of GDP with debt service representing over half of the budget revenue (Denizier, 2006: 96-97). From 1997 growth slowly resumed, and annual growth rates reached 7.4 per cent of GDP in 2011 after slowing somewhat following the global economic crisis in 2008-9. Public finances are now considered to be in good order (i/w IF), and expats suggest that the country has developed positively in recent years, noteworthy results include controlled inflation, poverty reduction and infrastructure developments (i/w Bjorvatn (#47/IO); WD).

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
10.2	9.1	10.2	10.6	10.5	-15.7	21.7	21.2	3.9	6.5	7.4

Table 2.3 – Annual GDP growth 2001-2011, per cent; Tajikistan (World Bank, 2013)

Tajikistan joined the WTO in 2012 becoming the second CAR to enter the trade body (RFE/RL, 2012a). Almost all quantitative and administrative restrictions on foreign trade have been eliminated; while current account convertibility is nearly complete (EBRD, 2010a: 146-147). Tajikistan has relatively low tariffs, the weighted mean applied tariff level averaging 5.2 per cent over the period 2009-2013 (World Bank, 2014); consequently Tajikistan scores moderately on trade freedom (73.2) in the Heritage Economic Freedom Index. However, this is a decline on previous years, and on investment freedom and financial freedom, which together with trade freedom indicates the openness of the economy, Tajikistan scores rather low (25.0 and 40.0 respectively) (Heritage Foundation, 2014c).

The service sector is estimated to dominate the economy accounting for 55.7 per cent of GDP (2013), with industry and agriculture representing 23.2 per cent and 21.1 per cent respectively (CIA, 2014c). Traditionally, Tajiks are rural people and 46.5 per cent of the labour force are estimated (2013) to work in agriculture (Ibid). A further 42.8 per cent are employed in services and just 10.7 per cent in industry (CIA, 2014c). Following land reforms, *dekhon* (household) farms' share in agricultural production rose to 70 per cent. Highlighting the subsistence nature of farming, these are largely non-mechanised and lack access to credit (Olimova, Kurbonov, Petrov and Kahhorova, 2006: 13). The Freedom to Farm Act of 2009 is estimated to cover roughly 60 per cent of farmland, while the remaining 40 per cent are dedicated to cotton. However, farmers are directed in their crop selection by local strongmen. Moreover, the number of farms is increasing owing to a process of *dekhon* disintegration (i/w WS).

In 1999 95 per cent of the population lived below the provisional official minimum consumption basket with 80 per cent considered poor, 33.3 per cent very poor, and 20 per cent extremely poor (Torm, 2003: 16). The government has had some success addressing such acute poverty. According to a 2007 survey, 53.5 per cent of the population was considered poor (according to basic household need methodology) down from 72.4 per cent in 2003. Rural areas have a markedly higher share of poor with 55 per cent classed as poor, against 49.4 per cent of the urban population (Republic of Tajikistan, 2010: 6-7). Poverty and unemployment have led to high levels of labour migration (Olimova, Kurbonov, Petrov and

Kahhorova, 2006: 48-50). Remittances in 2012 accounted for 48 per cent of GDP (Chorshanbiyev, 2013).

In recent years there has been focus on the possibility that the country possesses reserves of oil and natural gas. Tethys Petroleum has suggested that Tajikistan could have reserves of up to 27 billion barrels of recoverable oil equivalent. While Gazprom has been active in Tajikistan for years, and the Tethys announcement prompted the interest of other global players, none has yet gone beyond exploration phase (Parshin, 2013). There is some suspicion that '*the hype'* is designed to boost political support for President Rakhmon (Ibid). Certainly the lack of transparency surrounding official records of natural resource reserves has led geologists to question official claims (i/w WS).

The financial services sector of Tajikistan is significantly underdeveloped with a loan portfolio of less than 10 per cent of GDP. Trading represents more than half of credit extended (Ibid), thus not supporting the productive capacity of the economy. Thus, there is further need for reform of financial services. The banking sector is weak, with banks privatised in principle but subject to government interference in the form of both directed lending and corporate raiding (Torm, 2003: 9; Heritage Foundation, 2014c; i/w WS).

Looking forward, the EBRD, in addition to the need for banking sector reform, calls for improvements to the business environment for smaller businesses as well as governance reform, including improved transparency (EBRD; 2013c). Similarly, Heritage emphasises the need for governance reform going forward, with an emphasis on establishing the effective rule of law, while also noting the underinvestment in human capital (Heritage Foundation, 2014b).

2.1.4 Turkmenistan

Turkmenistan is a potentially wealthy state with large gas reserves and potential for agricultural production based on extensive irrigation. Along with Russia, Turkmenistan was a net donor to other Union republics, when considering that the Turkmen Soviet republic received below-world market transfer prices for the raw materials -cotton and gas- it supplied to industries in other parts of the Union. In exchange Turkmenistan was given direct budget transfers from Moscow (Esanov, Raiser and Buiter: 2006: 48-49). The readjustment of prices following the dissolution of the USSR in fact led to a 50 per cent terms-of-trade gain for Turkmenistan (Anceschi, 2009: 72).

Economic policy

Political and economic reforms in independent Turkmenistan have consistently been aimed at preservation of the political system. Consequently, political liberalisation has been anathema (Ibid: 32). Turkmenistan was able to realise its natural resource rents, from gas and cotton and to a lesser extent oil, without resorting to foreign investment. Turkmenistan has therefore been able to maintain a closed, centrally planned economy, following a self-sufficiency strategy where popular support is maintained through consumption subsidies (Canzi, 2004: 183). Following the Russian introduction of price liberalisation in 1992, the Turkmen government opted to ration basic foodstuffs, including flour, rice and sugar, at subsidised prices, while also restricting the export of such goods (Gleason, 2003: 106). In 1995 and 1996 the government announced economic development policies aimed at restructuring the economy, privatisation, introducing convertibility of the Turkmen *Manat* (TMT), and attracting foreign investment. Proposed reforms included privatisation and banking reform (Ibid: 106-108)

The foreign policy *Doctrine of Positive Neutrality* at an economic level involved three main objectives: establishing new routes for gas exports, attracting FDI to ensure development of the energy sector, and increasing international trade (Anceschi, 2009: 63).[13] All three objectives, arguably, relate to reducing reliance on Russia and other FSU markets, while increasing ties with other foreign partners, including the West (Ibid: 64). The Doctrine was supplemented by the *Open Door's Policy* aimed at broadening trade links and patterns (Ibid: 74). Political

[13] The foreign policy Doctrine of Positive Neutrality has guided foreign relations since 1992 (Anceschi, 2009: 9) and is a key plank, alongside the *Rukhnama* -President Niyazov's reflections on the history and culture of the Turkmen people- of the personality culture built around the president himself (ibid: 38). Linked to the reverence for Niyazov both thus became idealised policies and should, as argued by Luca Anceschi, be seen as integral parts of the process of regime consolidation (Ibid: 55).

transition following President Niyazov's death involved subtle political shifts. President Berdymukhamedov eagerly projected an image of change *inter alia* by announcing an agenda of political liberalisation (Ibid: 43-44).

While stability is prioritised over freedom, contemporary interlocutors in the country emphasise, that there is openness and political will on part of President Berdymukhamedov to grow the private sector as a means towards diversifying the economy (i/w Drakinos (#99/IF); LE; IF; NN; WD).[14] In May 2010, Turkmenistan introduced a national programme for socio-economic development, which outlines a plan for diversification of the economy – including privatisation of SMEs. Changes have been made to laws on foreign investment, which in combination with the discovery of new onshore gas fields has led to a boom in foreign investment since 2009 (EBRD, 2010a: 150-151). Official policy is aimed at the development of a production and export-oriented, import-substituting manufacturing sector (i/w NN), and the budget surplus is directed towards private sector growth (i/w Drakinos (#99/IF); NN).

Economic performance

The first years following independence saw economic decline owing to the disruption of gas exports, unfavourable world prices, poor harvest and economic mismanagement. Since 1998 when Turkmenistan achieved a 7 per cent annual growth rate its economy has been recovering, though the reliance on primary products remains (Badykova, 2005: 63).

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
4.3	0.3	3.3	5.0	13.0	11.0	11.1	14.7	6.1	9.2	14.7

Table 2.4 – Annual GDP growth 2001-2011, per cent; Turkmenistan (World Bank, 2013)

[14] Luca Anceschi writing in 2009 (45-46), on the other hand, considered announced political reforms to be nothing more than symbolic, and pratical changes a reflection of Berdymukhamedov's consolidation of power. Similarly, Najia Badykova (2005: 65) claims that with the rents from the country's resources, which during the latter half of the 1990s were estimated at 33-64 per cent of GDP (Pomfret, 2006: 84), concentrated in elite circles, which hold all political power, there is little likelihood of economic liberalisation and diversification.

The EBRD notes Turkmenistan's limited degree of foreign trade liberalisation, lack of full currency convertibility as well as the foreign exchange regime's non-transparency (EBRD, 2010a: 150-151). Most recent data (2002) on weighted mean tariff rates suggest low tariffs at 2.88 per cent (Index Mundi, 2014; Heritage Foundation, 2014d). Heritage ranks Turkmenistan moderately on trade freedom (79.2), though notes the complete absence of investment freedom and scarce financial freedoms, whilst overall categorising the Turkmen economy as '*repressed*' (Heritage Foundation, 2014d).

The Turkmen economy is dominated by the services industry estimated (2013) to represent 68.4 per cent of the economy with industry representing 24.4 per cent and agriculture 7.2 per cent (CIA, 2014d). There is little economic activity outside of the natural resource sectors (Pomfret, 2006: 79-80). Meanwhile, the agricultural sector employs 48.2 per cent of the work force, services 37.8 per cent and industry 14 per cent (CIA, 2014d). With controls on foreign exchange there is a strong distortion of prices and a flourishing black market (Pomfret, 2006: 79-80).

Turkmenistan has recently been estimated to hold as much as 26.3 trillion cubic metre of gas reserves (Fitzpatrick, 2011b) with proven reserves of 17.5 trillion cubic metre gas (BP, 2014: 20). Production is estimated to be 62.3 billion cubic metre per year (Ibid: 22), thus, there is significant potential for production and export expansion as the country consumes only 22.3 billion cubic metre domestically (Ibid: 23).

Whereas the main issue facing the energy sector during the Presidency of Niyazov was how and where to export natural gas, the question has since shifted to how to extract it. Domestically Turkmenistan lacks capacity both in terms of financial resources and technical skills and expertise (Crude Accountability, 2011: 7). Thus, continued gas exploration and production of offshore fields will be reliant on foreign expertise, necessitating international engagement (Chatham House, 2011: 8). Since 1997, Turkmenistan has increasingly engaged with international oil companies in contractual relationships, which have improved the sophistication of natural gas exploration and development (Gleason, 2003: 105). The involvement of foreign contractors is, however, still under direct control of the president (Gleason, 2003: 106), which represent an obstacle to increased foreign engagement (Anceschi, 2009: 82)

The Open Door's Policy failed as a consequence of the inability to reform the economic structure and production pattern of the Turkmen economy as well as a failure to establish new economic partnerships beyond the FSU (Ibid: 74). Turkmenistan did not sufficiently reform trade regulations and the government did not actively engage in establishing new economic relationships (Ibid: 75). The Open Door's Policy was consequently abandoned by 1998, though this had little actual impact (Ibid: 80-81). In practice, Turkmenistan's economy has undergone negligible reform as suggested by the absence of significant shifts in industrial and agricultural production patterns as well as the continued dominance of the state over the economy (Ibid: 68-70). While management of strategic sectors such as energy and agriculture has been decentralised to specialised supervisory agencies such as Turkmengazprom, Turkmenneftegaz and Turkmenpagta, the central government maintains control (Ibid: 71; Gleason, 2003: 105).

The state's control of the hydro-carbon sector has led to extensive corruption at the highest levels (Badykova, 2005: 65). The high level of corruption and elite capture of public resources is detrimental to the wider economy as the resources are not employed to diversify the economy (Pomfret, 2006: 84). The establishment of stabilisation funds, which ostensibly aim to support diversification of the economy but in reality divert funds from the domestic economy through non-transparent investment, indicates a disconnect between policy and practice (EBRD, 2010a: 150-151; Chatham House, 2011: 8; Rumer, 2005a: 11). Similarly, the EBRD points to weaknesses of the legislation aimed at implementing privatisation and diversification policy (EBRD, 2014: 16). However, there are also indications of the private sector being given space to grow. Abolition of the subsidies programme is a means by which the government is seeking to create space for the private sector and achieve a more efficient allocation of resources. As of July 2014 free petrol allocations have been scrapped (RFE/RL, 2014c), while the price of flour had already been increased (i/w IF). One industry in which the government has sought to increase opportunities of the Turkmen private sector is in construction, which appears to have paid off (Annayev, 2014).

Poverty in Turkmenistan is eased through an extensive social safety net and may be lower than in other CARs; however, the actual level of poverty in the country is unclear (Badykova, 2005: 67). Though poverty is alleviated through the system of public subsidies, including free access to water, gas and electricity, this form of state support is arguably to a certain degree symbolic as in many parts of the country the population has no access to water, gas or electricity (Chatham House, 2011: 9; Sadykov, 2013a).

The EBRD emphasises commercialisation of bank lending, liberalisation of foreign trade and increasing the private sector as priorities for Turkmen economic transition and development going forward (EBRD, 2013d). Heritage similarly emphasises the problematic nature of heavy state involvement in the economy, the need to diversify and the absence of rule of law (Heritage Foundation, 2014d).

2.1.5 Uzbekistan

Uzbekistan’s role in the USSR economic structure was focused on the production of cotton for transfer to the Western parts of the Soviet Union. Cotton production accounted for half the agricultural sector, which was the largest sector of the economy, and only 12 per cent of the cotton production was processed in Uzbekistan. Manufactured goods were largely imported and, overall, imports vastly exceeded exports. Meanwhile, about 40 per cent of the budget income was provided in the form of direct subsidies from Moscow (Paramonov et al., 2006: 6-12). Uzbekistan was the most diversified of the CARs, economically, at the time of independence including agriculture, light and heavy industry as well as primary commodities as sectors of the economy (Gleason, 2003: 117).

Economic Policy

Following independence, Uzbekistan was able to sustain its cotton, gold and natural gas industries without seeking international investments. The cotton and gold industries, which represent the larger share of Uzbek exports, rely on flexible means of transport; whereas the pipeline-dependent gas industry was oriented towards domestic consumption. Thus, Uzbekistan was neither dependent on the wider international community, nor on Russia in particular, and as such, could outline an independent path for economic development without submitting to international pressure for reforms to the economy (Pomfret, 2006: 80; Rumer, 2002a: 21). Moreover, Karimov's training as an economist with direct experience administering the Uzbek Soviet republican economy enabled him to identify such an independent path for Uzbekistan, being less reliant on external advice vis-à-vis for instance Kazakh and Kyrgyz leaders who were less well versed in economics (Spechler, 2008: 38).

President Karimov initially announced an Uzbek transition path towards a market economy but at the same time, the Uzbek economic transition strategy favoured stability over market forces with state institutions playing a key role across financial, commercial and industrial sectors (Gleason, 2003: 117). In fact, as argued by Martin Spechler (2008: 30), it is misleading to suggest that the Uzbek transition has been an import substitution strategy throughout the period of independence, though such policies have dominated in what were deemed strategic sectors, including the automobile industry. Five principles characterise the Uzbek model: 1) de-politicisation of the economy, 2) state direction of gradual transition to a market economy, 3) the rule of law, 4) social protection, and 5) gradual transition to market economy (Karimov, 1997: 115).

By presidential decree, however, President Karimov in January 1994 introduced wide-ranging economic liberalisation policies with a particular emphasis on enabling foreign investment (Bondarevsky and Ferdinand, 1994: 49); also in 1994, Uzbekistan applied for WTO membership (WTO, 2014b). This policy of gradual opening, nevertheless, failed as a consequence of falling commodity prices and the impact of price liberalisation and trade reforms in neighbouring countries (Spechler, 2008: 43; Gleason, 2003: 123). In 1996 the country experienced a trade deficit encouraging the authorities to introduce import substitution policies to promote domestic production and prevent capital flight (Gleason, 2003: 118, 124).

Foreign exchange and import controls led to a drop in imports and monopolies on the imports of certain goods controlled by members of the political elite (Spechler, 2008: 44; Gleason, 2003: 124-125). The aftermath of 9-11 2001 led to an increase in support from and influence of the International Monetary Fund (IMF) and the USA (Spechler, 2008: 47). Moreover, since, 2002 Uzbek gas consumption has overtaken domestic production (Blackmon, 2011: 19). The combined influence of such factors saw the Uzbek government introduce relatively liberal policies aimed at currency convertibility, reducing state involvement in the economy and attracting foreign investment (Blackmon, 2011: 19; Paramonov et al., 2006: 18; Spechler, 2008: 47).

Karimov in a speech in August 2014 re-confirmed the Uzbek model of economic transition emphasising the primacy of the state as driver of phased, gradual reforms. Karimov metaphorically stated: '*Do not destroy the old house until you build a new one*' (Karimov, 2014). In the speech Karimov stressed particularly the need for access to export markets and foreign investment to modernise domestic technology and build storage and logistics facilities enabling such exports (Ibid).

Economic performance

The avoidance of shock-therapy style reforms led to a relatively smooth transition with Uzbekistan showing the strongest economic performance of the FSU countries by the mid-90s (Trushin and Trushin, 2005: 340). Since 2004 Uzbekistan has experienced annual growth rates above 7 per cent of GDP.

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
4.2	4.0	4.2	7.7	7.0	7.3	9.5	9.0	8.1	8.5	8.3

Table 2.5 – Annual GDP growth 2001-2011, per cent; Uzbekistan (World Bank, 2013)

The EBRD considers Uzbekistan a largely closed economy with only limited liberalisation of foreign trade, lack of full currency convertibility as well as a non-transparent foreign exchange regime (EBRD, 2010a: 154-55). The weighted mean applied tariff has reduced during transition years, averaging 5.1 per cent over the period 2009-2013 (World Bank, 2014). Nevertheless, the Heritage Economic Freedom Index also indicates a comparatively closed economy with trade freedom considered relatively low (66.1), investment freedom non-existent and financial freedom very low (10.0) (Heritage Foundation, 2014e). Overall, Heritage describes Uzbekistan as a '*repressed*' economy (Ibid).

Privatisation processes complied with the notion of state directed transition, ensuring a high degree of state ownership and interference in nominally privatised companies (Gleason, 2003: 125; Spechler, 2008: 35-36, 47). Accordingly, Neil Melvin (2000: 69) has suggested that the market reform agenda has been a mere rhetorical disguise for the actual continuation of political control over the economy. Consequently, private Uzbek citizens are, for instance, reluctant to use domestic banking services out of concern that government authorities may review their holdings in banks (Gleason, 2003: 126). The state sector has previously been estimated to account for as much as 50 per cent of the economy as well as the labour force. The state's dominance obstructs private initiative and force entrepreneurs into the shadow economy (Trushin and Trushin, 2005: 348), which is estimated to account for 30-35 per cent of GDP covering half of all retail trade turnover and more than half of cross-border trade and financial flows (Paramonov, 2006a: 23).

Services are estimated (2013) to account for nearly half (48.7 per cent) of the economy with industry accounting for 32.2 per cent and agriculture 19.1 per cent (CIA, 2014e). Services employ an estimated (2012) 60.9 per cent of the labour force, agriculture 25.9 per cent and industry 13.2 per cent of the labour force (Ibid). Other estimates suggest that 65 per cent of the population work in agriculture, with a third of the workforce engaged in the cotton industry (Allnutt, 2013). Remittances from migrant workers in Russia to Uzbekistan have been estimated at 13 per cent of GDP in 2012 (Sadykov, 2013b). 70 per cent of Uzbek labour migrants are estimated to work in Russia (Spechler and Spechler, 2010: 167).

Uzbek economic dependence on cotton weakens the sustainability of long-term growth. Cotton is a highly water intensive crop, and Uzbekistan lacks domestic water supplies, while cotton production is marred by Soviet-era, poorly maintained irrigation systems. Uzbekistan has, however, succeeded in shifting agricultural production away from cotton, despite the corresponding loss to foreign currency earnings. The government has encouraged wheat production in place of cotton, as well as increased the size of personal plots. The shift in production pattern has economised on water consumption, and farm production grew by 41 per cent from 2000 to 2005 (Spechler, 2008: 68). Cotton fibre at the end of the 2000s represented as little as 10 per cent of Uzbek export earnings (Spechler and Spechler, 2010:166), and it is allegedly gas exports that now props the Uzbek economy up as it de-diversifies with energy increasing as a share of exports (i/w WD; AC). Uzbekistan has 1.1 trillion cubic metres of proven gas reserves (BP, 2014: 20), producing 55.2 billion cubic metres daily (Ibid: 22) of which 45.2 billion cubic metres are consumed domestically (Ibid: 23).

While the currency regime was liberalised in the early 2000s problems remain regarding currency convertibility. Moreover, trade barriers were simultaneously introduced, for instance on the free movement of people (Trushin and Trushin, 2005: 344-347; Spechler 2008: 52-53). More generally, measures such as targeted subsidies and price controls have delayed structural transformation (Gleason, 2003: 119). Foreign investment was facilitated through liberalising the investment regime, including allowing free repatriation of profits, with limited success, including Korean investment in car manufacturer UzDaewoo (Spechler, 2008: 37). The controls on foreign exchange create opportunities for rent extraction (Pomfret, 2006: 84-85), which increases prices of consumer goods and is therefore detrimental to the potential for expansion of consumer goods production (Trushin and Trushin, 2005: 344-345).

Martin Spechler (2008: 68) argues that the incompleteness of Uzbek transition reflects implementation issues, not deficiency of concept or understanding. Indeed, despite Karimov's training as a Marxist economist; and belief in strong state involvement in the economy (Rumer, 2002a: 21; Spechler, 2008:33; i/w NN), Kathleen Collins (2006: 265-266) has claimed that Karimov in 1995, when growth rates were negative, was open to the IMF's proposals for liberal reforms but was blocked by clan factions seeking to protect their economic interests. Also, the absence of full currency convertibility despite reforms to that effect purportedly can be explained by this battle.

Looking ahead, the EBRD emphasise the need for privatisation, liberalisation of the foreign exchange system and commercialisation of bank lending as priorities for transition and economic development (EBRD, 2013e). Heritage likewise argues for the need to reduce the role of the state with a view to diversifying the economy, as well as the need for governance reform with a focus on effective rule of law (Heritage Foundation, 2014e).

2.1.6 Summary

Kazakhstan and Kyrgyzstan both followed so-called shock therapy transition paths introducing liberal reform policies quickly upon independence. Uzbekistan and Turkmenistan on the other hand followed more gradualist approaches to economic transition. Tajikistan's transition was delayed by the country's civil war but since 1997 the country has pursued a liberalising economic policy. As is reflected in the individual presentations above, and in the table below of EBRD Transition Indicators, for the five Central Asian states, these diverging paths have led to deviating economic environments. For instance, Kazakhstan, Kyrgyzstan and Tajikistan have achieved significant progress in terms of privatisation, price liberalisation and trade and foreign exchange systems, while Uzbekistan and Turkmenistan are lagging behind on all of these measures.[15] On the other hand, the Transition Indicators also suggest that all five Central Asian republics still face similar challenges in terms of institutional reforms, as all suffer from poor corruption standards and lacking performance on governance and enterprise restructuring. Similarly Spechler has suggested that from the perspective of ordinary Central Asians (except Turkmens), the difference in economic rights is negligible (Spechler, 2008: 101).

	Large scale privatisation	Small scale privatisation	Governance and enterprise restructuring	Price liberalisation	Trade & Forex system	Competition Policy
Kazakhstan	3.0	4.0	2.0	3.7	3.7	2.0
Kyrgyzstan	3.7	4.0	2.0	4.3	4.3	2.0
Tajikistan	2.3	4.0	2.0	4.0	3.3	1.7
Turkmenistan	1.0	2.3	1.0	3.0	2.3	1.0
Uzbekistan	2.7	3.3	1.7	2.7	1.7	1.7

Table 2.6 – EBRD Transition Indicators 2012, rank from 1 to 4+ (EBRD, 2012a)

The rents involved in the natural resource sectors have been captured by elites for their own enrichment and for the maintenance of the patronage systems that un-

[15] Rankings may not be directly comparable across countries as they represent judgements by the Office of the Chief Economist on country-specific progress (EBRD, 2010b)

derpin the presidential rule of each state. As such, they have all hitherto failed to grasp their biggest potential for sustainable economic growth, namely diversifying their economies. By siphoning off the rents from their economies' main sectors, the competitive development of other sectors in each economy has been undermined (Auty, 2006b: 20). Similarly, in all countries a significant proportion of economic activity occurs in the shadows. The size of the shadow economy is typically estimated at around 30 per cent; a significant increase since the Soviet era, when the estimate was only 6 per cent (Kaser, 2005: 151).

The CARs consequently share many future challenges. Particularly the need for governance reform and improvements in the protection of property rights, and the rule of law more generally, are challenges shared by all. Reforms of financial services are also shared challenges, though the emphasis varies across the region – from Kazakhstan, where the need is to liberalise the domestic capital market, to Tajikistan and Kyrgyzstan where institutional reform of the sector is required. Diversification of the production structure is similarly a shared challenge.

2.2 Foreign trade

The Central Asian republics generally are trade intensive economies. Kyrgyzstan and Turkmenistan in particular trade at significantly higher levels than other low and middle income countries, respectively; but also Tajikistan and Kazakhstan have relatively high ratios of trade to GDP. Only Uzbekistan broadly mirrors its peers among middle income countries though, generally, performing slightly above this benchmark. These relatively high ratios of foreign trade to GDP suggest that Central Asian economies are open to trade.

Country/group	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Kyrgyz Republic	83	84	94	96	121	137	146	133	133	136
Tajikistan	142	137	128	79	80	89	89	70	76	74
Low income	44	47	50	57	61	63	67	59	63	69
Kazakhstan	94	91	96	98	92	92	94	76	73	77
Turkmenistan	122	119	121	113	108	114	104	120	123	123
Uzbekistan	60	68	73	67	69	76	84	73	62	59
Middle income	54	56	60	62	63	62	63	53	57	61

Table 2.7 – CARs' foreign trade as a share of GDP, 2002-2011 (World Bank, 2013)

			2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Kazakhsta	Trade balance	Value (m €)	3,252	3,456	5,863	8,416	11,587	10,915	22,623	10,587	25,128	42,627	45,685
		Growth		6.3%	69.6%	43.5%	37.7%	-5.8%	107.3%	-53.2%	137.3%	69.6%	7.2%
	Total trade	Value (m €)	17,202	18,307	26,451	36,369	49,352	58,787	74,196	51,365	60,823	73,060	87,329
		Growth		6.4%	44.5%	37.5%	35.7%	19.1%	26.2%	-30.8%	18.4%	20.1%	19.5%
Kyrgyzstar	Trade balance	Value (m €)	-107	-120	-189	-384	-728	-935	-1,668	-5,248	-4,668	-5,711	-7,003
		Growth		12.1%	57.2%	102.8%	89.6%	28.3%	78.5%	214.6%	11.0%	22.3%	22.6%
	Total trade	Value (m €)	1,134	1,147	1,323	1,403	1,996	2,590	3,868	6,545	6,241	7,333	8,807
		Growth		1.1%	15.4%	6.0%	42.3%	29.7%	49.4%	69.2%	-4.6%	17.5%	20.1%
Tajikistan	Trade balance	Value (m €)	17	-74	-222	-339	-260	-787	-1,239	-1,073	-1,103	-2,698	-2,832
		Growth		-526.1%	200.7%	52.4%	-23.3%	202.9%	57.4%	-13.4%	2.8%	144.6%	5.0%
	Total trade	Value (m €)	1,541	1,483	1,693	1,800	2,488	2,930	3,203	2,521	2,905	4,129	4,472
		Growth		-3.8%	14.2%	6.3%	38.3%	17.7%	9.3%	-21.3%	15.3%	42.1%	8.3%
Turkmenis	Trade balance	Value (m €)	727	829	684	1,888	2,477	2,148	3,185	-2,480	-1,795	-40	593
		Growth		14.0%	-17.5%	176.0%	31.2%	-13.3%	48.3%	-177.9%	-27.6%	-97.8%	-1600.6%
	Total trade	Value (m €)	5,228	5,271	4,991	6,082	6,510	7,058	10,610	6,908	6,729	10,988	15,749
		Growth		0.8%	-5.3%	21.9%	7.1%	8.4%	50.3%	-34.9%	-2.6%	63.3%	43.3%
Uzbekistar	Trade balance	Value (m €)	-552	-413	-344	36	608	-529	-1,790	-3,062	-2,796	-3,680	-5,219
		Growth		-25.3%	-16.6%	-110.4%	1595.8%	-187.0%	238.7%	71.0%	-8.7%	31.6%	41.8%
	Total trade	Value (m €)	3,838	3,981	4,742	5,767	7,755	9,722	11,963	9,896	11,166	11,734	13,385
		Growth		3.7%	19.1%	21.6%	34.5%	25.4%	23.0%	-17.3%	12.8%	5.1%	14.1%

Table 2.8 – Trade balance and total trade position of CARs (European Commission, 2014)

Kazakhstan is the only Central Asian republic to have consistently experienced a trade surplus in the period from 2002 to 2012. Kyrgyzstan, Tajikistan and Uzbekistan, on the other hand, have had steadily increasing trade deficits over the five years to 2012. Meanwhile, Turkmenistan's position has changed between significant surpluses and deficits to being near zero in recent years.

On the eve of independence, the CARs trade patterns were dominated by trade with other Soviet republics. 80-87 per cent of the CARs imports originated in other Soviet republics, while 85-98 per cent of their exports were destined for other Soviet republics (Ceviköz, 1994: 46). Moreover, even the trade with non-USSR markets was dominated by trade with the CMEA (Anceschi, 2009: 72). The following two sections consider, firstly, the pattern of trade within Central Asia, and secondly, Central Asian trade with the ROW. Thereupon follows a discussion of the impact of the republics' landlocked geography and infrastructure.

2.2.1 Intra-regional trade

Studies have shown that following the break-up of the Soviet Union, CIS countries generally, including Central Asian republics, were slow in re-orienting trade patterns, and tended to over-trade amongst themselves, that is trade more than suggested by economic modelling.[16] In other words, most of the potential for trade with other parts of the world economy remained untapped. For instance, using the gravity model Babetskii et al. (2003: 5) found that the CIS was less integrated into the world economy than other regions of the world, including other parts of the CMEA.

Studies specifically on Central Asia have been less clear in conclusions. For instance, Elvira Kurmanalieva and Ziyodullo Parpiev (2008) suggested that disintegration of trade relationships in Central Asia has occurred to a degree that the republics now have significant untapped trade potential with each other. The Eurasian Development Bank's (EDB's) *System of Indicators of Eurasian Integration* most recently suggested that a trend towards disintegration has stalled (EDB,

[16] See for instance Freinkman, Polyakov and Revenco, 2004; EBRD, 1999.

2014: 9). Other studies establish a continued trend of over-trading. For instance, Clemens Grafe, Martin Raiser and Toshiaki Sakatsume (2006: 161) concluded that there was scope, though limited, for expanding intra-regional trade; while in another study the authors (Grafe, Raiser and Sakatsume, 2005) found the level of regionalisation and market integration to be very high when taking into consideration informal trade. Jesus Felipe and Utsaev Kumar (2010) found that, though the level of intra-regional trade in Central Asia is comparatively low, trade facilitation measures could increase potential trade.

The increase in natural resource exports to the wider world has shifted trade patterns towards trade with the ROW but intra-regional trade has diminished also in absolute terms (Grafe, Raiser and Sakatsume, 2006: 157-160). The pattern of intra-regional trade is remarkably asymmetrical as evidenced in tables 2.9 and 2.10. Significant shares of Kyrgyz exports are directed to Kazakhstan and Uzbekistan. Uzbekistan also sends a notable share of its exports to Kazakhstan, and relies on a similar share of its imports from Kazakhstan, which also represent noteworthy shares of imports to Kyrgyzstan and Tajikistan. Turkmenistan's trade with the rest of Central Asia is negligible.

Share in exports		Importer				
		Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
Exporter	Kazakhstan		0.63%	0.45%	0.16%	1.50%
	Kyrgyzstan	19.40%		1.38%	0.47%	25.44%
	Tajikistan	4.43%	0.77%		0.14%	0.97%
	Turkmenistan	0.80%	0.03%	1.12%		0.47%
	Uzbekistan	12.25%	3.24%	1.31%	2.44%	

Table 2.9 – Central Asian trade: share in exports, 2011 (IMF, 2013)

Share in imports		Exporter				
		Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
Importer	Kazakhstan		1.13%	0.23%	0.31%	3.51%
	Kyrgyzstan	6.14%		0.09%	0.03%	2.19%
	Tajikistan	8.36%	0.36%		1.96%	1.68%
	Turkmenistan	1.82%	0.08%	0.02%		1.95%
	Uzbekistan	12.30%	2.95%	0.10%	0.36%	

Table 2.10 – Central Asian trade: share in exports, 2011 (IMF, 2013)

Roman Mogilevskii (2012b: 23) in a study of the impact of the ECU on Central Asian trade suggests that it has had a minor effect, finding only a few cases of possible trade creation or diversion. Kazakhstan appears to be establishing itself as an integration core independently of Russia in terms of both labour and trade migration (Libman and Vinokurov, 2011: 481). Moreover, the Kazakh financial services industry is a key investor in neighbouring countries with over 70 per cent of assets in the Kyrgyz banking sector owned by Kazakh stakeholders, which are expanding into the Tajik market also (Pomfret, 2011: 138).

Scepticism of the potential for increased intra-regional trade in Central Asia owing to lack of trade complementarity fails to take account of the dynamic trade in foodstuffs and energy in the region, whereby Tajikistan and Kyrgyzstan export hydro-electricity and import oil and gas, while Uzbek fruits and vegetables are in high demand, exchanged for Kazakh grains (Spechler, 2008: 123). Moreover, construction materials are traded in the region, while informal trade in fuel and cotton is ongoing. These are trends that could be increased through the elimination of trade barriers (Ibid: 123-124). In fact, trade-driven integration of the region is led by the informal sector. Grafe, Raiser and Sakatsume's (2005: 1) study of price variation in Central Asia concluded that obstacles to trade within countries, including internal check points, the corruption of traffic police, road blocks, and local officials restricting access to local markets and bazaars, are just as large as the obstacles to cross-border trade. The authors do find indication of a strong border effect -particularly between Uzbekistan and its neighbours- but the effect disappears almost fully once the effects on purchasing power of exchange rate fluctuations are taken into account.

The study finds that price dispersion within Kazakhstan alone is large enough to contain all price variations found across the region. Average price differences are in the range of 30-50 per cent, and are present not only for goods which are manifestly difficult to transport owing to trade restrictions, such as cotton, cloth, milk and cigarettes, but also goods, which ought to be easily tradable including potatoes, onions and carrots. Trade barriers beyond borders are significant obstacles to integration both within and between markets (Ibid: 10-20). Even when staying in the informal economy, enterprises are hampered by barriers such as restrictions on the free movement of people, particularly in the case of Uzbekistan, where borders have been mined and visa requirements are strict out of security concerns (Grafe, Raiser and Sataksume, 2006: 169). In several cases, the Fergana Valley notably, bilateral borders are still disputed with the first seven months of 2014 alone seeing more than 20 border-related incidents (Muzalevsky, 2014). Whilst such incidents have usually been between local communities, armed border guards have increasingly been involved (Ibid). The securitisation of border areas is further inhibiting regional as well as extra-regional trade (Ibid).

The informal economy is critical for the livelihood of many people across the region and the governments would benefit from legitimising this trade. This would increase their tax and customs revenue and release significant potential for economic growth. Informal enterprises tend to remain small ventures and thereby not contribute significantly to national economic growth (Byrd and Raiser, 2006: 3). Diversity can be a source of gain from trade when countries trade with one another on the basis of their comparative advantages. However, the conflicting trade policies in Central Asia both hinder and drive trade underground (Ibid: 5; Kourmanova et al., 2008: 14). Thus, for the Central Asian governments to realise the potential for increased tax and customs revenue, as well as increased economic dynamism, by bringing the informal sector into the formal economy, it will require cooperation on convergence of trade regimes, and formalisation of existing informal integration (regionalisation). So far the knee-jerk reaction by the CARs has, however been to increase trade barriers, further stifling economy activity. Not only does this make business harder for the informal traders but also for formal traders, for instance through high transportations costs as evident by the need for escort services (Byrd and Raiser, 2006: 68).

The restrictions on trade reduce competitiveness of the wider economy and thereby further the dependence on natural resource trade; particularly SMEs are hurt by trade and transit restrictions (Grafe, Raiser and Sakatsume, 2006: 166-168). In addition to unleashing the potential for growth from the informal sector and SMEs, making it easier to conduct business, stronger integration of the post-Soviet Central Asian states would create potential for increased inward investment as a larger market is more attractive to investors (Byrd and Raiser, 2006: 9).

The region continues to have untapped comparative advantage, which could arise from increasing economies of scale, product differentiation and labour cost differentials all to be released through trade facilitation (Spechler, 2008: 123). A regional division of labour could arguably boost long run growth of the Central Asian republics (Ibid: 127-128). Liberalised, open economies across Central Asia would likely increase intra-regional, relatively more than extra-regional, trade owing to the transport costs arising from distance and natural barriers (Ibid: 134).

2.2.2 International Trade

The EBRD 1999 Transition Report (EBRD, 1999) noted that trade between Central Asia and Europe, and with non-transition economies generally, were ¼ to ½ less than what had been expected. This indicated significant scope for increased trade between the Central Asian republics and non-CIS economies, whereas trade with Russia has been thought unlikely to return to Soviet era-levels (Grafe, Raiser and Sakatsume, 2006: 161). The CARs however, continue to have, in terms of trade and migration, stronger links with Russia than they do amongst each other (Libman and Vinokurov, 2011: 478). Table 2.11 lists the top trade partners of the CARs. While Kazakhstan sends less than 10 per cent of its exports to Russia, it relies on the latter for over 40 per cent of its imports. For Uzbekistan, Russia is the largest import and export partner and for Kyrgyzstan and Tajikistan it is in the top-3. Russia is also a top-3 source of imports for Turkmenistan, though only in tenth place as export destination for Turkmenistan. These figures reflect the large interdependencies between the Central Asian economies and Russia's, which is considered to be the most attractive market for Central Asian goods (Kourmanova, 2014).

Russia also is the main destination for labour migrants from Kyrgyzstan, Tajikistan and Uzbekistan (Beishenaly, 2013: 4-5; Spechler and Spechler, 2010: 167). This interdependence suggests that the Central Asian economies face significant challenges ahead in the case of a Russian economic downturn (Kourmanova, 2014). On the other hand, the Russian-imposed embargo on imports of food products from the West may benefit the Central Asian states, creating an opportunity for increasing their exports to Russia. Currently former Soviet republics account for 25 per cent of Russian food imports (Rickleton, 2014a).

Despite the fact that tariffs on imports from other Central Asian countries have not been directly impacted by the ECU because of existing free trade agreements within CIS, which have remained in force (Mogilevskii, 2012b: 8), the ECU has had a negative impact on ECU members' trade with non-members. For instance, Kyrgyz, Tajik and Uzbek exports to Russia reportedly have declined by 33.4 per cent, 24.2, per cent and 25.1 per cent respectively (Dreyer and Popescu, 2014: 4). Meanwhile, from 2009 to the end of 2011 trade between the three ECU members increased by $^{2}/_{3}$; however this in part reflects a return to pre-2008 crisis trade levels (Isakova, Koczan and Plekhanov, 2013: 2). Most recently it has been suggested that Kazakh trade turnover with other ECU members, Russia and Belarus, has decreased by 23 per cent from the first half of 2013 to the first half of 2014 (TengriNews, 2014c).

Kazakhstan relies heavily on trade with the EU and China, which receive 52.5 per cent and 19.8 per cent of Kazakh exports (2011), respectively. Similarly, China dominates as export destination for Turkmenistan, receiving 56.2 per cent of Turkmen exports, Ukraine and the EU coming in at distant 2nd and 3rd places. Kyrgyzstan on the other hand primarily exports to its immediate neighbours, Uzbekistan, Russia, Kazakhstan and China, as does Uzbekistan which, nevertheless has the most diversified export structure relying on no one partner for more than 20 per cent of its exports. Russia, Turkey, China, Kazakhstan and Ukraine all receive between 10 and 20 per cent of Uzbek exports. Turkey is Tajikistan's largest export market receiving 29.6 per cent of Tajik exports, which are otherwise also directed at the EU, Russia, Iran, China and Korea, though in significantly smaller quantities.

Kazakhstan top export partners, 2011

Partner	Value (USD)	Share in exports
European Union	42,129,734,389	52.5%
China	15,866,649,929	19.8%
Switzerland	5,002,258,122	6.2%
Ukraine	2,581,630,064	3.2%
Turkey	2,560,824,469	3.2%
Canada	2,531,964,860	3.2%
Israel	1,296,837,698	1.6%
Bermuda	1,247,243,600	1.6%
Uzbekistan	1,202,666,101	1.5%
Iran	1,047,210,467	1.3%

Kazakhstan top import partners, 2011

Partner	Value (USD)	Share in imports
European Union	7,620,857,528	35.6%
China	5,007,925,517	23.4%
Ukraine	1,753,114,847	8.2%
United States	1,624,823,853	7.6%
Turkey	758,025,156	3.5%
Uzbekistan	752,500,047	3.5%
Korea, Republic of	647,065,102	3.0%
Japan	641,099,543	3.0%
Brazil	344,750,879	1.6%
India	246,440,993	1.2%

Kazakhstan export to ECU partners, 2011

Partner	Value (USD)	Share in exports
Russia	6,998,600,000	8.3%
Belarus	104,700,000	0.1%

Kazakhstan import from ECUpartners, 2011

Partner	Value (USD)	Share in imports
Russia	15,332,000,000	41.5%
Belarus	593,800,000	1.6%

Kyrgyzstan top export partners, 2011

Partner	Value (USD)	Share in exports
Uzbekistan	288,836,263	25.4%
Russia	252,582,067	22.2%
Kazakhstan	220,287,800	19.4%
China	88,628,555	7.8%
United Arab Emirates	62,824,910	5.5%
Afghanistan	57,180,638	5.0%
Turkey	47,384,885	4.2%
European Union	28,872,455	2.5%
Tajikistan	15,665,847	1.4%
Iran	12,963,636	1.1%

Kyrgyzstan top import partners, 2011

Partner	Value (USD)	Share in imports
China	5,366,414,015	59.1%
Russia	1,247,883,464	13.7%
European Union	602,270,900	6.6%
Kazakhstan	557,663,322	6.1%
Belarus	239,996,350	2.6%
Uzbekistan	199,201,413	2.2%
Turkey	198,265,014	2.2%
Korea, Republic of	156,329,356	1.7%
Ukraine	122,410,860	1.3%
United States	113,190,000	1.2%

Tajikistan top export partners, 2011

Partner	Value (USD)	Share in exports
Turkey	294,802,552	29.6%
European Union	82,552,364	8.3%
Russia	81,117,964	8.1%
Iran	68,547,820	6.9%
China	65,447,406	6.6%
Korea, Republic of	65,341,494	6.6%
Afghanistan	58,516,640	5.9%
Kazakhstan	44,160,627	4.4%
Norway	32,472,072	3.3%
Bangladesh	24,857,497	2.5%

Tajikistan top import partners, 2011

Partner	Value (USD)	Share in imports
China	2,196,652,394	46.0%
Russia	785,482,419	16.5%
Kazakhstan	399,164,458	8.4%
European Union	201,563,450	4.2%
United States	196,020,000	4.1%
Turkey	189,832,981	4.0%
Iran	179,879,752	3.8%
Turkmenistan	93,527,168	2.0%
Uzbekistan	80,398,192	1.7%
United Arab Emirates	77,450,188	1.6%

Turkmenistan top export partners, 2011

Partner	Value (USD)	Share in exports
China	4,266,521,120	56.2%
Ukraine	669,091,727	8.8%
European Union	555,382,909	7.3%
Turkey	357,011,214	4.7%
United Arab Emirates	309,062,565	4.1%
Afghanistan	241,181,152	3.2%
Iran	205,696,364	2.7%
Bermuda	137,692,666	1.8%
Bangladesh	130,718,277	1.7%
Russian Federation	129,701,945	1.7%

Turkmenistan top import partners, 2011

Partner	Value (USD)	Share in imports
Turkey	1,642,669,140	21.4%
European Union	1,275,510,940	16.6%
Russia	1,093,575,885	14.2%
China	864,339,535	11.2%
United Arab Emirates	619,110,835	8.1%
Iran	302,731,651	3.9%
Japan	296,874,232	3.9%
Korea, Republic of	266,955,996	3.5%
Ukraine	266,089,780	3.5%
Belarus	253,138,380	3.3%

Uzbekistan top export partners, 2011

Partner	Value (USD)	Share in exports
Russia	1,043,773,654	18.7%
Turkey	854,438,517	15.3%
China	733,436,956	13.1%
Kazakhstan	684,090,952	12.2%
Ukraine	585,339,273	10.5%
Bangladesh	432,214,271	7.7%
European Union	366,940,546	6.6%
Kyrgyz Republic	181,092,194	3.2%
Turkmenistan	136,446,944	2.4%
Iran	109,250,000	2.0%

Uzbekistan top import partners, 2011

Partner	Value (USD)	Share in imports
Russia	2,116,644,879	19.7%
Korea, Republic of	1,890,950,744	17.6%
European Union	1,881,109,780	17.5%
China	1,494,934,813	13.9%
Kazakhstan	1,322,932,711	12.3%
Turkey	389,938,468	3.6%
Ukraine	389,133,360	3.6%
Kyrgyz Republic	317,719,889	3.0%
Japan	256,969,855	2.4%
United States	110,330,000	1.0%

Table 2.11 – Top export and import partners of Central Asian republics, 2011 (IMF, 2013; Agency of the Republic of Kazakhstan on Statistics, 2014)

On the import side, Kazakhstan is similarly reliant on the EU and China, where 35.6 per cent and 23.4 per cent of Kazakh imports originate, respectively. Kyrgyzstan and Tajikistan, conversely, are almost wholly reliant on China and Russia for their imports, which together represent nearly three quarters of Tajik and Kyrgyz imports with the majority thereof originating in China (59.1 per cent for Kyrgyzstan, 46 per cent for Tajikistan). For both Tajikistan and Kyrgyzstan, the EU and Kazakhstan are the third or fourth largest import partners. The heavy reliance on China for imports, and consequent bilateral trade imbalance, of Kyrgyzstan -and increasingly Tajikistan- reflects significant re-export trade, whereby Chinese products are routed via Kyrgyzstan and Tajikistan to other markets in Central Asia and beyond.

Both Turkmenistan and Uzbekistan have more diversified import structures. Turkey, the EU and China each represent a significant share of Turkmen imports, whereas Korea, the EU, China and Kazakhstan are the main partners for Uzbekistan, outside of Russia.

China is increasingly becoming one of the most important trade partners for all Central Asian states. China is a top-5 import and export partner for all CARs, though this underplays the singular reliance on China for either exports or imports borne by some of the republics. However, while first and foremost a partner for Kazakhstan; the EU is also an important trade partner for other Central Asian republics on either the import or export side, or both. Turkey similarly is a significant trade partner for the region represented in top-7 or higher in all Central Asian import and export structures, having the weakest foothold in the Kyrgyz market. Iran is an important trade partner to Tajikistan and Turkmenistan, and Afghanistan is the sixth largest export market for Tajikistan, Turkmenistan and Kyrgyzstan alike, though both are less represented on Central Asian markets more widely.

There appears to be relatively little trade with Asian markets beyond China, though Korea does, as noted, supply a significant share of Uzbek imports. However, trade relationships with Japan and Korea are somewhat masked in statistics because products are imported from China or Southeast Asia, where Japanese companies have located production (i/w GO). Similarly some imports from the EU go via Russia or Turkey (i/w WD).

Impacts of the Eurasian Customs Union on trade patterns

The ECU and the subsequent Common Economic Space (CES) do not represent significant trade liberalisation and has not brought with it palpable improvements in investment climates. Rather, the process has been focused on restricting trade with third countries (Wiśniewska, 2013: 38). An early study of the ECU suggested that in its present format, the ECU is a GDP-reducing framework in which the trade-diverting effects exceed the positive effects of trade creation. In the case of Kazakhstan, the results appear insignificant, whereas they are negative for both Belarus and Russia. When including the energy sector as planned for, 2025 cf. below, the net result for Kazakhstan, however, also becomes negative (Vinhas de Souza, 2011: 5).

A critical drawback of a customs union between former Soviet republics is the impediments it may create to import of new and advanced technologies from the global market, which is required to boost the development and growth rates of FSU economies (Tarr and Michalopoulos, 1997: 12). Mogilevskii (2012b: 24-25) has found evidence of exactly this in the case of the ECU. Mogilevskii suggests a significant case of trade diversion, where machinery from Russia and China has displaced machinery imports to Kazakhstan from the ROW, mainly Germany, Italy, the US and Ukraine. Mogilevskii interpreted this as a shift in demand from more expensive, higher quality machinery to lower quality, cheaper machinery from Russia and China. Thus, this represents a reduction in high-technology imports to the Kazakh economy and may impact negatively on the economic growth over the long term. At the same time, this trade diversion impact appears to have reduced the export of Russian machinery to Uzbekistan and Turkmenistan (Ibid: 25). Moreover, Mogilevskii finds indications that there has been a diversion of informal imports of Chinese goods via Kyrgyzstan to formal imports of Chinese goods directly to ECU markets (Ibid: 28). An EBRD-study of the early impacts of the ECU found minor trade diversion effects in the case of imports from China to Kazakhstan, and suggested that trade creation effects were negligible (Isakova, Koczan and Plekhanov, 2013: 3), while David Tarr (2012: 2) has found evidence of Russian goods displacing European imports from the Kazakh market, a conclusion similar to that of Mogilevskii.

Over time, implementation of Russian WTO commitments will reduce the applied tariff level of the ECU, which in turn may reduce the trade diversion cost of ECU membership on Kazakhstan (Ibid: 4). However, the EBRD study concludes that the impact of tariff changes is limited and that benefits from the integration project could only arise from the removal of NTBs, as also suggested by a 2012 World Bank study (Isakova, Koczan and Plekhanov, 2013: 19; World Bank, 2012: 9).

2.2.3 Landlockedness, distance to markets, infrastructure and trade costs

The costs of trade and transit are among the chief impediments to the economic development of Central Asia (Byrd and Raiser, 2006: 20). These costs are partly a consequence of the geographic location of the region as all countries are landlocked; a feature which results in increased import prices and relatively minor export revenues owing not only to transportation costs but also the costs involved in transiting neighbouring countries (Ibid: 52).

Transport and insurance cost have been found to be twice as high for landlocked as for coastal states owing to the dependence on neighbouring countries for transport and costs per mile being higher for overland than sea transport (Grigoriou, 2007: 3). Central Asian landlockedness is estimated to reduce trade by more than 80 per cent as a consequence of trade and transit costs, not the distance to markets per se (Byrd and Raiser, 2006: 53). According to a gravity model study, landlocked states generally trade 28 per cent less than coastal states, *ceteris paribus*; this confirms that the landlocked position of the CARs alone cannot explain the lack of integration with the global market. This geographic trait is compounded by policy because uncoordinated trade and transit policies lead to excessively high trade and transport costs (Ibid). Moreover, infrastructure is a critical determinant of trade taking place at all (Hoekman and Kostecki, 2009: 329). The interaction between geographical position, poor infrastructure of not only the states themselves but also their neighbouring countries, as well as the impact of uncoordinated transit policies, must be considered (Grigoriou, 2007: 2).

The state of Central Asian infrastructure remains poor even when one controls for the countries' income level. The low density of transport infrastructure is exacerbated by its poor and deteriorating quality. Part of the problem in terms of investments is that the countries tend to prioritise new national links improving interconnectedness within their borders over the existing regional links.[17] Moreover, the lack of maintenance causes damage to means of transports which raises the transport costs further. These extra costs decrease the competitiveness of products from the region (Ibid: 7-8). Christopher Grigoriou (2007: 24-25, 29-30) estimated that an improvement of the CARs infrastructure from the median level to that of the top quarter among landlocked states would raise export by 6.5 per cent and imports by 8.6 per cent, while raising the level to that of median coastal countries would raise export and import by 14.5 per cent and 19.6 per cent respectively. Moreover, an upgrade of infrastructure in transit countries to the level of top-quartile landlocked countries could raise exports of the Central Asian republics by 52 per cent, while access to transit countries with an infrastructure of similar quality to that enjoyed by other landlocked countries, would increase imports by 14.6 per cent and exports by 44.8 per cent. These figures underscore the importance of cooperation beyond the CARs. Merely improving the infrastructure and transit conditions within Central Asia will have limited effect. Moreover, the interaction with the quality and availability of transit countries' infrastructure limits the returns to investment on infrastructure internal to the region (Ibid: 10).

The high level of transit-related costs and the relative costs involved in different types of transport affect not only the level of trade but also the composition of production and trade. A study by the World Bank found that these differences in costs have constrained product diversification and perpetuated the structure established under the Soviet central planning regime (Byrd and Raiser, 2006: 72). Similarly, Gaël Raballand, Antoine Kunth and Richard Auty (2005: 16-18) have

[17] For instance, Uzbekistan is attempting to reconnect the country internally, thereby avoiding any need to traverse Tajik territory (Azernews, 2014).

argued that transportation costs have contributed to the high commodity dependence of the region, and the near-collapse of light manufacturing and agro-processing industries in the first decade of independence. The dominance of railroads hinders the development of export industries, which are not based on large-volume exports. Transportation costs for metals and cotton have been estimated at 6 per cent and 7 per cent of wagon value respectively, while for tobacco freight costs amount to 16 per cent of the selling value and fruit, canned fruits and vegetables are even pricier to export. These goods are not exported in volumes economical for rail transport, while transport by road involves higher transit barriers including border checks. Smaller export companies are further inhibited by various demands by rail freighters, which they cannot meet, and strategic goods are prioritised by governments so that non-strategic goods meet relatively high informal barriers to trade (Ibid).

Given the link between infrastructure and production, it is clear that improvements in transportation and freight forwarding services are indispensable parts of an economic diversification strategy (Byrd and Raiser, 2006: 72). Critically, the neighbouring transit states' infrastructure must be part of a strategy for infrastructural upgrades, while harmonisation of transit as well as trade policies is critical to expanding trade.

2.2.4 Potential comparative advantages

The emphasis put on development of infrastructure on part of both the Central Asian governments themselves but also international donors and trade partners, to a certain extent, reflects a perception that Central Asia's most promising potential is as a transit region for European and Russian trade with China (Laruelle and Peyrouse, 2013: 19). However, this disregards the fact that only Kazakh territory is suitable for this. Transit through Kyrgyzstan, for instance, is, at best, a secondary, inferior alternative given the difficult topography and more southern location (Ibid: 309; i/w NN; AC). Moreover, geography, infrastructure and trade policies limit the ability of Central Asian republics to establish new trade links and production patterns. The immediate challenge is, thus, to develop new comparative advantages on the basis of domestic and regional demand but also to find opportunities in the proximity to its large and economically growing neighbour, China (Laruelle and Peyrouse, 2013: 310).

Matthias Lücke and Jacek Rothert (2006: 11) have proposed two alternative strategies for the expansion of Central Asian exports and integration into the global market. Firstly, these authors suggest that the CARs could seek to integrate into European value chains by focusing on the production of specific inputs, where they enjoy comparative advantage, for instance owing to low labour costs. This strategy, it is cautioned, would see the CARs compete with countries in the Western FSU and the Western Balkans. Moreover, as discussed above, distance, infrastructure and difficult transit conditions inhibit the potential for leveraging the large European market to the CARs advantage. The second proposed strategy would be to build vertically integrated industries within the region based on the processing of raw materials indigenous to the region, such as cotton. The challenge of this approach is competition from Asian exporters that not only benefit from low labour cost but also better transport links to global markets (Ibid).

Table 2.11 below shows the share of parts and components of manufacturing exports and imports for the CARs, which can be used as an indicator of the economies' integration in international value chains. It should be recalled, however, that in all CARs industry represents a relatively small share of the economy from just 23 per cent in Tajikistan to nearly 38 per cent in Kazakhstan.

	Share of Parts & Comp in Manuf Exports (%)						Share of Parts & Comp in Manuf Imports (%)					
Country / Group	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Kyrgyz Republic	15.5	12.8	15.8	14.8	19.4	13.7	20.9	24.9	23.4	21.6	20.0	18.8
Tajikistan **	29.9	36.9	34.6	25.4	24.5	33.3	24.2	25.7	21.8	18.2	20.7	23.1
Low Income	6.3	6.3	8.6	8.8	7.1	6.3	28.9	30.1	29.7	29.3	29.1	29.0
Kazakhstan	3.3	3.8	3.2	2.3	2.6	1.3	16.7	15.8	14.9	14.9	16.3	13.9
Turkmenistan **	50.6	29.5	55.3	48.2	44.8	58.5	17.6	21.9	23.4	22.5	20.0	24.4
Uzbekistan **	22.0	19.3	14.2	12.6	24.3	21.9	34.6	35.9	30.1	27.4	27.9	29.5
Middle Income	28.2	28.4	27.3	26.2	28.0	27.9	33.8	33.7	31.7	29.7	31.6	31.9
Developing countries	27.9	28.1	27.0	26.0	27.6	27.5	33.7	33.6	31.6	29.7	31.5	31.8
High Income OECDs	26.7	26.5	25.0	24.3	24.3	24.5	24.7	24.8	24.3	24.0	24.0	24.6

** Due to the missing data, trade data is replaced by partner data in these countries.

Table 2.12 – Trade in parts and components and their shares in manufacturing, 2005-2010 (World Bank, 2011)

Kazakhstan, with the largest industrial sector as share of GDP, appears to be the least integrated in GVCs as parts and components represent less than 2 per cent of manufacturing exports (2010) – compared to an average of nearly 28 per cent among other middle income countries. Turkmenistan, on the other hand, compares very favourably with other middle income countries in its exports of parts and components; though less so on the import side. Conversely, Uzbekistan has a relatively low share of parts and components in manufacturing exports but is roughly at the level of other middle income countries in its imports of shares and components. Low income countries Kyrgyzstan and Tajikistan both have significantly higher shares of parts and components in their manufacturing exports than other low income countries, though lesser shares on the import side.

The relatively high indications of GVC participation indicated by table 2.12 may, however, be questioned on account of more detailed analysis of Kyrgyz and Kazakh trading patterns. Richard Pomfret and Patricia Sourdin (2014) in a study of Central and West Asian supply-chain trade suggest that Central Asian participation in SCT is limited. Kazakhstan scores 0.15 per cent on imports, 0.02 per cent on exports and Kyrgyzstan only 0.09 per cent on imports and 0.06 per cent on exports. This contrasts with emerging Asia, where corresponding figures range between 0.17 per cent and 0.39 per cent, and emerging Europe, where figures range between 0.19 per cent and 0.34 per cent (Pomfret and Sourdin, 2014: 19). The authors conclude that Central Asian participation in GVCs is low, and suggest that countries such as Uzbekistan and Turkmenistan are unlikely to be much engaged in SCT owing to the countries' closed trade policies (Ibid: 18). In all countries there, thus, appears to be some scope for improving integration with GVCs.

A skilled, low-paid abundant workforce may be a starting point for the CARS in creating new comparative advantages, building on the regions resources in production of for instance hydro-carbon-based synthetic fibres, cotton processing and chemical industry, as well as other light industries such as agribusiness (Trushin and Trushin, 2000: 208; Laruelle and Peyrouse, 2013: 153, 264-266; i/w AA).

As living standards grow food consumption patterns change, and the demand for meat will increase (Laruelle and Peyrouse, 2013: 153). Developing a livestock industry would create potential for value added production in leather production and the processing of meat and dairy (i/w AC). Production of fruits and vegetables similarly has potential for value added processing, for instance juice production (i/w IA; WS). The reputation for organic, ecological produce may be leveraged by local producers to their advantage (i/w DI; IA). The development of agriculture combines well with development of regional trade (i/w WD) but does require improved logistical and storage facilities as well production to international standards and investment in laboratories for certification (i/w GO; BA).

A regional chemical industry could *inter alia* provide fertilisers to the agricultural sector and introduce value added through processing of the region's hydrocarbons. The sector was originally developed during Soviet times, and Kazakhstan, Uzbekistan and Turkmenistan are now investing in upgrading the industry. Kazakhstan focuses primarily on production of fertiliser, while in Uzbekistan chemical production includes plastic, glass, fibres and paint in addition to fertilisers and pesticides. Turkmenistan aims to build capacity in the production of iron sulphate and potassium salts (Laruelle and Peyrouse, 2013: 264-266). The countries' productions are thus complementary and, particularly for fertilisers but also potentially textiles, there is already a local, mostly informal market (i/w IA).

With significant cotton production and a budding chemical industry, which could further develop the region's capacity to produce artificial fibres and dye (Laruelle and Peyrouse, 2013: 270), textile production provides a potential for building a regional value chain. Indeed Turkmenistan is said to be increasing domestic processing capacity with up to 50 per cent of cotton processed in the country (i/w DI), while as little as 20 per cent of Uzbek cotton is believed to be processed domestically (i/w NN). Kyrgyzstan has gradually built a strong reputation in the production of clothing and apparel with a strong footprint on the Russian and Kazakh markets given the cultural understanding of design demands in these countries (i/w AC). Turkmenistan already has a full value chain in textile production, including dying capacity and production of artificial fabrics, producing at a quality up to high street standards (i/w Drakinos (#99/IF)). Uzbek silk production and *ikat* designs are, furthermore, in high demand within the region as well as in the West (i/w EN). Nevertheless, it will be a challenge for Central Asia to establish itself globally in an industry dominated by low-cost producers in Southeast Asia and China (Laruelle and Peyrouse, 2013: 272; i/w Drakinos (#99/IF)).

2.2.5 Summary

In the formal economy, trade integration within Central Asia is limited. Kyrgyzstan and Uzbekistan export significant amounts to neighbours, Kazakhstan in particular, which also represents noteworthy import shares in Uzbekistan, Kyrgyzstan and Tajikistan. However, trade integration in Central Asia is driven by the informal sector. Such shadow trade deprives all states of budget revenues, which illustrates how they would all benefit from bringing informal businesses into the formal economy through coordination of trade facilitation measures. Enterprises are not only driven into the shadows by weak governance and corruption but also by the diverging trade and border restrictions. Formalising it and improving businesses opportunities for growth, would benefit state coffers as well as the general public.

Russia and increasingly China are the main trading partners of Central Asian republics. The EU and Turkey are also significant trade partners, the former particularly for Kazakhstan. The ECU appears to have had a negligible effect on trade within Central Asia but Kyrgyz, Tajik and Uzbek exports to Russia have been hit by the new trade barriers. The ECU does not represent significant trade liberalisation and has not brought with it palpable improvements in investment climates. Rather, the process has been focused on restricting trade with third countries

The geographical isolation and dependence on transit countries demonstrate the need for cooperation not only within the region but beyond it. Diverging trade policies and complicated customs procedures increase transportation costs as does the poor density and quality of transport infrastructure. Transit opportunities, in turn, affect the competitiveness of local production and, thus, the development of new comparative advantages. The latter could be built on the region's resources in sectors such as agribusiness, chemical industry and textiles, which together may enable the development of RVCs.

2.3 Regional economic frameworks

As explored in the first section of the chapter the economic development of the Central Asian region hinges upon its integration into the world economy. To this effect integration of the five post-Soviet Central Asian republics could be an interim step. Given their landlocked position, there is also a need for the CARs to integrate with their neighbours in the wider region surrounding Central Asia with a view to easing the restrictions on trade stemming from the difficult transit of goods. The following will examine earlier and ongoing processes of regional economic cooperation and integration within and beyond Central Asia.

2.3.1 Frameworks within the post-Soviet space

Since the dissolution of the Soviet Union, the post-Soviet space has seen a variety of regional cooperation and integration frameworks that have overlapped with, replaced each other or co-existed. This section examines the Commonwealth of Independent States, the Central Asian Cooperation Organization, the Eurasian Economic Community and ongoing process of Eurasian integration in the Eurasian Customs Union, the Common Economic Space and the Eurasian Economic Union.

The Commonwealth of Independent States

The Commonwealth of Independent States (CIS) was created on 8 December 1991 when Russia, Belarus and Ukraine signed the Minsk Declaration, which effectively dissolved the Soviet Union. On 21 December the Alma-Ata Declaration extended the CIS founding members to include Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Moldova, Turkmenistan, Tajikistan and Uzbekistan (Gleason, 1997: 75-76). The CIS was intended to mediate the potentially negative consequences of the Union break-up by maintaining coordination and a single economic space, while protecting the new-found sovereignty and independence of the member states (Gleason, 2001: 1084). As such, the CIS initially had a certain amount of success (Weitz, 2008: 18). Agreements were entered *inter alia* on non-visa systems, registration of labour, social benefits payments, which all eased the transition from Union Republics to newly independent states. The CIS, thus, provided the institutional framework for an orderly dissolution of the Union, and for the formation of relations between the newly independent states (Arunova, 2002: 8).

Inherent in this role, however, were two conflicting objectives. On the one hand, the CIS was to serve as an institution facilitating the establishment of independent states; that is untying the USSR in an orderly fashion; while, on the other hand, institutionalising cooperation and new forms of integration (Sakwa and Webber, 1999: 379). This schism, reinforced by a fear, in many member states, of the re-establishment of supranational governance, yielded weak institutions, which in the longer run has led to the CIS typically being branded an inefficient body (Arunova, 2002: 7). Decisions are made by consensus or more precisely by the absence of protest, and are valid for member states participating in the decision. Implementation, however, is voluntary (Ibid: 9). The lack of commitment institutions as a significant explanatory factor behind the limited success of the CIS aligns with Mattli's framework for successful integration schemes. A further weakness of the CIS as an integrating body stems from the difficulty of striking a balance on what role Russia should play. While the CIS represents a means by which to accommodate Russia in a low-cost manner (Allison, 2004: 468), the newly independent states were eager to sustain their sovereignty, and were therefore averse to Russia playing a leading role in cooperative frameworks. Meanwhile, Russia is unwilling to settle for a position as a member on a par with others (Arunova, 2002: 11). Following on from the theoretical discussion, it is clear that the organisation's effectiveness was hampered by the disputed nature of Russian regional leadership.

The Doctrine of Positive Neutrality led Turkmenistan to lessen ties with Russia bilaterally as well as through the multilateral framework of the CIS (Anceschi, 2009: 103). In 2005 Turkmenistan unilaterally downgraded its relationship with the CIS to one of associative connection with reference to membership being irreconcilable with the Doctrine (Ibid: 103-104). The Turkmen government considered economic and political integration to constitute constraints on the country's sovereignty (Ibid: 106-108).

While the CIS continues to provide an institutional framework for dialogue between the post-Soviet states, the constituent members' hesitant commitment to the organisation, and the consequent weakness thereof, have resulted in limited implementation of decisions made. The failure of the CIS fed the development of two trends within the organisation: bilateralisation and regionalisation (Sakwa and Webber, 1999: 396-400).[18] Activity in the CIS framework resurfaced with the signing of a free trade agreement mid-October 2011, which is suggestive of this pattern. While on paper a regional, multilateral agreement, in effect implementation occurs on bilateral basis (i/w Paramonov (#96/AC)). Moreover, not all signatories have proceeded to ratification of the agreement, including Tajikistan (i/w Soliev (#31/GO)). The ensuing discussion of the Central Asia Cooperation Organization and other post-Soviet integration projects reflects the second suggested pattern of regionalisation within the CIS.

Central Asia Cooperation Organization

In 1994 Kazakhstan, Uzbekistan and Kyrgyzstan joined forces in the Central Asia Cooperation Organization (CACO).[19] The countries were joined by Tajikistan in 1998, while Turkmenistan, consistent with the Doctrine of Positive Neutrality, declined invitations to join (Bohr, 2004: 486). While decision-making was by consensus at presidential and prime-ministerial level, the organisation itself was staffed through the establishment of an Executive Committee (Spechler, 2008: 126). Intentions were to create common policies on trade and fiscal policies as well as conditions for the free movement of trade and resources. No substantial advances were, however, realised owing to diverging economic and political priorities of the CARs; though a regional bank funded a series of small-scale cross-border projects (Bohr, 2004: 486-487; Spechler, 2008: 126-7). One reason put forward for the lack of achievements has been that too many, very different objectives were associated with the project, including integration in the global market, environmental issues such as the Aral Sea, balancing the influence of Russia and

[18] Regionalisation in this context does not refer to bottom-up processes of trade-driven interactions and transactions by private and other non-state actors but to the fragmentation of the CIS into sub-regions.

[19] The organisation went through a number of name-changes from the Central Asian Union to the Central Asian Economic Community to ultimately being named the Central Asian Cooperation Organization in 2002 (Spechler, 2008: 125-126).

obtaining intra-regional unity (Qoraboyev, 2010: 215). Again, the lack of commitment institutions can be added as an explanation for the organisation's failure.

The creation of CACO could be interpreted as a means by which to confront the dilemma of Russia's role in the CIS by seeking integration free of Russia's influence (Allison, 2004: 473-475). However, as discussed below, CACO was later subsumed into the Russian-led Eurasian Economic Community.

The Eurasian Economic Community

EurAsEC, the Eurasian Economic Community, has proved to be a more successful initiative within the frame of CIS multispeed-integration. EurAsEC was formed on the basis of initial CIS Customs Union agreements signed by Russia and Belarus, which Kazakhstan joined in 1995, later to be joined by Kyrgyzstan in 1996 and Tajikistan in 1999 (Ultanbaev, 2003: 133). The 1995-agreement on a customs union highlights the contested position of Kazakhstan in Central Asia. It is arguable whether the Kazakh leadership considers the country to be part of a Central Asian region, excluding Russia, and merely was recognising the importance of Russia to its foreign trade, when entering, or considers Kazakhstan a part of a wider Eurasian region with Russia at its core. Regardless, the customs union agreement shifted alignments, and the centre of gravity in regional relations of Central Asia became the Astana-Moscow bond, rather than the Astana-Tashkent relationship. Meanwhile, the initial exclusion of Kyrgyzstan and Tajikistan points towards their marginalisation (Bohr, 2004: 492-493).

This interpretation is supported by current events, where the now implemented Eurasian Customs Union between Belarus, Russia and Kazakhstan is ready to accept Kyrgyzstan as a member, though indications are that it may be as a second-tier member (Smith, 2011). This is suggestive of a pattern whereby Eurasian regionalism occurs at the cost of Central Asian regionalism, as further discussed in subsequent chapters. Indeed, EurAsEC was formally established in 2000 at President Nazarbayev's initiative. In 2005 upon Uzbek accession to EurAsEC, the Community absorbed CACO (Weitz, 2008: 25-26) thereby cementing the centrality of Astana-Moscow relations to Central Asian cooperation. Uzbekistan later suspended its membership in 2008 (Vinhas de Souza, 2011: 1).

Through reduction in customs tariffs, taxes, duties and other trade barriers, EurAsEC was envisioned to promote trade and economic ties between member states. Aims included the creation of a free trade zone and a uniform transport network and energy market, agreement on external tariffs, harmonisation of external relations with bodies such as the WTO, as well as harmonisation of educational and legal systems and cooperation in the cultural and scientific spheres (Weitz, 2008: 27). The Community originally built upon abovementioned customs union agreements but extended the framework to consider harmonisation of policy (Gleason, 2001: 1092). The advance of objectives, however, did not imply that the goals of previous agreements had been reached (Ultanbaev, 2003: 133).

The Community covers 92 per cent of CIS territory and, upon formation, 64.5 per cent of the population (Askolskiy and Bezzubova, 2002: 118). Three quarters of CIS foreign commercial transactions originate in EurAsEC. As such, as Richard Weitz has argued, EurAsEC was a '*logical alternative*' to the unmanageable CIS (Weitz, 2008: 27). However, it would appear that even EurAsEC was too unwieldy, since Russia, Kazakhstan and Belarus eventually separated out and formed a customs union between the three of them.

The Eurasian Customs Union and a future Eurasian Economic Union

Though EurAsEC proceeded towards harmonisation, particularly in eliminating certain trade barriers; progress was held back by internal conflicts of interest deriving from the members' disparate production structures and levels of economic development (Ultanbaev, 2003: 135; Wiśniewska, 2013: 8). Consequently, the three states, which had made the most progress -the Troika of Russia, Belarus and Kazakhstan- at the EurAsEC Intergovernmental Council in October 2007 signed an agreement on the establishment of a Eurasian Customs Union (ECU) consisting only of the Troika states (Weitz, 2008: 29-30). In June 2009, President Putin announced that the three states had begun the creation of the ECU (Wiśniewska, 2013: 7).

The impetus for renewed efforts at economic integration was both political and economic. The global economic crisis impacted heavily on the Russian economy, and trade facilitation was seen as a means to strengthen recovery. Meanwhile, the

EU's Eastern Partnership and China's increasing expansion into Central Asia was considered a threat to Russia's leading position within the FSU (Wiśniewska, 2013: 8-9). Russia's dominance of the Union is clear from the fact that it represents 86 per cent of the group's GDP and 84 per cent of the population covered (Dreyer and Popescu, 2014: 2).

The ECU and CES are widely considered to be more successful than previous integration initiatives in the FSU. Iwona Wiśniewska (2013: 9) has ascribed this to better prepared, more detailed drafting of agreements, including an emphasis on compliance with international standards, as well as concessions made by creating a relatively greater symmetry of benefits. For instance, the formula for sharing of import duties, which are now jointly collected and subsequently dispersed between the three member states, means that Russia receives 87.97 per cent, Kazakhstan 7.33 per cent and Belarus 4.7 per cent, which according to the Russian government has resulted in a budget revenue loss for the Russian Federation of USD 1.15 billion in 2011 (Felgenhauer, 2011). Kataryna Wolczuk and Rilka Dragneva (2012: 2) in a study of the institutional structures of the ECU have suggested that it is more robust than previous attempts at regional integration in the FSU. Authority over the ECU and CES lies with the Supreme Eurasian Economic Council, which operate at the level of presidents or head of governments, and the Eurasian Economic Commission (EEC), which consist of a political council formed of deputy prime ministers, and an executive board consisting of nine commissioners, three from each member state (Wiśniewska, 2013: 23). Both the supreme and the commission council take decision by consensus, while the commission board operate on the basis of two thirds qualified majority voting (Ibid: 23-24). Additionally the Court of the Eurasian Economic Community is charged with economic dispute resolution, and its decisions are binding on member states (Ibid: 25).

The Eurasian integration project, thus, both provides for commitment institutions, in the form of the Court of the Eurasian Economic Community, the EEC and the Supreme Council, and a regional leader willing to compensate other member states, with Russia making concessions on the sharing of revenues. Nevertheless, the EBRD in commenting on Eurasian integration has pointed to the lack of variation in institutional quality and the absence in all countries of institutions of sufficient strength to serve as a model for other members. This limits the ability to build strong supranational institutions that can facilitate deeper integration as well as raise the institutional quality within member states (EBRD, 2012b: 78). Wolczuk and Dragneva (2012: 5) correspondingly have emphasised the need to maintain '*healthy scepticism'* as regards the future of the ECU and its transition to the EaEU. One obstacle noted is the large volume of agreements underlying the regime, suggesting a complex and fragmented legal regime, which inhibits interpretation and application (Ibid: 6). On the other hand, Wolczuk and Dragneva also noted a high level of political will and institutional mechanisms such as the Court, whose rulings are defined to be legally binding (Ibid). Wiśniewska (2013: 25) and Olga Shumylo-Tapiola (2012: 9) meanwhile have questioned the effectiveness and authority of the EEC pointing to limited competence and unwillingness of national ministries to transfer authority, which means that decision-making continues to be driven by national governments. Moreover, given the prevalence of national interests and protectionist measures it is claimed that the ECU is not truly a customs union in the '*textbook'* sense (Ibid: 10). Shumylo-Tapiola furthermore suggested that the effectiveness of the ECU may be hindered by lack of trust between member states (Ibid: 17).

Thus, while institutionally the Eurasian integration project suggests a new phase in post-Soviet integration providing for more effective commitment institutions it appears the dominance of Russia over these institutions may be causing Belarussian and Kazakh reluctance towards compliance and transfer of powers.

The common customs code came into force in July 2010 on the basis of Russia's existing tariff structure (EBRD, 2010a: 121). By spring 2014 85 per cent of import duties are believed to have been harmonised. The speed with which the customs code was negotiated meant that not all details have been agreed, and that national regulations often apply as a consequence (Wiśniewska, 2013: 14-15). In a transitional period a list of 400 goods will be exempt from the single tariff. More importantly, the customs code does not apply to export duties creating a barrier to internal trade between member states (Ibid: 13-14). For the first five years of the ECU, members have the freedom to apply their own tariffs, and can grant tariff exceptions or impose national export or import bans with consent of other members (Shumylo-Tapiola, 2012: 12). Most recently, Russia has imposed an embargo on import of Western food products, which has not been imposed in ECU partner country Kazakhstan (Trilling, 2014a).

As discussed above, a significant impact of the ECU and CES on members' internal trade has been hampered by already having low tariff barriers as a consequence of existing free trade agreements, and the persistence of NTBs (Wiśniewska, 2013: 38). Progress on harmonisation of standards has to date been slow, while there is no mutual recognition applied (Dreyer and Popescu, 2014: 3). ECU agreements continue to be outstanding on areas such as the elimination of multiple and non-tariff barriers on *inter alia* medicine, alcohol, and construction materials (Voloshin, 2014a). Reduction in NTBs could potentially bring significant benefits to the ECU members compensating for the losses incurred by Kazakhstan through tariff increases (Tarr, 2012: 3). Mandatory regulations apply in areas that could more efficiently be subject to voluntary standards. Whilst legislation in Russia and Kazakhstan have opened for a shift to voluntary standards implementation is lagging and is now complicated by authority having shifted to the ECU level (Ibid).

The elimination of border controls officially took effect from the start of 2012 creating the CES (EBRD, 2010a: 121). Supporting legislation had, however, to a large extent not been agreed upon, leaving significant implementation to be completed in the period towards 2020, including the free movement on capital and services (Wiśniewska, 2013: 16, 21-22). Kazakhstan has not achieved sought concessions from Russia in the energy field with a common oil and gas market envisioned only from 2025. Moscow reportedly stands to lose USD 40 billion annually from removing all internal restrictions on oil trade (Voloshin, 2014a). The exclusion of energy markets from the operation of the ECU means that it effectively only applies to import policy with 80 per cent of Kazakh and 70 per cent of Russian exports, thus, excluded (Wiśniewska, 2013:15).

In autumn 2011 President Putin championed the development of the ECU into an economic and political Eurasian Union on a par with the European Union (Putin, 2011). In the article Putin suggested that the formation of the ECU and the CES has laid the foundation for the formation of the Eurasian Economic Union, which may be joined by Kyrgyzstan and Tajikistan. Putin went further, however, to suggest that the members would not stop there but aim for a more ambitious, deeper level of integration: the Eurasian Union (Ibid). This demonstrates Russia's desire to maintain supremacy within the post-Soviet sphere. As Robert Cutler points out, it is noticeable how Putin in his article on the Eurasian Union ignored the role of the SCO which in membership terms overlaps with the Eurasian project (Cutler, 2011).

The proposed Eurasian Union was presented as a value-based integration project based on democracy and free market principles, and thus defined in parallel, not opposition, to the EU (Hoffmann, 2012: 2). Presidents Putin and Nazarbayev have sought the recognition of the EaEU by the EU as an equal partner with a view to negotiating a free trade agreement between the two groups (Weitz, 2014a). In seeking wider international recognition, the ECU is negotiating trade agreements with Vietnam, New Zealand, Switzerland and Norway (Forbes.kz, 2013a) and exploring possibilities with India and Egypt (Delovoy Kazakhstan, 2014b).

As with the ECU and CES, however, also the notion of a Eurasian Union reflects differences of opinion among the Troika states. For instance, while President Nazarbayev is minded towards extensive integration, he maintains that this is to be kept to the economic level, and that Kazakhstan will not cede sovereignty on other matters or to a considerable extent (Hoffmann, 2012: 2). This version of Eurasian integration does not match Putin's ideas for a voluntary political community (Ibid). In an August 2014 live broadcast Q&A a seemingly planted question prompted Putin to address the Kazakh reluctance to political union, emphasising that the Eurasian project would eventually be taken to its '*logical conclusion*' (Putin, 2014; Schenkan, 2014). Discord is reflected even in the forthcoming EaEU. Initial statements suggested that the EaEU would be agreed upon and agreements signed by spring 2012 but compromise was not attainable by this time (Wiśniewska, 2013: 37). The treaty on the establishment of the EaEU was eventually signed in May 2014, set to enter into force from 1 January 2015 (RFE/RL, 2014d).

Kyrgyzstan is set to join the ECU in 2015 but expects to take five years before being fully compliant (RFE/RL, 2014b). In agreeing the roadmap for entry, Russia has committed significant financial support for Kyrgyzstan, as further discussed in chapter 4. Such subsidies also questions whether the expansion of the ECU reflects voluntary sign-up (Dreyer and Popescu, 2014: 2). Kazakhstan and Kyrgyzstan continuing on a path towards Eurasian regionalism may be cementing the failure of Central Asian regionalism as previewed by CACO's inclusion into EurAsEC. This will be further explored in subsequent chapters.

2.3.2 The Shanghai Cooperation Organization

The SCO developed from a series of border agreements and confidence-building measures between Russia, China, Kazakhstan, Kyrgyzstan and Tajikistan dating back to 1996. The 'Shanghai Five' -so named as the 1996-agreement was signed in Shanghai- eventually held annual summits between presidents as well as regular ministerial meetings. The contacts reached a level of institutionalisation, which led the states to form the Shanghai Cooperation Organization in 2001, and in 2002 adopt a Charter for the organisation (Akiner, 2010: 6-7). The organisation is built on principles of equality and mutual trust, advantage and consultation. Decisions are made by consensus but members are welcome to opt out, and also to join at a later stage (Ibid). The SCO is an intergovernmental organisation in which decisions are driven forward at recurrent summits rather than the by the SCO Secretariat. The operations of the organisation are intransparent, and announcements vague (Lain, 2014).

The SCO embodies more a network than a rigid organisation. This is exemplified in the external relations of the SCO, which can be said to form concentric circles. At the core are the members, which in addition to the Shanghai Five, now also count Uzbekistan. Around the core is a circle of observer states, including Mongolia, India, Iran and Pakistan. In 2008 their status was reconfirmed when the observers were allowed greater involvement in SCO affairs. The next circle consists of dialogue partners Belarus and Sri Lanka. The SCO network, including observers and dialogue partners, covers a significant part of the Eurasian landmass with a population close to 3 billion. Immense energy resources are controlled by members of the network, of which four states are declared nuclear states. The SCO's growing influence is clear from the list of states wishing to attend its summits as observers, partners – or merely guests, as Turkmenistan regularly does. Iran and Pakistan have formally submitted applications for full membership but this has been deferred with reference to the organisation not having formal procedures for this (Akiner, 2010: 6-12).[20] Several member states are believed unwilling to expand the inner circle of formal members. For instance, Kazakhstan is averse to seeing its influence in the organisation diluted by inclusion of further members (Blank, 2008). More generally, the CARs appear hesitant, particularly towards Iranian membership as this could strengthen the impression that the SCO is an anti-Western alliance which the CARs are keen to communicate that it is not (Weitz, 2008: 36). Meanwhile, China and Kazakhstan are believed opposed to India playing a stronger role in Central Asia (Blank, 2008).

Whereas the Shanghai Five was originally focused on border delimitation, the SCO Charter outlines a variety of objectives relating to as diverse matters as the international political and economic order, regional security in the form of defence and law enforcement as well as environmental protection, culture, science, technology and education, and energy, transport and finance (Akiner, 2010: 12-13). Despite the rhetorical emphasis on regional security through fighting the three evils of separatism, terrorism and extremism, the practical impact of the SCO in security matters is limited, the pinnacle suggested to be the creation of a terrorist '*black list*' (Laruelle and Peyrouse, 2013: 32). The limited impact in the security sphere is suggested by the organisation's absence in situations of instability. When Kyrgyzstan in 2010 experienced ethnic tensions in Osh *oblast*, the country's leadership called on the assistance of the Collective Security Treaty Organization (CSTO) rather than the SCO, for instance (Kaukenov, 2013).

Economic cooperation appears to have more substance. The SCO is specifically focused on freeing trade and improving infrastructural links. Trade is a somewhat controversial issue between the member states, as they generally fear that a free

[20] As discussed in chapter 5 the SCO at the 2014 summit in Tajikistan made provisions for adopting new members.

inflow of Chinese goods will make their domestic industries uncompetitive. Beijing has thus seemingly accepted a gradual approach to freeing of trade. Meanwhile, cooperation in infrastructure is less toxic, and progresses both in terms of road, rail and pipelines (Akiner, 2010: 14-15). The construction of a gas pipeline from Turkmenistan via Uzbekistan and Kazakhstan to China demonstrates the feasibility of regional projects. Meanwhile, it illustrates the fluid nature of cooperation within the SCO, and the way in which China operates in the region. The SCO in some cases merely provides a framework for cooperation that in practice often happens on a bilateral basis (Kaukenov, 2013). In the case of the pipeline, China did not negotiate its construction by way of multilateral discussions but through bilateral talks with each of the three CARs, including Turkmenistan, not formally an SCO member (Chatham House, 2011: 6).

Such Chinese-led projects suggest a different strategy of engagement on part of China relative to that of Russia. Whereas Russia follows a traditional divide-and-rule approach to Central Asia, exploiting disagreements between the CARs for own gain, China appears to consider such disagreements and barriers contrary to its interests, and thus seeks to resolve them (Peterson, 2013).[21] Correspondingly, Chinese President Xi has raised the need for regional cooperation at the political level with a view to trade facilitation, including the role of the SCO in this area (Tashkinbayev, 2013); as Chris Rickleton has reported: Beijing seemingly '*remains confident there is no problem that its deep pockets can't solve*' (Rickleton, 2013). Beijing employs the SCO as a vehicle for promoting its economic interests under a multilateral umbrella, seeing investments as its main lever (ICG, 2013: 11-12). For the CARs China is a welcome partner as it is perceived as a source of finance that does not come with strings attached, whereas Russia and Western partners often attach conditionality to its financial support (Ibid). Meanwhile, the SCO represents a forum of little concern to wider society. As argued by Adil

[21] Chris Rickleton suggests Chinese investment in the Kara Balta oil refinery, which would reduce Kyrgyz reliance on Russia and Kazakhstan for fuel, in Kyrgyzstan is an example of this. The refinery has, though, not (yet) become operational owing to local protests against the environmental impact (see Trilling, 2014b).

Kaukenov (2013): '*no one considers the SCO to be an entity capable of changing their everyday lives*'.

For the CARs, the SCO can be seen as a method of accommodating the rising super power China. Likewise, it is a framework in which the CARs can balance the influence of Russia and China. The presence of China puts a break on Russia's divide-and-rule approach to Central Asia, while it also allows for integration with China in a forum where Russia can help limit the degree of influence China achieves (Allison, 2004: 468). Over time, Russian economic decline may strengthen the relative power of China in the forum. China used the 2011 SCO summit to demonstrate how it has overtaken Russia in terms of economic growth and political influence in the Central Asian region, and aimed at deepening economic relations between itself and the CARs (Marat, 2011). Already China is the main driver of the economic aspects of the SCO, as well as the organisation more widely (Kaukenov, 2013), as is also suggested by Russia's concurrent emphasis on pursuing its economic interests vis-à-vis the CARs through the ECU, and in future the EaEU, and security cooperation through the CSTO. Indeed, contention between Russia and China reportedly is limiting the effectiveness of the SCO and hindering some measures from taking off (ICG, 2013: 5, 9, 21; Gabuev and Chernenko, 2012). Specifically, Russia's policy towards the SCO is impeding progress with Russian diplomats supposedly boasting of their success in marooning Chinese initiatives (Kaukenov, 2013).

While the SCO appears to function well as a multilateral framework in which China can, and does, pursue trade facilitation measures, infrastructural links in particular, it is unlikely to succeed as an integrationist framework. It is to some extent a multilateral framework for bilateral dialogue, and lacks commitment institutions. Moreover, China's leadership within the organisation is contested by Russia.

2.3.3 The Economic Cooperation Organization

The Economic Cooperation Organization (ECO) dates back to 1985, when it was formed as an intergovernmental body to promote economic, cultural and technical relations between Iran, Turkey and Pakistan. Upon the dissolution of the Soviet

Union Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan joined, while Kazakhstan initially joined as an associate member. The expansion of ECO led to speculations of the organisation developing into a common Islamic market (Bondarevsky and Ferdinand, 1994: 41-42). The independence of Central Asian republics inspired both enthusiasm for and fear of the prospect of increasing Turkish and Iranian influence in the region. Whilst Turkey was motivated by creating a Turkish-led international community of Turkic states, Iran was similarly motivated by a sense of isolation in the Middle East and consequent need to create a community (Robins, 1994: 66-67; Warkotsch, 2011: 69-70).

Luca Anceschi has suggested that Iran and Turkey were considered the main competitors for influence on economic and political developments of the Central Asian republics on the eve of independence (Anceschi, 2009: 14). In both cases fear and enthusiasm proved exaggerated. Linguistic ties were overstated, in some cases masking significant differences in the Turkic languages spoken (Robins, 1994: 62), whilst Turkey also faced significant geographic barriers to building a presence in Central Asia (Ibid: 64). Iran, on the other hand, was constrained by its revolutionary ideology, which inspired wariness on part of the Central Asian leaders (Ibid: 62, 117). While the inclusion of the CARs into ECO, on the one hand, created a space for competition for influence between Iran and Turkey; it, on the other hand, indicated the illusory nature of the notion that either power could establish an exclusive zone of influence in the region (Robins, 1994: 70). Pakistan, the third initial member of ECO, had clear economic interests in Central Asia including obtaining access to raw materials and energy supplies (Ibid: 87). Moreover, Pakistan is likely to have been inspired by the opportunity for new allies in its stand-off against India (Ibid: 86). The continuing instability in Afghanistan has, however, inhibited Pakistan from developing these links (Ibid: 91).

The CARs had diverging priorities within the organisation with the Turkic-speaking nations prioritising links with Turkey, whilst Tajikistan emphasised relations with Iran (Bondarevsky and Ferdinand, 1994: 42-43). Substantial cooperation has never materialised. Instead ECO functions as a forum for dialogue for regional states (Herzig, 2004: 514). For instance, in keeping with the bilateral emphasis of the Doctrine of Positive Neutrality, Turkmenistan has used ECO as a platform for bilateral cooperation on energy infrastructure (Anceschi, 2009: 89). Notably, neither Kazakhstan nor Uzbekistan appears to prioritise cooperation within the forum. Kazakhstan at the summit in 2012 was not represented at head of state level, while Uzbekistan wholly ignored the summit (Valiev, 2012). The CARs participation in ECO alongside other cooperation schemes may suggest that some of these to a certain extent were seen as insurance policies, or ways of keeping options open (Bondarevsky and Ferdinand, 1994: 54).

2.3.4 Frameworks with extra-regional actors

In the 2000s, actors external to the Central Asian region began to introduce diplomatic frameworks through which the CARs are approached as a regional entity. For instance, Japan since 2004 has pursued the Central Asia plus Japan dialogue, and in 2007, the EU introduced its Central Asia strategy, containing a significant regional element. This section explores Japanese, Korean, European and American initiatives in this area.

Central Asia plus Japan

Japan began establishing diplomatic relations with Central Asian republics already in 1992. Since 1997 Japan has pursued a regional strategy towards Central Asia, originally under the Eurasian diplomacy doctrine of Prime Minister Hashimoto. As suggested by the designation 'Eurasian', Central Asia was seen as part of a wider Eurasian region (Nurgaliev, 2009: 95). Since 2004, Japan has pursued a regional dialogue with the five post-Soviet CARs under the 'Central Asia plus Japan dialogue' (ibid: 96). Japan's main interest in Central Asia has been to gain access to the natural resources of the region in order to improve domestic energy security (Ibid: 97). The approach of Japan to Central Asia has been defined as '*developmental*' as opposed to geopolitical, reflecting that Japan does not see itself as competing for influence in the region with other actors such as Russia and China (Len, Uyama, Hirose, 2008: 11-12). However, the shift from an emphasis on Eurasia to one on Central Asia does indicate exclusion of Russia.

While Japan supports democracy promotion in Central Asia, it does not apply pressure or conditionality; an approach that suits Central Asian leaders well

(Nurgaliev, 2009: 99). The Central Asia plus Japan dialogue is based on principles of respect for differences of opinion, competition coordination and open cooperation, and specifically aims to improve intra-regional cooperation in Central Asia, particularly on issues of economic development and regional security in Central Asia (Central Asia plus Japan Dialogue, 2012). Reflecting Japan's desire to contribute towards regional integration in Central Asia through this forum is the consideration that was given to opening a dialogue with CACO. This was dismissed because Russia was considered too engaged in the latter (Kavato, 2008: 23), confirming that the dialogue is aimed at an exclusive Central Asian region.

While Central Asian experts have recognised the potential for Japan to play a positive role in Central Asia given the absence of direct geopolitical interests, there is wide scepticism as to the effectiveness of the forum (Rakhimov, 2014: 84). In part this may be explained by the dialogue forum currently having too wide a set of objectives (Ibid: 85). Another obstacle to strong Central Asia-Japan relations is the lack of mutual understanding; Japanese lack sufficient understanding of current political and economic issues in Central Asia, just as Central Asians do not have a high appreciation of Japanese culture (Nurgaliev, 2009: 98; Rakhimov, 2014: 79). Indeed, when Central Asia plus Japan was launched in 2004, key Japanese political institutions, including the Diet and the prime minister's office were uninterested (Kavato, 2008: 23).

The Republic of Korea and Central Asia

South Korea has been diplomatically and economically active in Central Asia since the CARs gained independence. Korea has, first and foremost, centred its activity on Uzbekistan, where Korea already in 1992 was the largest foreign investor, as well as Kazakhstan. Both countries have significant minorities of ethnic Koreans, which may in part explain Korea's focus on these countries (Hwang, 2012: 3-4).

On the whole, Central Asia was not high on the Korean foreign relations agenda until the mid-to-late 2000s (Fumagalli, 2012: 71). The Korea-Central Asia Cooperation Forum was launched in 2007, which along with other regional forums of Korean diplomatic relations is designed to provide for regular dialogue (Hwang, 2012: 2). Korean President Lee Myungbak in 2009 introduced the '*New Asia Initiative*', with which Korea redefined its understanding of Asia to include the countries of Central Asia, and through which Korea has sought to provide an example of economic development and modernisation for emulation by less developed economies (Ibid: 3). The initiative was, in part, specifically aimed at extending Korean influence in Central Asia (Fumagalli, 2012: 72, 85). Korea's interest in Central Asia is primarily driven by a need to access energy resources, including uranium. Moreover, Central Asia provides a potential source of cheap labour input, which Korea is now lacking (Hwang, 2012: 2). From a Central Asian perspective, stronger economic links with Korea has the benefit not only of providing a model of development but also the potential for technological and capital transfers (Ibid: 2).

While the Cooperation Forum has introduced a regional element to Korean diplomacy towards Central Asia, the approach has primarily been bilateral with Korea building on existing relations and investments in Uzbekistan and Kazakhstan (Fumagalli, 2012: 86).

The EU's Central Asia strategy

Throughout the 1990s, EU engagement with Central Asia was extremely limited but increased during the 2000s owing to an increased interest in the region's energy resources; security threats emanating from criminal and terrorist networks, gaining particularly in prominence following the events of 9-11 and intervention in Afghanistan; and the increased proximity of Central Asia to Europe following the EU's Eastern enlargement and Eastern Partnership programme (Schmitz, 2011: 4; Council of the EU, 2007: 8-9). The EU in 2007 launched *The European Union and Central Asia: Strategy for a New Partnership*, which signalled an intensified engagement with the region (Schmitz, 2011: 11). The new strategy was driven forward by Germany during its EU Presidency in 2007 and followed on from the German *New Ostpolitik* by which Germany strengthened its engagement with the FSU (Warkotsch, 2011: 1).

The EU can be considered to have a particular interest in promoting regional integration in other regions of the world as a means of promoting mirror images of itself, thus increasing the legitimacy of its own actorness (Allahverdiyev, 2008: 15). The EU's general approach to its external relations suggests a view of regional integration as a process that contributes to regional and international stability, and reflects the European experience of such a benefit (Doidge, 2011: 53.) Matthew Doidge (2011: 53) has suggested that '*The promotion of regionalism, then, has become increasingly central to the EU's view of its own place on the world stage.'* Correspondingly, the EU's Central Asia strategy involves a regional element; specifically, the strategy stated that '*The aim of the European Commission's assistance to Central Asia includes facilitating regional cooperation.*' (Council of the EU, 2007: 11).

The strategy, however, signalled a more pragmatic approach to the facilitation of region-building than EU policy had previously. The strategy was aimed at balancing a regional and bilateral approach to the region, but the EU, in effect, reduced its emphasis on regionalism in favour of bilateral channels to better target the issues of individual republics. This is reflected in two thirds of EU funding for the Central Asia strategy being reserved for bilateral programmes (Laruelle and Peyrouse, 2013: 63). This more pragmatic approach possibly reflects a recent acceptance of the limits to what the EU can achieve in terms of region-building in Central Asia. Doidge (2011: 173) has argued that Christopher Hill's concept of capability-expectations gap applies to the EU's interregional approach generally. While the EU on the one hand has accepted the weakness of counterpart regions, exemplified through a focus of capacity-building in interregional relationships, Doidge argued that it had not correspondingly lowered expectations of what it can achieve through such relationships. Thus, while the centrality of interregionalism to EU external relations provides a different impetus for a <u>regional</u> approach to Central Asia, when compared to actors such as Japan or Korea, the pragmatism in the 2007 strategy perhaps signals such lowered expectations of what can be achieved in terms of region-building in the case of Central Asia.

The strategy listed as many as seven areas of cooperation, ranging from human rights and the rule of law, over economic development, to combating common threats. The strategy did not, however, prioritise between these diverse goals (Council of the EU, 2007) but suggested transnational crime; environmental concerns, energy and water; border and migration management; people-to-people contacts; and transport infrastructure as focus areas for regional level efforts (Ibid: 11). The regional strategy paper for assistance, supporting the overall strategy, identified three priority areas: regional cooperation, improved living standards as well as governance and economic reform (European Community, 2007: 3). At the regional level three key initiatives were launched on rule of law, education, and environment and water, respectively (Schmitz, 2011: 14). The rule of law initiative specifically has focused on commercial and trade law, and economic-legal norms consistent with a market economy (Ibid). At the same time, the EU's initiatives on border management contributes to the securitisation of borders, thus inhibiting the regional trade other parts of its programme is designed to foster (Czerniecka and Heathershaw, 2011: 77, 89, 91).

The lack of prioritisation of objectives complicates implementation of the strategy, as does the absent focus on consistency and complementarity of objectives. Andrea Schmitz (2011: 17) has ascribed this weakness to the strategy being a result of a maximalist approach incorporating various objectives of EU institutions, member states and private groups simultaneously. This is further complicated by EU programmes co-existing with bilateral initiatives of individual member states, which may reflect diverging interests (Gower, 2011: 33; Laruelle and Peyrouse, 2013: 59). Others have criticised the EU for making generic expressions of interest, which are too vague to have intelligible meaning (Emerson and Boonstra, 2010: 8-9).

In Central Asia, the EU is considered a marginal actor with low visibility (Schmitz, 2011: 18); however, since the mid-2000s a growing number of EU member states are taking an increased interest and are increasingly present in the region. This interest is centred on Kazakhstan and to a lesser extent Uzbekistan and Turkmenistan. Despite the increased interest, member states are, on the whole, agreed on the goals of EU engagement in the region. The disagreements that persist surround tactics rather than principles both as regards energy diplomacy and the human rights and good governance dimension (Gower, 2011: 43-45).

The New Silk Roads Initiative

While the USA established diplomatic relations and played a significant role in Central Asia in the 1990s, the 2000s saw American influence wane. The introduction of the Northern Distribution Network (NDN), the logistics chain facilitating supplies to the ISAF in Afghanistan, restored some influence, though the imminent withdrawal from Afghanistan of US troops, suggests that Central Asia is likely to be low on the radar of American policy in the future (Laruelle and Peyrouse, 2013; 43).

Since 2011 the USA has been advocating the vision of the *New Silk Road* as a means of releasing economic development in Central and South Asia through international trade. Consequently, the vision commands liberalisation of trade regulation and the implementation of infrastructure developments to link the region with the global economy (Lee, 2012: 9). Being centred on the NDN, the strategy reflects a view of Central Asia as being part of a wider region including Afghanistan and Pakistan. Indeed then Secretary of State Hillary Clinton in 2009 referred to '*Afghanistan, Pakistan, and all their neighbours'* (Ibid: 10), suggesting that the pivot of the American approach is Afghanistan, and the CARs an appendix to the strategy.

The New Silk Road vision is linked to the NDN but contrary to the aims of the vision, the NDN does not appear to have facilitated trade liberalisation in Central Asia. Rather barriers to trade in the form of border closures and rail blockades have marked the period, as have increases in regional shipping fees, corruption and bureaucratic procedures required for border crossing (Ibid: 18-20, 26; Cooley, 2013: 47). Frederick Starr, who long advocated that the US promote a New Silk Road strategy in Central Asia, has noted the lack of prioritisation of projects as well as too strong a focus on infrastructural projects, and too little on trade procedures, including border and customs regulations (Kucera, 2011). Furthermore, the lack of involvement of the CARs' neighbours -China, India, Iran and Russia- which all have direct transport links that circumvent the region limit the potential of re-establishing the Silk Roads (Byrd and Raiser, 2006: 18).

Central Asian leaders interpret the limited economic and commercial engagement of the USA in Central Asia as a lack of long term commitment to the region's development. As the New Silk Road is not aimed at an exclusive Central Asian region, I will not consider the impact of the US as an external actor, when returning to the issue in chapter 5.

2.4 Summary

The Central Asian republics have pursued different paths through the period of transition from the USSR. Kazakhstan and Kyrgyzstan both introduced so-called shock therapy reforms quickly upon independence, while Uzbekistan and Turkmenistan followed more gradualist approaches to economic transition. Meanwhile, Tajikistan's transition was delayed by the country's civil war but since 1997, the country has pursued a liberalising economic policy.

These diverging transition paths have led to deviating economic environments, where Kazakhstan and Kyrgyzstan -to some extent Tajikistan- are considered more liberal and open economies, than are Turkmenistan and Uzbekistan. At the same time all five Central Asian republics face similar challenges in terms of institutional reforms, as all suffer from poor corruption standards and lacking performance on governance and enterprise restructuring. The capture of economic rents by elites have also contributed to a delay of economic diversification and sustainable economic growth; and in all five republics substantial economic activity is pushed into the informal economy depriving governments of budget income.

In the formal economy, trade integration within Central Asia is limited. Kyrgyzstan and Uzbekistan export significant amounts to neighbours, Kazakhstan in particular, which also represent noteworthy import shares in Uzbekistan, Kyrgyzstan and Tajikistan. However, trade integration in Central Asia is driven by the informal sector. The shadow trade deprives all states of budget revenues, which illustrates how they could all benefit from bringing informal businesses into the formal economy. Enterprises are not only driven into the shadows by weak governance and corruption but also by the diverging trade and border restrictions. Formalising it and improving businesses opportunities for growth, would benefit the general public as well as state coffers.

Russia and, increasingly, China are the main extra-regional trading partners of Central Asian republics. The EU and Turkey are also significant trade partners, the former particularly for Kazakhstan. The ECU appears to have had a negligible effect on trade within Central Asia but Kyrgyz, Tajik and Uzbek exports to Russia have been hit by the new trade barriers. In fact, the ECU does not represent significant trade liberalisation and has not brought with it palpable improvements in investment climates. Rather, the process has been focused on restricting trade with third countries. Early studies of the ECU suggest that a significant reduction in non-tariff barriers is required for the integration project to bring significant economic benefits to its members.

The geographical isolation and dependence on transit countries demonstrate the need for cooperation not only within the region but beyond it. Central Asian landlockedness has been estimated to reduce trade significantly more than is the case for landlocked states generally. This suggests that the diverging trade policies and complicated customs procedures further impede trade by increasing transportation costs, which are also impacted by the poor density and quality of transport infrastructure. These transit opportunities, in turn, affect the competitiveness of local production and the development of new comparative advantages. Physical integration with neighbouring countries as well as harmonisation of trade and transit regimes may, therefore, benefit both trade potential and diversification of production structures in Central Asia.

Central Asia may be able to develop new comparative advantages by focusing on value added processing of the region's resources, leveraging its low-cost, abundant workforce and regional demand for basic consumer products such as foodstuffs and clothes. Agribusiness, textiles and chemical industry have been suggested as potential comparative advantages, which may involve regional value chains.

Since the dissolution of the Soviet Union, the post-Soviet space has seen a variety of regional cooperation and integration frameworks that have overlapped with, replaced each other or co-existed. The CIS has facilitated the disintegration of economic links within the former Soviet Union, though generally criticised for its ineffectiveness. Consequently other organisations developed to manage the economic links in the FSU, including the CACO, which was subsequently subsumed into EurAsEC, which again led to the formation of a smaller ECU and CES, destined to become the EaEU by 2015. With each new step it appears the institutional sophistication of regional integration in the post-Soviet space has improved, though there continue to be question marks over the economic benefits from Eurasian integration as well as its viability. These processes point to the limited success of Central Asian regionalism and the dominance of Eurasian integration projects at the expense of Central Asian regional cohesion. This will be further explored in subsequent chapters.

While the Central Asian republics have not succeeded in forming a Central Asian regional organisation, they participate in a variety of fora with external players. Aside from Eurasian integration schemes, including Russia, all CARs are engaged in the SCO with China, though Turkmenistan only as a guest. The SCO is largely a Chinese driven framework focused on cooperation in security and economic spheres, and through which China promotes bilateral economic engagement in Central Asia. All CARs participate in the Economic Cooperation Organisation along with Iran and Turkey, though this is not seen to have any noteworthy impact.

Latterly, a series of initiatives involving non-neighbouring external players seek to engage the CARs as a region. Japan, Korea and the EU all operate dialogue frameworks, which seek to facilitate cooperation between the Central Asian republics. As was demonstrated in the Japanese shift of focus from Eurasia to Central Asia, these frameworks are aimed at facilitating regional cohesiveness in an exclusive Central Asian region. As all three external actors in part were driven by an interest in access to Central Asian energy resources, this may have been a driving force behind approaching the CARs as a region separate to Russia, which has dominated the transit of the region's natural resources. In chapter 5, I will return to these frameworks discussing their potential for success on the basis of an analysis of the underlying dynamics of regional integration in chapter 4.

Chapter 3 Gravity model and economic analysis[22]

Central Asia has been described as '*persistent periphery*' (Laruelle and Peyrouse, 2013: xvii) and as one of the last frontiers of global economic integration (Linn, 2011: 1). This chapter considers the potential for regional trade integration and for increasing trade between Central Asia and the rest of the world, particularly Europe and Asia – two of the global economy's three main poles between which Central Asia is located.

Employing a properly specified gravity model, this chapter challenges the proposition of Kurmanalieva and Parpiev (2008) that the Central Asian republics no longer over-trade between themselves, and supports the suggestion by Felipe and Kumar (2010) of gains to trade from trade facilitation measures in the region. Additionally, the gravity model is employed to explore whether Central Asian economies have untapped trade potential with two of the major centres of global economic activity – Europe and Asia; and estimates impact of the suggested intra-regional integration on the potential trade with extra-regional trading partners, again with a focus on Europe and Asia. Moreover, the chapter considers the potential impact on extra-regional trade of three specific scenarios of trade facilitation through economic integration. The first scenario is of economic integration between the five post-Soviet Central Asian states Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan, that is, Central Asian regionalism, the main topic of the thesis. The second scenario reflects the more isolationist economic policy of the latter two states, which suggest that their membership of integration schemes may be unlikely, and therefore models integration between Kazakhstan, Kyrgyzstan and Tajikistan only. Latterly, in light of current developments towards an expansion of the Eurasian Customs Union, the third scenario models an extension of the ECU to include Kyrgyzstan and Tajikistan, the former of which is already set to join, and the latter subject to speculation that it may do so in the future.

[22] Please note that an earlier version of this analysis was printed in the Kazakh Economic Review, No. 4, 2013, pp. 11-37 under the title "*Central Asia – regional integration and its potential impact on extra-regional trade*".

Through these scenarios, the chapter explores whether would-be regional integration could extend the frontier of trade potential for Central Asia. Using the gravity model approach, an equation is estimated by which the trade potential of all included economies can be calculated. For each of the three integration scenarios alternative gravity equations are estimated. Each of the three alternative equations is calculated on the basis that the relevant integration configurations make up one economic region. This allows one to compare the predicted trade potential of the three stipulated groupings against the predictions of the benchmark model in which the states represent individual economies.

3.1 The gravity model

In the following, the gravity model is applied to explore both the trade potential of the individual Central Asian republics as well as the potential benefits from stipulated regional integration schemes. The latter is a non-traditional approach. *Ex ante* studies of economic integration typically employ computable general equilibrium (CGE) models, which are comprehensive economic models describing all elements of an economy and their interactions making them apt for evaluating policy choices (Burfishcer, 2011: 10-11). Owing to the complexity of such models, their application involves detailed data, which has proved impossible to obtain for all Central Asian republics. Hence, an attempt is made to estimate potential benefits to regional integration in Central Asia by means of the gravity model, which has become a workhorse model of international trade.

The basic logic of the gravity model follows Newton's theory of gravity suggesting that bilateral trade between any two countries can be estimated by the product of their economic mass with the factor of proportion determined by the degree of trade resistance between them (Helpman, Melitz and Rubinstein, 2008: 442). Applying the model to study trade potential, a typical application of the model, one calculates a gravity equation based on which trade flows can be predicted.[23] The predicted flows can then be compared with effective trade flows to indicate the

[23] See Introduction for further information of different applications of the gravity model.

degree of realisation of bilateral trade potential. As the model is focused on estimating trade potentials, the results regarding integration potential should be considered indicative.

When the gravity model was originally proposed in the early 1960s it lacked theoretical foundations. Since, however, there have been repeated attempts to define the theoretical underpinnings of the model. It has been shown that the gravity equation can be derived from economic models as diverse as Ricardian, Heckscher-Ohlin as well as increasing returns to scale models with each model predicting different types of trade. For instance, Simon Evenett and Wolfgang Keller (2002: 283) have found that while a perfect specialisation model with trade in differentiated and homogenous goods explains trade between developing countries adequately, an imperfect specialisation Heckscher-Ohlin model of trade in homogenous goods is more appropriate for explaining trade between developed and developing economies. This is because the level of specialisation and trade are positively correlated to the share of intra-industry trade (Ibid: 310). Meanwhile, for trade between developed and developing countries imperfect specialisation, owing to relative factor abundance differences, is key to explaining bilateral trade patterns (Ibid).

Nevertheless, the model, which the following analysis is based on, is a model of perfect specialisation. I have chosen to base the study on the model developed by James E. Anderson and Eric van Wincoop (2003) as this is the generally accepted standard specification of the gravity model today. The model is based on the assumptions that all goods are differentiated by region of origin, each region is specialised in the production of only one good, and the supply of each good is fixed. Assumptions on the demand side are identical homothetic preferences estimated by a constant elasticity of substitution utility function (Anderson and van Wincoop, 2003: 174). The significant contribution of this model was to highlight that trade resistance is a relative factor denoted as multilateral trade resistance. Specifically, the authors divide trade resistance into three elements: (i) the bilateral trade barrier between origin region *o* and destination region *d*, (ii) *o*'s resistance to trade with <u>all</u> regions, and (iii) *d*'s resistance to trade with <u>all</u> regions (Ibid). Exclusion of the multilateral resistance term from the gravity equation causes significant omitted variable bias, given the variable's correlation with trade costs (Ibid: 188-189). If omitted, the factors would be included in the stochastic error term, which would then be correlated to the trade cost variable causing bias (Ruiz and Vilarrubia, 2007: 9). It is this contribution that has made the Anderson-van Wincoop model the standard specification used today.

I follow the example set by Juan Ruiz and Josep Vilarrubia in their study of the trade potential of Mediterranean economies, when deriving the system of equations. The specification assumes that consumers in destination *d* maximise utility according to the following function, where x_{odt} denotes exports from region *o* to region *d*:

$$U(x_{odt}) = \left(\sum_{o} \beta_{ot}^{\frac{1-\sigma}{\sigma}} x_{odt}^{\frac{\sigma-1}{\sigma}} \right)^{\frac{\sigma}{\sigma-1}}, \tag{1}$$

subject to the budget constraint:

$$\sum_{o} p_{odt} x_{odt} = y_{dt}, \tag{2}$$

where β_{ot} measures the number of goods within the bundle produced by region *o*: σ expresses the elasticity of substitution between goods from different regions, under the assumption of $\sigma > 1$ signifying that region *d* consumers have a preference for consuming the highest possible number of varieties; p_{odt} is the c.i.f. (cost, insurance and freight) import price from region *o* to region *d* at time *t*, whilst y_{dt} represents the nominal income of region *d* at time *t* (Ruiz and Vilarrubia, 2007: 8).

Transport costs are modelled following the melting iceberg-assumption, implying that a fraction of the good is lost in transit (Andersen and van Wincoop: 2003: 174). t_{odt} units of region *o*'s good must be shipped for one unit to reach region *d*. As it is assumed that the exporter bears the transport costs, and passes it on to the importer; transportation costs increase the export price of the good. Thus, $p_{odt} = p_{ot} \cdot t_{odt}$ where p_{ot} represents the exporter's price, and $(1 - t_{odt})$ the amount lost in transit, i.e. the trade cost (Ruiz and Vilarrubia, 2007: 8).

Solving for region *d*'s optimal consumption one gets the import demand equation:

$$x_{odt} = \left(\frac{\beta_{ot} p_{ot} t_{odt}}{P_{dt}}\right)^{1-\sigma} y_{dt}\,, \tag{3}$$

where P_{dt} represents the ideal price index of region *d* at time *t*, and is given by:

$$P_{dt} = \left(\sum_{o} (\beta_{ot} p_{ot} t_{odt})^{1-\sigma}\right)^{\frac{1}{1-\sigma}} \tag{4}$$

Imposing market clearing condition ($y_{ot} = \sum_d x_{odt}$), the gravity equation can be expressed as follows, as shown by Anderson and van Wincoop (2003):

$$x_{odt} = \frac{y_{ot} y_{dt}}{y_{wt}} \left(\frac{t_{odt}}{P_{ot} P_{dt}}\right)^{1-\sigma}, \tag{5}$$

where y_{wt} represents world income.

3.1.1 Estimation procedure

Anderson and van Wincoop express multilateral resistance by consumer price indices for each trading partner, which include all three elements of trade resistance (Anderson and van Wincoop: 2003: 176). Prices differ between locations owing to unobservable trade costs (Ibid: 174). In order to derive the gravity equation, Anderson and van Wincoop employ a controversial, though practical, simplification, which is that trade barriers are symmetric. Barriers then can be interpreted as an average of the barriers in both directions. This provides a simple solution to the price indices as functions of bilateral trade barriers and income shares (Ibid: 175). It has been noted by Richard Baldwin and Daria Taglioni that this simplification limits the application of the Anderson-van Wincoop model to cross-section data. The authors note that while the two terms are proportional, the factor of proportionality depends on GDPs and trade costs, which vary over time. Thus, a particular factor of proportionality is needed for every set of GDPs and trade costs, that is, for every point on the time dimension (Baldwin and Taglioni, 2006: 5-6). Including time-varying region-specific effects, however, takes this into account

(Bacchetta et al., 2012: 124). Estimation with panel data is used in the following because it diminishes bias from heterogeneity across countries (Ibid: 108).

Given the multiplicative nature of the gravity equation, one can take the natural logarithms of the terms, thereby achieving a log-linear equation relating the logged bilateral trade flow to the log of economic mass and the log of trade barriers, which can be estimated by least squares regression (Head, 2003: 4). This is the standard method for estimation of the gravity equation (Bacchetta et al., 2012: 105). However, the inclusion of the multilateral resistance terms, which are not directly observable, complicates this. Anderson and van Wincoop, when developing the above-specified gravity equation, applied a complicated multi-step procedure. As this estimation technique requires a non-linear least square (NLS) programme, it is not commonly replicated. Alternatively, the inclusion of importer and exporter fixed effects takes into account the multilateral resistance, and allows for a simple ordinary least squares (OLS) regression (Ibid: 106; Ruiz and Vilarrubia, 2007: 9). This also has the advantage of avoiding measurement error associated with assessing countries internal distances as is required in the multi-step, NLS approach (Baier and Bergstrand, 2009: 78).

The advantage of the computational burdensome NLS estimation is the generation of consistent and efficient estimates of coefficients, which allow the exploration of the impact of individual factors such as quality of infrastructure or institutions, and indeed the multilateral trade terms themselves (Ibid). However, as discussed in the introduction, the aim of current study is to explore trade volumes. Moreover, NLS estimation may be inefficient as it often gives more weight to observations with larger variance (Santos Silva and Tenreyro, 2006: 644). Consequently, the OLS estimation with fixed effects can be considered adequate for current purposes. Indeed Anderson and van Wincoop tested this approach themselves, and found that it led to consistent parameter estimates (Anderson and van Wincoop, 2003: 188).

The following log-linear equation results from taking the natural logs of equation (5), and adding a stochastic error term to account for deviations from theory:

$$\ln x_{odt} = \beta_0 + \beta_1 \ln t_{odt} + \beta_2 \ln y_{ot} + \beta_3 \ln y_{dt} + \beta_4 \ln y_{wt} + \beta_5 P_{ot} + \beta_6 P_{dt} + \eta_{odt} \tag{6}$$

(Ruiz and Vilarrubia, 2007: 9).

Substituting importer and exporter dummies for importer-time varying and exporter-time varying dummies allows one to take into account not only the multilateral resistance effect but the time-varying component of this. Therefore, the subsequent estimation of the gravity equation is based on the following equation, where equation (6) is augmented with time-varying origin and destination dummies, d_{ot} and d_{dt} respectively, as well as the time dummy d_t:

$$\ln x_{odt} = \beta_0 + \beta_1 \ln t_{odt} + d_{ot} + d_{dt} + d_t + \epsilon_{odt} \ . \tag{7}$$

The time dummy include the effect of world GDP, whereas the importer-/exporter -time varying dummies include the effects of the regions' GDPs as well as other region-specific traits such as landlockedness. The trade cost function therefore excludes region-specific variables comprised by the dummy effects, and is limited to pair-specific characteristics. The basic gravity equation substitutes distance for trade costs. As noted previously, it is common to augment the model with further indicators of trade costs. Commonly used variables in addition to distance are dummies for common border, common language, common colonial relationships and/or common colonisers, as well as membership of trade blocs. In the following trade cost function Z_{od} is a vector of pair-specific explanatory variables that are constant over time, such as contiguity and common language, and Z_{odt} a vector of pair-specific, time-varying explanatory variables, such as whether the two economies are in a free trade agreement:

$$\ln t_{odt} = \alpha Z_{od} + \gamma Z_{odt} + v_{odt} \tag{8}$$

Substituting the trade cost function (8) into equation (7), one obtains equation (9) to be implemented on the dataset:

$$\ln x_{odt} = bZ_{od} + cZ_{odt} + d_{ot} + d_{dt} + d_t + \epsilon_{odt} \ . \tag{9}$$

3.1.2 Pitfalls of employing the gravity model approach

Evaluating modern applications of the gravity model, Baldwin and Taglioni (2006: 7) distinguish three commonly made mistakes, which they denote the gold, silver and bronze medal mistakes, respectively, where a higher 'prize' reflects a more severe mistake. The gold medal mistake entails omitting terms, which are correlated to the trade costs term, and is -for reasons outlined above- avoided by employing the Anderson-van Wincoop model (Ibid: 7-9). The silver medal mistake applies when researchers working with averages of two-way exports take the log of the average, instead of the average of the logs (Ibid: 9-11). Most empirical gravity model applications focus on average trade flows. However, as the interest of this study is the potential for the Central Asian republics to increase their exports, and thus production, I will focus on one-way flows. This avoids the silver medal mistake. Latterly, the bronze medal mistake relates to improperly deflating nominal trade values; such error is taken into account by the use of region-specific and time dummies (Bacchetta et al., 2012: 111), and thus is also not an applicable critique of the chosen approach.

Two more relevant difficulties of the gravity model approach do apply, however. The validity of the log-linearisation of the gravity equation rests on the assumption that the error term is in fact stochastic, that is, that the error term is statistically independent of the regressors (Santo Silva and Tenreyro, 2006: 642). Joao Santos Silva and Silvana Tenreyro (2009: 7) assert strong evidence that error terms in applied gravity models have often been heteroscedastic, and that this affects estimations even when controlling for fixed effects. To address the issue, White-corrected robust standard errors are applied in estimation, to take into account the tendency towards heteroscedasticity (Bacchetta et al., 2012: 107, 133).

A second prevalent problem when applying a log-linearised gravity model is the presence of zero value observations stemming from the fact that the log of zero is undefined. The gravity model, *per se*, predicts positive, if small, values of trade flows. However, trade flows between small and distant countries are often zero; whilst presence of zero value observations can also reflect errors in the reporting of trade (Linders and de Groot, 2006: 3). Different approaches to this problem have been suggested. The perhaps most common approach have been to simply drop zero observation pairs from the sample. This is an ad hoc approach, which potentially ignores valuable information regarding the absence of trade flows. Other approaches include replacing zero values with a small constant preventing omission but again an inherently ad hoc approach (Ibid: 4). Alternative approaches include a two-step sample selection approach, in which a sample selection equation determines, whether trade is observed between pairs of regions, and subsequently a regression equation determines the expected size of that trade (Ibid). The two-step approach prohibits use of OLS regression (Bacchetta et al., 2012: 115-116), which has the advantage of computational simplicity. Moreover, while the two-step approach is preferred on theoretical grounds, evidence suggests that the simple method of dropping zero value observations often does not significantly bias estimation results (Linders and de Groot, 2006: 14). This method will therefore be used in the OLS estimation below.

3.1.3 Trade potential

Following Peter Egger (2002), two conceptually different approaches to estimating trade potentials of transition economies with the gravity model can be discerned. One, termed the out-of-sample projection approach, estimates the gravity equation based on a sample of countries believed to have reached full trade potential; the equation is then used to project predicted trade flows of transition economies, the difference between actual and predicted flows interpreted as unexhausted potential. The second approach, referred to by Egger as the in-sample projection approach, includes the transition economies under study in the estimation of the equation. Under this approach, the residual of the estimated equation is interpreted as the difference between actual and potential trade (Egger, 2002: 297-298).

Egger argues that the in-sample approach is liable to misspecification and parameter inconsistency because systematic variation in residuals cannot result from a properly specified econometric model, which should yield mean zero residuals (Ibid: 299). However, the out-of-sample approach precludes the application of the proper specification of the Anderson-van Wincoop model to study trade potentials because of its inclusion of region-specific fixed effects (Ibid). As noted by Ruiz and Vilarrubia, the inclusion of time and region-year dummies, leave region-pair specific characteristics as the only source of misspecification (Ruiz and Vilarrubia, 2007: 11). Meanwhile, also the out-of-sample approach could lead to bias, if the estimated gravity equation with benchmark regions is misspecified (Ibid). Grigor Hayrapetyan and Viktoriya Hayrapetyan in their study of Armenia's trade potential consider both the in-sample and out-of-sample approach and find similar results (Hayrapetyan and Hayrapetyan, 2011). Thus, despite Egger's critique of the approach, the in-sample projection will be applied in subsequent estimation.

The in-sample trade potential index can be defined by the formula:

$$POTTRADE_o = \frac{EFFTRADE_o}{FITTRADE_o}, \qquad (10)$$

where $EFFTRADE_o$ represent the real export flow from the exporter *o* to the trade partner *d*, and $FITTRADE_o$ the fitted export flow predicted by the gravity equation (de Benedictis and Vicarelli, 2004: 13). By the following equation, the index can be standardised to take values between 1 and -1, where a positive value indicates higher effective bilateral trade than the model predict, and negative values lesser effective bilateral trade than predicted by the model:

$$SPT_o = \frac{POTTRADE_o - 1}{POTTRADE_o + 1} \qquad (11)$$

(Ibid).

Negative values of the SPT index suggest that in the long run, trade levels will converge towards the expected without the need for characteristics of bilateral relationships to change. In other words, negative values suggest that two economic partners have unexploited trade potential. Positive values on the other hand are interpreted as indicating that the two economic regions trade more (over-trade) than the model's prediction, and that, hence, trade promoting policies are required to increase the volume of trade (Ruiz and Vilarrubia, 2007: 6).

3.1.4 Studying regional integration with the gravity model

The gravity model is, as noted, an established method by which to examine the effects of regional integration schemes *ex post*. In such studies, one or more dummy variables representing the economic impact of the RTA are included. The model is then estimated, and the effect of the RTA evaluated on the basis of whether the parameter estimates are statistically significant and of their operational signs (Cernat, 2003: 9). As the current study attempts to study integration scenarios *ex ante* this approach is unenforceable. Instead, a benchmark equation is estimated in which the Central Asian republics are included individually. Three alternative equations are estimated each representing an integration scenario. In evaluating the implications of the suggested integration scenarios, the analysis considers the predicted trade flows of the alternative equations in relation to the total predicted trade flows of the respective constituent economies based on the benchmark equation.

In the first scenario, the five Central Asian states (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) are removed from the sample of economies, and substituted by a simulated economic union; that is their trade flows and GDPs are summed together, while other features such as common language, religion and external trade agreements are determined for the union as a whole. Similarly, in the second scenario a simulated union of Kazakhstan, Kyrgyzstan and Tajikistan is substituted for the three republics as individual economies, and latterly the same approach is used on Russia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan – representing an extension of the ECU.

3.1.5 Data and estimation results

The database was built using data from the IMF's Direction of Trade statistics (DOTS), the CEPII-database including distance and region-specific characteristics as well as GDP data from the World Development Indicators.[24] The dataset covers 192 economies over 20 years from 1992 to 2011. The relatively short period follows directly from the fact that the countries of interest became independent in

[24] Further details on data is to be found in appendix A.

late 1991. Given the in-sample approach applied, this disallows a longer time span of study. Estimations were done also on three reduced samples of 90, 100 and 150 countries respectively. These different estimations serve to check the robustness of the sample, as it is known that particularly small economies are likely to bias the results. Thus, the specification chosen for the estimation of trade potentials includes the bilateral trade of 100 economies, accounting for upwards of 98.6 per cent of world trade.

A number of different specifications of the gravity model were estimated. Firstly a simple pooled OLS regression, that is, a regression including no fixed effects. Secondly, the equation was estimated including importer, exporter, and time dummies, a commonly used specification of the Anderson-van Wincoop model. This however, does not account for the time-contingent element of trade resistance contained in importers' and exporters' price indices. Hence, the preferred specification includes importer time-varying and exporter time-varying dummies, as specified in equation (9). The specification of the trade cost function includes the following variables: contiguity, common language, whether the pair was ever in a colonial relationship and whether they have been since 1945, whether they had a common coloniser, and whether they share a common religion. Additionally, a dummy variable for the trading partners being in a common free trade agreement was included. This dummy averages the effect of a number of FTAs rather than specifying individual FTAs since the interest is not on the effect of particular agreements but in controlling for their effects on bilateral trade flows.

Estimation results are presented in appendix B. The included regressors are statistically highly significant, exhibit the expected signs and magnitude; save for religion, which in the pooled model suggests a negative correlation in some samples. The coefficients are, however, generally robust across specifications; and the R-squared, measuring the data's fit to the regression line, significantly higher for the specification including time, importer and exporter and importer-time, exporter-time dummies, for which also the Root-MSE, a measure of the difference between values observed and values predicted, is significantly lower vis-á-vis the pooled model.

Given the application of the equation on calculation of trade potential, it is, furthermore, pertinent to check the robustness of the estimates of potential trade across the specifications, as suggested by Luca de Benedictis and Claudio Vicarelli (2004), who have argued that the standardised trade potential index is highly sensitive to the estimation procedure of the gravity model (their results showing changes in the sign of the SPT values in a significant number of cases (35-40 per cent)). In estimations for this analysis, the SPT index is less sensitive to the inclusion of fixed effects with up to 20 per cent of values changing sign from the pooled to the estimations including fixed effects. The corresponding shares of sign-changing values in the SPT index are 10 per cent and 5 per cent for the subsample of interest, the Central Asian republics (see overview in appendix C).

The specification of the model chosen is the regression including time, importer-time, and exporter-time dummies on the sample of 100 countries. This is a robust sample size as well as specification both in terms of the gravity equation and its estimated coefficients, and the SPT index. The same specification is used in estimating the three alternative gravity equations, the coefficients of which are also listed in appendix B.

3.2 Central Asian intra-regional trade

The results listed in table 3.1 indicate that intra-regional Central Asian trade is higher than expected considering the characteristics of the countries' bilateral relationships.[25] Two countries stand out from the general trend as both Kazakhstan and Tajikistan export around the expected levels to some Central Asian neighbours. Kazakh exports to Kyrgyzstan have roughly conformed to the model's expectations since 2000. Tajik exports to Turkmenistan have in recent years tended towards the expected level as has its exports to Uzbekistan in the 2010s. This may reflect the worsening of political relations between the republics and the closing of the border, though a similar effect is not discernible in the opposite direction.

[25] Where values are missing from table 3.1 and following tables this reflects missing data. Where the SPT value is exactly -1 this indicates that both or either trade partner reported exports/imports to be 0.

SPT values for Kazakh exports to Central Asia	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Kyrgyzstan	0.553	0.279	0.145	0.132	0.025	-0.400	-0.512	-0.426	-0.402	0.057	-0.070	0.204	0.288	-0.098	-0.082	0.170	-0.173	0.296	0.180	0.129
Tajikistan		0.888	0.782	0.792	0.823	0.857	0.869	0.875	0.887	0.883	0.821	0.844	0.908	0.846	0.841	0.910	0.782	0.910	0.901	0.941
Turkmenistan		-1.000	0.712	0.705	0.649	0.817	0.488	0.362	0.125	0.238	0.282	0.548	0.297	0.068	0.163	0.706	0.748	0.629	0.557	0.628
Uzbekistan		-1.000	0.506	0.537	0.294	0.243	0.249	-0.075	0.485	0.531	0.266	0.379	0.443	0.417	0.655	0.719	0.644	0.779	0.796	0.801

SPT values for Kyrgyz exports to Central Asia	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Kazakhstan	0.381	0.023	0.088	0.353	0.399	0.275	0.360	-0.231	0.172	0.041	-0.069	0.190	0.301	0.457	0.418	0.352	0.291	0.392	0.625	0.564
Tajikistan	0.653	0.411	0.351	0.683	0.796	0.887	0.886	0.831	0.919	0.892	0.905	0.955	0.945	0.946	0.941	0.967	0.925	0.945	0.942	0.949
Turkmenistan	0.885	0.864	0.852	0.920	0.630	0.732	0.668	0.693	0.847	0.833	0.853	0.825	0.811	0.834	0.762	0.757	0.817	0.796	0.884	0.859
Uzbekistan	0.668	0.544	0.604	0.868	0.749	0.823	0.703	0.624	0.941	0.897	0.809	0.655	0.516	0.668	0.796	0.874	0.936	0.963	0.978	0.974

SPT values for Tajik exports to Central Asia	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Kazakhstan		0.494	0.026	0.150	0.675	0.416	0.505	0.054	0.315	-0.176	-0.091	0.288	-0.160	0.562	0.617	0.439	0.443	0.686	0.705	0.773
Kyrgyzstan	0.783	0.181	-0.266	0.456	0.583	0.681	0.525	0.504	0.027	0.460	0.606	0.667	0.570	0.335	0.640	0.384	0.714	0.820	0.797	0.702
Turkmenistan		0.350	-0.275	-0.210	0.563	0.818	0.826	0.490	0.653	0.877	0.859	0.409	0.691	-1.000	-0.884	0.664	0.511	-0.204	0.195	0.066
Uzbekistan		0.016	-0.429	0.508	0.579	0.742	0.778	0.845	0.800	0.797	0.767	0.748	0.617	0.668	0.718	0.644	0.776	0.813	0.027	-0.081

SPT values for Turkmen exports to Central Asia	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Kazakhstan		-1.000	0.935	0.933	0.930	0.905	0.843	0.745	0.733	0.825	0.898	0.861	0.926	0.878	0.907	0.939	0.916	0.813	0.322	0.819
Kyrgyzstan	0.986	0.858	0.877	0.738	0.790	0.948	0.834	0.897	0.939	0.933	0.785	0.567	0.736	0.953	0.518	0.703	0.479	0.594	0.681	0.650
Tajikistan		0.907	0.936	0.902	0.869	0.980	0.978	0.949	0.957	0.980	0.988	0.977	0.976	0.980	0.968	0.977	0.957	0.972	0.983	0.988
Uzbekistan		-1.000	-1.000	0.252	-0.636	0.026	0.211	0.161	0.102	0.581	0.750	0.703	0.657	0.719	0.712	0.802	0.568	0.656	0.778	0.798

SPT values for Uzbek exports to Central Asia	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Kazakhstan		-1.000	-1.000	0.630	0.370	0.323	0.411	0.464	0.412	0.321	0.507	0.501	0.729	0.761	0.637	0.702	0.695	0.785	0.799	0.867
Kyrgyzstan	0.863	0.795	0.759	0.682	0.773	0.809	0.663	0.618	0.757	0.853	0.852	0.789	0.819	0.803	0.679	0.864	0.826	0.920	0.892	0.908
Tajikistan		0.629	0.660	0.778	0.771	0.922	0.894	0.927	0.896	0.865	0.901	0.856	0.884	0.856	0.776	0.839	0.672	0.844	0.641	0.800
Turkmenistan		-1.000	-1.000	0.226	-0.289	0.865	0.636	0.786	0.608	0.769	0.784	0.713	0.787	0.874	0.838	0.893	0.855	0.869	0.865	0.903

Table 3.1 – SPT values for intra-regional Central Asian trade

The findings reaffirm that Central Asia republics continue to over-trade amongst themselves, and thus contradict Kurmanalieva and Parpiev's (2008) conclusion that there is now significant unexploited trade potential in Central Asian intra-regional trade. Their study differs methodologically from the current, for instance, by not employing a properly specified gravity model including multilateral resistance terms.[26] Hence, their results are prone to omitted variable bias, which may explain the diverging results. Meanwhile, the results support Felipe and Kumar's (2010) recommendation that trade facilitation measures are needed to increase intra-regional trade. The interpretation of the higher-than-expected level of bilateral trade found in this analysis, is exactly that trade promoting measures are needed to extend the frontier of trade potential between economies.

A drawback of the gravity model is that informal trade is not considered as this by its very nature does not figure in trade statistics. Informal economic activity, including cross-border trade, is as discussed in chapter 2 significant in Central Asia, further supporting the conclusion that the Central Asian economies are trading more than the model predicts. The evidence of higher than expected trade flows, suggests that the states are trading more than their current bilateral characteristics call for under the theoretical assumptions of the model; and that to increase bilateral trade, trade facilitation measures aimed at this must be implemented.

3.3 Central Asian extra-regional trade

The following three sections explore Central Asian trade potential with the wider regional neighbourhood, Asia and Europe respectively.

3.3.1 Central Asian trade with wider region

This section explores Central Asian trade with the wider regional neighbourhood, including Russia, Belarus, Ukraine, Azerbaijan, Turkey, Iran, Afghanistan, Pakistan and Mongolia. The results listed in table 3.2 and 3.3 paint a clear, overall

[26] While the appendix of the workpaper by Kurmanalieva and Parpiev demonstrates the derivation of the Anderson-van Wincoop model, it is unclear how the authors account for multilateral trade resistance in the model estimation.

similar, picture of trading patterns and potentials. The Central Asian republics still -20 years after the dissolution of the Soviet Union- trade significantly above the expected levels with other former Soviet republics. This, thus, also reaffirms the findings at the turn of the century of continued over-reliance on trade with other former Soviet republics. The trend is least pronounced in the case of Tajikistan and Turkmenistan, which is perhaps explained by their position at the very edge of the FSU and the consequent need to transit several now independent republics to trade with other post-Soviet republics. The general tendency to over-trade with Russia suggests that policy measures are indeed needed to promote increases in trade levels. Consequently, considerations of Kyrgyzstan and Tajikistan of joining the ECU are pertinent, though a decision should rest on the economic merits of the specific framework. As outlined above, the current setup of the ECU does not appear to positively affect Kazakhstan's GDP or trade position. The subsequent analysis of the impact of potential integration frameworks further explores this.

Exports to wider region

Kazakhstan	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Afghanistan		-1.000	0.401	0.564	0.605	0.751	0.731	0.757	0.960	0.907	0.857	0.867	0.914	0.932	0.927	0.913	0.959	0.953	0.930	0.907
Azerbaijan	0.971	0.935	0.951	0.888	0.683	0.842	0.866	0.863	0.896	0.930	0.918	0.928	0.957	0.821	0.910	0.925	0.798	0.763	0.915	0.844
Belarus	0.985	0.956	0.924	0.892	0.869	0.695	0.485	0.211	0.617	0.059	0.259	0.203	0.326	0.314	0.580	0.697	0.501	0.491	0.695	0.140
Iran		0.088	0.440	0.715	0.666	0.612	0.736	0.823	0.872	0.834	0.795	0.826	0.874	0.849	0.931	0.935	0.867	0.926	0.875	0.920
Mongolia		0.359	0.817	0.796	0.844	0.945	0.806	0.671	0.897	0.966	0.890	0.891	0.966	0.970	0.986	0.943	0.917	0.943	0.888	0.897
Pakistan		-0.989	-0.562	-0.690	-0.460	-0.748	-0.810	-0.891	-0.901	-0.963	-0.983	-0.974	-0.967	-0.968	-0.948	-0.695	-0.619	-0.619	-0.570	-0.900
Russia		-1.000	0.687	0.736	0.672	0.532	0.494	0.545	0.666	0.702	0.564	0.607	0.656	0.474	0.542	0.476	0.319	0.503	0.237	-0.054
Turkey		0.724	0.617	0.710	0.592	0.671	0.741	0.734	0.691	0.575	0.531	0.501	0.652	0.565	0.758	0.808	0.816	0.859	0.873	0.872
Ukraine		-1.000	0.952	0.895	0.867	0.908	0.882	0.733	0.886	0.946	0.845	0.859	0.811	0.491	0.847	0.886	0.838	0.924	0.768	0.893

Kyrgyzstan	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Afghanistan	-0.520	0.919	0.849	-1.000	0.952	0.951	0.944	0.870	0.977	0.953	0.960	0.953	0.919	0.976	0.995	0.996	0.988	0.987	0.991	0.988
Azerbaijan	0.659	0.750	0.779	0.909	0.839	0.842	0.538	0.787	0.933	0.865	0.878	0.767	0.723	0.726	0.666	0.722	0.623	0.465	0.610	0.386
Belarus	0.945	0.869	0.896	0.905	0.903	0.911	0.901	0.881	0.935	0.937	0.838	0.838	0.796	0.757	0.533	0.673	0.777	0.792	0.897	0.855
Iran	-1.000	-1.000	0.196	0.686	0.796	0.695	0.544	0.543	0.891	0.857	0.722	0.544	0.589	0.618	0.799	0.843	0.811	0.890	0.891	0.872
Mongolia	0.758	0.804	0.941	0.896	0.969	0.977	0.979	0.969	0.987	0.988	0.982	0.978	0.981	0.984	0.989	0.984	0.981	0.989	0.988	0.981
Pakistan	-1.000	-0.895	-0.802	-1.000	-0.798	-0.456	-0.573	-0.819	-0.905	-0.955	-0.969	-0.980	-0.996	-0.981	-1.000	-0.752	-0.809	-0.999	-0.998	-0.998
Russia	0.543	0.404	0.484	0.739	0.697	0.658	0.726	0.678	0.831	0.841	0.826	0.828	0.847	0.852	0.857	0.871	0.871	0.931	0.937	0.874
Turkey	0.144	0.194	0.376	0.815	0.348	0.593	0.614	0.209	0.520	0.841	0.829	0.654	0.710	0.747	0.831	0.869	0.837	0.879	0.875	0.886
Ukraine	0.982	0.901	0.894	0.840	0.785	0.769	0.802	0.523	0.517	0.733	0.723	0.690	0.654	0.694	0.589	0.622	0.432	0.562	0.709	0.638

Tajikistan	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Afghanistan		0.001	-0.443	-0.598	0.138	0.158	0.096	0.600	0.683	0.803	0.801	0.712	0.695	0.797	0.837	0.710	0.942	0.916	0.943	0.919
Azerbaijan	0.968	-0.001	-0.690	-0.084	0.389	-0.624	0.048	-0.344	-0.128	0.323	-0.021	0.372	-0.985	-0.371	0.421	-0.057	0.154	0.357	0.471	0.508
Belarus	0.990	0.887	0.805	0.724	0.860	0.788	0.809	0.893	0.796	0.788	0.783	0.804	0.824	0.776	0.785	0.818	0.935	0.951	0.883	0.941
Iran		0.192	-0.734	-0.836	-0.464	-0.031	0.643	0.681	0.480	0.706	0.687	0.831	0.657	0.710	0.850	0.866	0.952	0.949	0.942	0.927
Mongolia		0.877	0.781	-1.000	-1.000	-1.000	-1.000	-1.000	0.434	-0.294	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-0.597	-0.618	0.968	0.946
Pakistan	-1.000	-0.705	-1.000	-0.866	-0.759	-0.912	-0.946	-0.551	-0.866	-0.755	-0.961	-0.945	-0.233	-0.328	-0.953	-0.887	-0.730	0.279	0.718	0.657
Russia		0.237	0.224	0.595	0.567	0.600	0.636	0.887	0.933	0.899	0.827	0.762	0.702	0.742	0.743	0.743	0.887	0.913	0.877	0.676
Turkey		0.406	-0.082	0.160	-0.222	0.301	0.257	0.094	0.821	0.914	0.923	0.938	0.902	0.890	0.963	0.959	0.977	0.966	0.979	0.964
Ukraine		0.634	0.530	0.614	0.565	0.330	0.158	0.532	0.049	0.408	0.560	0.557	0.709	0.326	0.360	0.384	0.371	0.605	0.638	0.638

Table 3.2a – SPT values for exports to wider region

Exports to wider region

Turkmenistan	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Afghanistan		-1.000	-1.000	0.864	0.905	0.982	0.978	0.987	0.981	0.981	0.986	0.991	0.991	0.992	0.988	0.994	0.989	0.984	0.989	0.988
Azerbaijan	0.955	0.944	0.973	0.919	0.657	0.946	0.939	0.953	0.848	0.957	0.969	0.982	0.975	0.984	0.988	0.935	0.845	0.781	0.650	0.545
Belarus	0.988	0.752	-0.058	0.350	0.260	0.598	0.514	0.542	-0.037	0.608	0.291	-0.530	0.231	0.601	0.327	0.470	0.289	0.451	0.609	0.768
Iran	-0.402	-0.080	-0.106	-0.412	-0.445	0.636	0.770	0.824	0.674	0.760	0.890	0.910	0.809	0.811	0.856	0.884	0.859	0.909	0.825	0.855
Mongolia	-1.000	0.904	-1.000	0.274	0.800	0.888	0.702	0.237	-1.000	-1.000	-1.000	-1.000	-1.000	-0.946	-0.897	-0.058	-1.000	-1.000	-1.000	-1.000
Pakistan	-0.900	-0.900	-0.968	0.620	0.317	-0.046	-0.023	0.587	-0.731	-0.502	-0.126	-0.921	0.610	0.592	0.602	0.800	0.664	-0.172	0.063	0.109
Russia		-1.000	0.019	0.188	0.379	0.660	0.274	0.682	0.941	0.754	0.581	0.497	0.515	0.651	0.498	0.603	0.315	0.188	0.656	0.603
Turkey		0.896	0.752	0.851	0.829	0.880	0.883	0.920	0.853	0.903	0.947	0.941	0.923	0.906	0.885	0.966	0.910	0.933	0.941	0.931
Ukraine		-1.000	-1.000	0.982	0.986	0.992	-0.232	0.990	0.987	0.997	0.998	0.998	0.998	0.998	0.997	0.999	0.996	0.985	0.715	0.983

Uzbekistan	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Afghanistan																				
Azerbaijan	0.847	0.059	0.104	0.509	0.378	0.540	0.030	-0.500	-0.426	0.535	-0.094	0.093	0.946	0.951	0.795	0.687	0.626	0.684	0.516	0.860
Belarus	0.993	0.916	0.902	0.902	0.932	0.910	0.884	0.917	0.913	0.915	0.916	0.881	0.855	0.897	0.819	0.844	0.829	0.911	0.919	0.904
Iran	-1.000	-0.861	-0.642	-0.691	0.063	0.038	-1.000	-1.000	0.604	0.590	0.610	0.793	0.830	0.854	0.822	0.808	0.727	0.908	0.799	0.857
Mongolia	-1.000	0.231	-1.000	0.124	0.657	-0.065	-0.001	0.251	-1.000	-0.547	0.316	0.040	0.112	0.681	0.785	0.829	-0.028	0.609	0.348	0.383
Pakistan	-1.000	-0.991	-0.862	-0.761	-0.941	-0.819	0.288	0.733	-0.333	-0.318	-0.308	-0.755	-0.411	-0.188	-0.197	-0.125	-0.030	-0.813	-0.836	-0.769
Russia		-1.000	0.787	0.708	0.683	0.811	0.651	0.828	0.863	0.884	0.850	0.850	0.858	0.901	0.883	0.873	0.809	0.890	0.886	0.872
Turkey		0.697	0.714	0.285	0.502	0.719	0.648	0.578	0.629	0.541	0.738	0.696	0.807	0.868	0.872	0.901	0.874	0.932	0.936	0.948
Ukraine		-1.000	0.886	0.854	0.630	0.869	0.494	0.850	0.924	0.948	0.716	0.919	0.814	0.924	0.938	0.948	0.975	0.990	0.708	0.961

Table 3.2b – SPT values for exports to wider region

Imports from wider region

Kazakhstan	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Afghanistan	-1.000	-1.000	-0.131	-0.523	-1.000	-1.000	0.040	-1.000	-0.797	-0.718	-0.933	-0.973	-0.134	-0.362	0.187	0.655	0.829	0.420	0.463	0.768
Azerbaijan	0.972	0.885	0.836	0.949	0.965	0.932	0.925	0.691	0.825	0.706	0.849	0.844	0.774	0.701	0.914	0.845	0.889	0.824	0.775	0.635
Belarus	0.983	0.862	0.741	0.909	0.936	0.794	0.795	0.671	0.625	0.549	0.684	0.780	0.781	0.792	0.757	0.742	0.679	0.783	0.695	0.533
Iran	-1.000	-0.492	0.245	0.494	0.584	0.488	0.088	-0.113	0.350	0.069	0.203	0.226	-0.006	-0.079	-0.129	-0.025	0.118	-0.023	-0.040	0.035
Mongolia	0.970	0.993	0.989	0.997	0.995	0.947	0.944	0.861	0.883	0.854	0.853	0.935	0.733	0.545	0.826	0.499	0.590	0.890	0.631	0.717
Pakistan	-0.946	-0.279	-0.682	-0.612	-0.397	-0.414	-0.337	-0.587	-0.485	-0.764	-0.692	-0.626	-0.752	-0.689	-0.708	-0.804	-0.850	-0.784	-0.699	-0.636
Russia	-1.000	-1.000	0.283	0.508	0.625	0.536	0.519	0.476	0.596	0.501	0.410	0.517	0.450	0.468	0.427	0.353	0.348	0.384	0.127	-0.356
Turkey	-1.000	0.770	0.755	0.838	0.889	0.874	0.884	0.807	0.850	0.724	0.759	0.799	0.801	0.795	0.773	0.759	0.712	0.698	0.715	0.651
Ukraine	-1.000	-1.000	0.785	0.696	0.710	0.654	0.527	0.282	0.448	0.430	0.548	0.660	0.712	0.701	0.650	0.704	0.721	0.822	0.776	0.764

Kyrgyzstan	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Afghanistan	-1.000	-1.000	-1.000	0.998	-1.000	-0.635	-1.000	-1.000	0.493	-1.000	-0.894	0.317	0.734	0.558	-1.000	0.569	0.763	0.790	0.812	0.809
Azerbaijan	0.786	0.637	0.823	0.886	0.854	0.870	0.940	0.887	0.822	0.400	0.854	0.398	0.364	0.592	0.872	0.570	0.573	0.499	0.940	0.862
Belarus	0.928	0.689	0.684	0.873	0.816	0.746	0.667	0.648	0.559	0.820	0.696	0.760	0.583	0.596	0.726	0.803	0.757	0.915	0.878	0.928
Iran	-1.000	-0.692	0.828	0.848	0.798	0.729	0.363	0.521	0.685	0.767	0.623	0.734	0.672	0.404	0.388	0.282	0.273	0.396	0.375	0.453
Mongolia	-1.000	0.756	0.570	0.550	-1.000	0.847	-1.000	-1.000	-1.000	-1.000	0.572	0.598	0.497	0.804	0.884	0.991	0.984	0.854	0.850	0.807
Pakistan	-1.000	-0.889	-1.000	-0.624	-0.225	0.026	-0.328	-0.506	-0.507	-0.555	-0.692	-0.276	-0.164	-0.583	-0.828	-0.415	-0.746	-0.756	-0.772	-0.803
Russia	0.674	0.217	0.398	0.363	0.402	0.370	0.221	0.298	0.295	0.409	0.345	0.545	0.563	0.479	0.516	0.694	0.621	0.667	0.619	0.533
Turkey	0.535	0.750	0.822	0.841	0.848	0.856	0.753	0.778	0.802	0.803	0.769	0.853	0.867	0.811	0.797	0.849	0.777	0.852	0.790	0.790
Ukraine	0.986	0.726	0.660	0.685	0.547	0.107	0.081	0.306	0.138	0.274	0.179	0.447	0.482	0.506	0.433	0.729	0.567	0.744	0.676	0.704

Tajikistan	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Afghanistan	-1.000	-0.377	0.724	-0.766	0.684	0.480	0.473	-0.240	-0.221	0.021	0.554	0.813	0.915	0.886	0.901	0.978	0.990	0.989	0.988	0.993
Azerbaijan	0.988	0.726	0.540	0.878	0.776	0.951	0.923	0.981	0.993	0.982	0.992	0.992	0.993	0.987	0.990	0.970	0.911	0.796	0.695	0.851
Belarus	0.979	0.898	0.630	0.823	0.819	0.847	0.931	0.818	0.746	0.724	0.810	0.841	0.914	0.816	0.811	0.880	0.881	0.912	0.880	0.912
Iran	-1.000	-0.167	0.284	0.338	0.738	0.880	0.771	0.704	0.711	0.748	0.863	0.873	0.845	0.800	0.742	0.838	0.868	0.898	0.933	0.966
Mongolia	-1.000	-1.000	-0.747	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	0.875	0.003	0.827	0.760	0.666	0.799	-1.000	-1.000
Pakistan	-0.916	-1.000	-0.564	-0.230	-0.197	0.103	0.002	-0.552	-0.593	-0.675	-0.869	-0.962	-0.918	-0.738	-0.961	-0.895	-0.895	-0.827	-0.501	-0.365
Russia	-1.000	0.074	0.647	0.646	0.553	0.682	0.689	0.713	0.618	0.639	0.665	0.643	0.634	0.537	0.587	0.748	0.655	0.734	0.744	0.760
Turkey	-1.000	0.273	0.686	0.310	0.298	0.559	0.601	0.382	0.463	0.692	0.642	0.783	0.788	0.657	0.674	0.782	0.751	0.753	0.745	0.870
Ukraine	-1.000	0.502	0.787	0.025	0.761	0.940	0.925	0.926	0.955	0.890	0.879	0.777	0.647	0.683	0.528	0.584	0.535	0.759	0.816	0.709

Table 3.3a – SPT values for imports from wider region

Imports from wider region

Turkmenistan	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Afghanistan	-1.000	-1.000	-1.000	0.919	0.874	0.819	0.348	0.881	0.667	0.846	-0.750	0.091	0.228	0.469	0.409	0.565	0.552	0.319	0.488	0.546
Azerbaijan	0.955	0.888	0.865	0.953	0.971	0.923	0.926	0.876	0.876	0.919	0.885	0.882	0.973	0.980	0.580	0.594	0.363	0.380	0.901	0.599
Belarus	0.979	0.743	0.162	0.662	0.637	0.816	0.642	0.915	0.949	0.721	0.925	0.924	0.786	0.918	0.709	0.950	0.824	0.868	0.845	0.924
Iran	0.207	0.324	0.441	0.018	0.618	0.693	0.692	0.781	0.592	0.723	0.665	0.566	0.532	0.665	0.645	0.691	0.638	0.480	0.564	0.680
Mongolia	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	0.072	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	0.353	0.941	0.662	0.043	-0.355	-0.241	-0.287
Pakistan	-0.986	-0.846	0.428	-0.570	0.370	0.018	-0.337	-0.195	-0.496	-0.438	-0.312	-0.535	-0.809	-0.761	-0.752	-0.672	-0.757	-0.938	-0.924	-0.924
Russia	-1.000	-1.000	0.237	-0.112	0.294	0.517	0.252	0.419	0.343	0.538	0.473	0.446	0.137	0.159	0.073	0.354	0.406	0.395	0.299	0.339
Turkey	-1.000	0.871	0.852	0.828	0.861	0.902	0.874	0.937	0.909	0.866	0.885	0.835	0.821	0.820	0.848	0.867	0.878	0.883	0.900	0.910
Ukraine	-1.000	-1.000	-1.000	0.953	0.920	0.931	0.872	0.874	0.848	0.850	0.817	0.818	0.720	0.737	0.605	0.765	0.758	0.707	0.617	0.627

Uzbekistan	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Afghanistan	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000
Azerbaijan	0.793	0.441	0.330	0.646	0.677	0.632	0.470	-0.217	0.131	0.517	0.691	0.318	0.351	0.120	0.602	-0.010	-0.177	-0.235	0.532	0.556
Belarus	0.987	0.910	0.702	0.946	0.921	0.833	0.767	0.809	0.749	0.827	0.880	0.858	0.860	0.855	0.877	0.875	0.857	0.892	0.821	0.706
Iran	-1.000	-0.663	0.283	0.626	0.700	0.760	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000
Mongolia	-1.000	0.960	0.901	0.833	0.490	-0.115	-0.597	-1.000	-1.000	-1.000	0.460	0.677	0.990	0.996	0.828	0.610	0.361	0.624	0.676	0.661
Pakistan	-0.778	0.014	-0.090	0.146	-0.061	0.086	-0.207	-0.367	-0.196	-0.499	-0.363	-0.674	-0.797	-0.841	-0.803	-0.856	-0.876	-0.911	-0.899	-0.894
Russia	-1.000	-1.000	0.660	0.579	0.519	0.559	0.439	0.298	0.408	0.525	0.570	0.542	0.467	0.488	0.572	0.527	0.433	0.543	0.528	0.512
Turkey	-1.000	0.937	0.654	0.739	0.796	0.823	0.788	0.760	0.808	0.782	0.779	0.803	0.698	0.705	0.726	0.597	0.600	0.655	0.632	0.665
Ukraine	-1.000	-1.000	0.791	0.838	0.670	0.795	0.682	0.526	0.747	0.701	0.537	0.525	0.439	0.528	0.654	0.668	0.681	0.735	0.588	0.696

Table 3.3b – SPT values for imports from wider region

Afghanistan is over-represented in the exports of the Central Asian republics throughout the two decades. Tajikistan and to some extent Kazakhstan appear to have re-directed some exports to Afghanistan following the USSR breakup, thereby going from positions of a low degree of over-trading in Kazakhstan's case, and having some unexploited export potential in the Tajik case, to over-exporting to Afghanistan, confirming the regional trend. Here, data on bilateral trade of Uzbekistan with Afghanistan is missing but is suggested to be significant (Laruelle and Peyrouse, 2013: 123), and thus most likely conforming to the regional trend.

The figures show how already in the early 1990s, Central Asian trade with Turkey was above what one would expect given bilateral characteristics, and that the trend is largely unchanged. As regards Iran, the CARs appear to have realised a previously unexploited export potential, to now over-trade throughout the 2000s in all cases. Similarly, the general trend is to over-export to Mongolia, though there is some variability in the data. Pakistan is the one partner in the wider region, where the Central Asian states throughout the 1990s and for much of the 2000s have unexploited export potential. In the 2000s, though, the pattern begins to diverge with Turkmenistan reaching a more balanced relationship, and Tajikistan now appearing to over-trade with Pakistan.

The described patterns for Central Asian exports to trade partners in their wider neighbourhood are largely confirmed in the opposite direction of the bilateral relationships. The former Soviet republics are over-exporting to Central Asia, as are Turkey and, in most cases, Iran. The exception is Pakistan, which also appears to have untapped export potential to all Central Asian republics.

Overall, the findings suggest a need to address the characteristics of bilateral economic relationships with neighbouring countries in order to promote Central Asian exports. These results add weight to the discussion in previous chapters of the need to address conditions for transit in neighbouring economies to improve trade potential with the ROW. In the wider neighbourhood, only Pakistan represents untapped trade potential, which would be expected to fulfil in the long-term without policy interventions.

3.3.2 Central Asian trade with East Asia and India

China, the immediate neighbour of Kazakhstan, Kyrgyzstan and Tajikistan and steam engine of the global economy is, generally over-represented in Central Asian exports, as table 3.4 below indicates. Whilst the level of apparent over-exporting to China is less than highlighted above for other neighbouring economies, including Russia, Afghanistan and Iran, the conclusion is similarly of a need for policy interventions to increase exports. Export patterns to Japan and Korea, two other significant Asian economies vary between the five Central Asian republics. For Kyrgyzstan and Turkmenistan the two Asian economies offer untapped export potential, while Uzbekistan in recent years has reduced the level of over-exporting to Japan and Korea towards the expected level of exports. Kazakhstan throughout the 2000s, in the case of Korea, and since 2007-8 in the case of Japan, have had reasonably balanced levels of exports to the two economies. The Kazakh export level to Japan does however appear to be moving beyond the expected levels, suggesting need for policy intervention to push outward the export potential. Tajikistan shows a fluctuating, though overall, fairly balanced level of exports to Japan and Korea.

India presents unexploited trade potential for all Central Asian republics. This is clearest in the case of Kazakhstan, which throughout the period has under-exported to India. Tajikistan appeared to reach its potential for exports to India in the late 2000s but shows a remarkable drop in the SPT index in 2011. Kyrgyzstan, Turkmenistan and Uzbekistan all exhibit fluctuating levels of exports to India but certainly since the mid-2000s have unexploited potential. Exports to ASEAN member states generally offers untapped export potential to be realised over the long term with no policy interventions needed. The picture is very similar for the five Central Asian republics, though Uzbekistan has a more balanced level of exports to ASEAN members. Uzbek exports to Indonesia, Thailand and Malaysia appear to be around the expected level. Brunei Darussalam, Cambodia, Singapore and the Philippines are yet unexplored markets and offer potential for Uzbek exports. Kyrgyzstan appears to have realised a hitherto unexploited export potential for Indonesia, whilst having seemingly volatile export relations to Laos and Thailand. Generally for Kyrgyzstan, there does appear to be unexploited export potential with ASEAN members including Malaysia, Singapore and Vietnam. Tajikistan has realised hitherto unexploited trade potential with Indonesia in recent years but has untapped potential for exports to other ASEAN members. Latterly, also Kazakhstan and Turkmenistan largely has unexploited export potential with all ASEAN member states.

The picture is strikingly clear and similar for Asian exports to Central Asia with, for instance, all ASEAN member states enjoying unexploited export potentials to Central Asia. Malaysia, only, appears to be reaching or has surpassed its export potential to all Central Asian economies save Kyrgyzstan. Indonesia also appears to be edging towards realising its export potential to several of the Central Asian economies, though Kazakhstan still offers great potential. In Kazakhstan, also Lao, Cambodia and Myanmar have largely satisfied their potential, but for all three there is untapped potential in the rest of Central Asia. Thailand and Vietnam are largely absent from the Central Asian markets. Chinese exports to Kyrgyzstan and increasingly Tajikistan exceed expected levels; however, exports to Kazakhstan, Uzbekistan and Turkmenistan are largely balanced. This will in part reflect that Kyrgyzstan and increasingly Tajikistan act as entry points for Chinese goods, which are then re-exported to the rest of the region and beyond. As much as 75 per cent of Chinese exports to Kyrgyzstan are estimated to be re-exported (Birkman et al., 2012: 11). Japan has unexploited trade potential to both Kazakhstan and Tajikistan but more balanced trade with other CARs. Korea exports largely as expected to Central Asia, though over-exporting significantly to Uzbekistan.

In summary, Asia presents all Central Asian economies with an untapped trade potential to be realised over the long term without need for policy intervention. This is the case for trade with India and ASEAN member states, and in the case of Kyrgyzstan and Turkmenistan also Japan and Korea. For other CARs, however, the trade potential with Japan and Korea appears realised or surpassed, as is also the case with China for all Central Asian republics. In Asia, it is thus particularly for trade with China that the CARs may have a shared interest in trade facilitation measures.

Exports to Asia

Kazakhstan	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Brunei Darrussalam									-1.000	-1.000	-1.000	-1.000	-0.819	-0.885	-1.000	-0.970	-1.000	-0.734	0.121	-0.348
Cambodia		-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-0.947	-1.000	-1.000	-1.000	-0.953	-1.000	-0.999	-0.833	-0.912	-1.000	-1.000	-1.000
China	0.604	0.551	0.364	0.444	0.528	0.402	0.488	0.389	0.392	0.405	0.349	0.328	0.337	0.243	0.421	0.544	0.382	0.511	0.540	0.580
India		-0.942	-0.636	-0.761	-0.758	-0.301	-0.574	-0.629	-0.571	-0.687	-0.854	-0.879	-0.833	-0.835	-0.701	-0.767	-0.742	-0.611	-0.690	-0.828
Indonesia		-1.000	-1.000	-0.957	-0.723	-0.261	-0.319	-0.256	-0.732	-0.562	-0.547	0.353	-0.416	-0.271	-0.903	-0.758	-0.528	-0.240	-0.565	-0.622
Japan	-0.707	-0.499	-0.626	-0.570	-0.305	-0.281	-0.375	-0.653	-0.703	-0.625	-0.719	-0.677	-0.458	-0.344	-0.257	-0.125	-0.006	-0.078	0.118	0.180
Korea	-0.355	0.214	0.162	0.130	0.247	0.062	-0.252	-0.376	-0.441	-0.304	-0.422	-0.194	0.019	0.009	0.047	-0.098	-0.157	-0.172	-0.069	-0.089
Lao									-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000
Malaysia	-1.000	0.134	-1.000	-0.360	-0.250	-0.083	-0.848	-0.515	-0.454	-0.806	-0.431	-0.721	-0.549	-0.609	-1.000	-0.972	-0.980	-0.982	-0.973	-0.941
Myanmar									-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000
Philippines		-1.000	-0.774	-0.864	0.115	-0.602	-0.163	-0.466	-0.916	-0.706	-0.730	-0.419	0.271	0.073	-0.008	-0.722	-0.867	-1.000	-1.000	-0.971
Singapore		-1.000	-0.998	-0.921	-0.490	-0.641	-0.931	-0.964	-0.439	-0.369	-0.805	-0.994	-0.985	-0.995	-0.976	-0.972	-0.982	-0.953	-0.961	-0.844
Thailand		-1.000	-0.050	0.331	-0.081	0.267	-0.376	0.219	-0.137	-0.775	-0.374	-0.363	-0.136	-0.334	-0.704	-0.585	-0.645	-0.774	-0.614	-0.791
Vietnam		-1.000	0.379	-0.149	-0.929	-0.014	-0.166	0.426	0.059	-0.014	0.227	0.269	0.388	0.173	-0.291	0.121	-0.156	0.178	-0.251	-0.628

Kyrgyzstan	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Brunei Darrussalam	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000
Cambodia									-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000
China	0.327	0.711	0.741	0.809	0.643	0.602	0.584	0.338	0.732	0.588	0.607	0.411	0.482	0.486	0.517	0.519	0.354	0.241	0.381	0.319
India	-0.826	0.222	-0.827	-0.995	-0.494	-0.853	-0.626	-0.210	0.000	-0.209	0.164	-0.676	-0.700	0.210	-0.485	-0.814	-0.888	-0.862	-0.772	-0.888
Indonesia	-1.000	-1.000	-1.000	-1.000	-1.000	-0.503	-0.597	-0.905	-0.021	-0.438	-0.723	0.261	0.310	0.608	0.362	-0.081	-0.327	0.449	0.716	0.225
Japan	-0.752	-1.000	-1.000	-0.914	-0.839	-0.849	-0.869	-0.928	-0.751	-0.846	-0.209	-0.081	-0.948	-0.899	-0.841	-0.779	-0.645	-0.919	-0.922	-0.545
Korea	-0.770	-0.887	-0.907	-0.717	-0.647	-0.997	-0.881	-0.948	-0.788	-0.572	-0.615	-0.812	-0.438	-0.292	-0.377	-0.344	-0.500	-0.457	-0.093	-0.368
Lao									-1.000	-1.000	-1.000	0.375	-1.000	-1.000	-1.000	-1.000	0.906	0.946	0.960	0.932
Malaysia	-1.000	-1.000	-0.883	-0.440	-0.699	-0.735	-0.233	-0.451	-0.417	-0.742	0.668	0.210	-0.592	-0.389	-0.816	-0.678	-0.746	-0.687	-0.454	-0.765
Myanmar																				
Philippines				-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-0.808	-0.671	-1.000	-1.000	-1.000	-1.000	-0.856	0.575
Singapore	-1.000	-1.000	-0.977	-1.000	-0.939	-1.000	-1.000	-1.000	-1.000	-1.000	-0.684	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-0.908
Thailand	-0.386	-1.000	-1.000	-0.171	-0.703	0.559	0.658	0.222	-0.878	-0.901	-0.927	-0.701	-0.886	-0.801	-0.857	-0.954	0.537	-0.176	-0.977	0.518
Vietnam				-1.000	-0.797	-1.000	-1.000	-1.000	-0.931	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-0.798	-0.868	-1.000	-1.000	-1.000

Table 3.4a – SPT values for exports to Asia

Exports to Asia

Tajikistan	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Brunei Darrussalam																				
Cambodia	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000
China	-0.421	-0.609	-0.834	-0.460	-0.352	0.079	0.077	-0.360	-0.379	-0.594	-0.622	-0.345	-0.562	-0.594	-0.453	-0.643	0.415	0.850	0.739	0.029
India		-0.849	-0.836	-0.743	-0.741	-0.960	-0.589	-0.631	-0.846	-0.677	-0.927	-0.594	-0.562	-0.555	-0.611	-0.610	-0.135	-0.058	-0.131	-0.570
Indonesia		-1.000	-1.000	-1.000	-1.000	-0.999	-1.000	-0.521	-1.000	-1.000	-1.000	-0.613	-0.849	-0.695	-0.997	-0.416	-0.237	-0.262	0.532	0.156
Japan	0.387	-0.166	-0.498	-0.349	-0.855	-0.921	-0.993	-0.982	-0.961	-0.989	-0.855	-0.531	-0.555	-0.701	-0.893	-0.971	-0.998	-0.493	0.384	0.135
Korea		-0.660	-0.720	-0.369	0.309	-0.406	-0.316	0.291	0.344	0.287	0.036	-0.036	-0.265	-0.428	-0.149	0.438	-0.296	0.736	0.851	0.837
Lao					0.993	0.995	0.970	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000
Malaysia	-1.000	-1.000	-0.998	-0.997	0.179	-0.968	-0.996	-0.981	-0.910	-0.957	-0.983	-0.938	-0.289	-0.999	-0.998	-0.988	-0.994	-0.064	0.407	-1.000
Myanmar	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000
Philippines							-1.000	-0.864	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-0.757	-0.986
Singapore		-1.000	-0.958	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-0.935	-1.000	-0.972	-1.000	-1.000	-1.000
Thailand		-1.000	-1.000	-0.570	-0.013	-0.703	-0.810	-0.489	-0.780	-0.450	-0.808	-0.852	-0.680	-0.957	-0.955	-0.781	-0.512	-0.532	-0.200	-0.958
Vietnam		-1.000	0.514	-0.452	0.200	0.708	0.641	0.852	0.765	0.559	0.564	0.379	0.351	0.411	0.364	0.095	0.082	-0.002	-0.188	-1.000

Turkmenistan	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Brunei Darrussalam																				
Cambodia																				
China	-0.667	-0.802	-0.219	-0.360	-0.564	-0.274	-0.005	-0.252	-0.477	-0.613	-0.519	-0.514	-0.130	-0.015	-0.278	0.519	-0.222	-0.041	0.916	0.976
India		-0.668	0.148	-0.382	-0.903	-0.740	-0.827	-0.691	-0.832	-0.354	0.074	0.163	0.421	0.353	-0.073	0.064	-0.376	-0.445	-0.247	-0.284
Indonesia		-1.000	-1.000	-0.886	-1.000	-0.062	-0.428	-0.378	-0.134	-0.901	-0.940	-0.996	-0.943	-0.986	-0.129	-0.805	-1.000	-0.899	-0.243	-0.635
Japan	-0.536	-0.573	-0.772	-0.812	-0.860	-0.761	-0.995	-0.974	-0.971	-0.976	-0.891	-0.776	-0.966	-0.999	-0.988	-0.982	-0.797	-0.979	-0.967	-0.906
Korea		-1.000	-0.802	-0.631	-0.892	-0.849	-1.000	-0.928	-0.989	-0.691	-0.620	-0.760	-0.939	-0.531	-0.607	-0.721	-0.966	-0.820	-0.892	-0.895
Lao																				
Malaysia	-1.000	-0.972	-0.859	-0.954	-0.975	-0.625	-0.993	-0.860	-0.400	-0.990	-0.969	0.208	-0.375	-0.366	-0.279	-0.158	-0.742	-0.984	-0.875	-0.924
Myanmar																				
Philippines									-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000
Singapore		-1.000	-0.965	-0.734	-1.000	0.490	-0.447	-0.033	-0.602	-0.083	-0.982	0.358	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-0.499
Thailand		-1.000	-1.000	-1.000	-1.000	-0.930	-0.001	-0.125	-0.741	-0.852	-0.786	-0.999	-1.000	-1.000	-0.678	-0.998	-0.903	-0.865	-0.292	-0.345
Vietnam					0.537	0.561	0.509	0.743	-0.271	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000

Table 3.4b – SPT values for exports to Asia

Exports to Asia

Uzbekistan	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Brunei Darrussalam																				
Cambodia	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000
China	0.328	-0.230	0.444	0.108	0.615	0.631	0.004	-0.465	-0.636	-0.726	-0.195	0.469	0.625	0.680	0.625	0.450	0.294	0.549	0.726	0.616
India		-0.775	-0.540	-0.464	-0.695	-0.765	-0.857	-0.425	-0.370	0.063	0.137	0.100	0.139	0.030	-0.352	-0.574	-0.235	-0.308	-0.604	-0.245
Indonesia			-1.000	-1.000	-1.000	0.483	0.185	0.744	0.403	-0.071	0.055	-0.017	-0.186	0.542	0.396	0.690	0.234	-0.776	0.055	-0.467
Japan	-0.494	-0.093	-0.550	-0.078	-0.199	-0.360	-0.254	-0.300	0.033	-0.083	0.248	0.213	0.222	0.487	0.447	0.425	0.624	0.560	0.557	0.058
Korea		0.201	0.600	0.482	0.666	0.847	0.732	0.807	0.588	0.735	0.702	0.579	0.506	0.229	0.112	0.483	0.739	0.459	-0.217	0.184
Lao	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000
Malaysia	-1.000	-0.661	-0.969	-0.655	-0.568	-0.724	-0.829	-0.251	-0.921	-0.931	-0.847	-0.142	-0.882	-0.982	-0.978	-0.232	-0.380	-0.377	0.471	0.443
Myanmar	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000
Philippines			-1.000	-1.000	-0.898	-0.998	-0.540	-0.287	0.279	-0.323	-0.469	-0.620	-1.000	-0.927	-1.000	-1.000	-0.596	-1.000	-1.000	-1.000
Singapore		-1.000	-0.880	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-0.923
Thailand		-1.000	-1.000	-0.739	-0.275	0.255	0.885	0.225	0.053	-0.158	-0.064	-0.934	-0.656	-0.372	-0.229	-0.161	0.434	-0.647	-0.084	0.700
Vietnam		0.504	-0.892	-1.000	0.139	0.656	0.636	0.790	0.690	0.791	0.803	0.115	0.555	0.637	0.293	0.319	0.038	-1.000	-1.000	-1.000

Table 3.4c – SPT values for exports to Asia

Imports from Asia

Kazakhstan	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Brunei Darrussalam	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-0.970	-1.000	-0.873	-1.000	-0.756	-0.926	-1.000
Cambodia	-1.000	-1.000	-1.000	-1.000	-0.662	-1.000	-1.000	-1.000	-0.998	-0.989	-0.889	-0.967	-0.935	-0.725	-0.685	-0.480	-0.185	-0.239	-0.169	0.057
China	0.648	-0.118	-0.412	-0.593	-0.516	-0.607	-0.409	-0.065	0.004	-0.478	-0.285	0.017	-0.033	0.070	-0.129	-0.170	-0.063	-0.044	-0.046	-0.186
India	-1.000	-0.940	-0.359	-0.583	-0.601	-0.542	-0.211	-0.304	-0.113	-0.367	-0.386	-0.259	-0.363	-0.435	-0.547	-0.691	-0.621	-0.590	-0.570	-0.606
Indonesia	-1.000	-1.000	-0.899	-0.993	-0.893	-0.967	-0.887	-0.896	-0.830	-0.863	-0.747	-0.647	-0.666	-0.568	-0.732	-0.699	-0.675	-0.558	-0.708	-0.785
Japan	-0.506	-0.681	-0.782	-0.904	-0.792	-0.795	-0.611	-0.487	-0.436	-0.530	-0.454	-0.365	-0.230	-0.157	-0.179	-0.253	-0.338	-0.281	-0.324	-0.319
Korea	-0.813	-0.309	-0.365	-0.357	-0.042	-0.058	-0.102	-0.422	-0.137	-0.256	-0.207	-0.052	-0.010	-0.144	-0.251	-0.213	-0.395	-0.290	-0.112	-0.151
Lao	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-0.922	-0.842	-0.753	-0.829	-0.577	-0.204	-0.617	-0.135
Malaysia	-1.000	-0.979	-0.922	-0.934	-0.732	-0.800	-0.619	-0.626	-0.739	-0.673	-0.657	-0.036	-0.508	-0.211	-0.378	-0.574	-0.521	-0.393	-0.155	-0.362
Myanmar	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-0.995	-0.688	-0.770	-0.845	-0.938	-0.881	-0.341	0.119
Philippines	-1.000	-1.000	-1.000	-1.000	-1.000	-0.847	-0.777	-0.997	-0.778	-0.842	-0.911	-0.865	-0.726	-0.790	-0.762	-0.705	-0.646	-0.486	-0.478	-0.450
Singapore	-1.000	-1.000	-0.252	-0.359	-0.635	-0.760	-0.753	-0.863	-0.793	-0.745	-0.652	-0.482	-0.486	-0.396	-0.375	-0.588	-0.562	-0.393	-0.385	-0.452
Thailand	-1.000	-1.000	-0.936	-0.880	-0.779	-0.961	-0.963	-0.908	-0.889	-0.923	-0.861	-0.682	-0.720	-0.700	-0.589	-0.655	-0.660	-0.555	-0.667	-0.642
Vietnam	-1.000	-1.000	-1.000	-1.000	-0.984	-0.992	-0.951	-0.989	-0.998	-0.991	-0.989	-0.879	-0.832	-0.779	-0.847	-0.796	-0.704	-0.679	-0.693	-0.639

Kyrgyzstan	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Brunei Darrussalam	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	0.687	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000
Cambodia	-1.000	-1.000	-1.000	-1.000	-1.000	0.896	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	0.789	-0.857	-0.869	-0.898	-0.876
China	0.022	0.069	0.127	0.555	0.048	0.035	0.166	0.156	0.149	0.253	0.281	0.427	0.503	0.469	0.580	0.730	0.800	0.862	0.762	0.735
India	-1.000	-0.777	-0.707	-0.990	-0.664	-0.190	-0.144	-0.068	0.035	0.058	-0.015	0.364	0.374	-0.050	-0.217	-0.190	-0.460	-0.204	-0.363	-0.474
Indonesia	-1.000	-1.000	-1.000	-1.000	-1.000	-0.996	-0.750	-0.489	-0.950	-0.545	-0.684	-0.616	-0.799	-0.902	-0.786	-0.663	-0.701	-0.604	-0.696	-0.628
Japan	-0.983	-0.994	-0.789	-0.702	-0.623	-0.893	-0.923	-0.634	-0.638	-0.695	-0.728	-0.434	-0.577	-0.720	-0.678	-0.366	-0.008	-0.278	-0.242	0.078
Korea	-0.888	-0.977	-0.566	-0.770	-0.613	-0.509	-0.083	0.111	-0.151	0.170	0.149	0.293	0.368	0.253	0.116	0.377	0.342	0.436	0.312	0.353
Lao	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-0.905	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000
Malaysia	-1.000	-1.000	-0.963	-1.000	-0.918	-0.953	-0.962	-0.926	-0.184	-0.666	-0.683	-0.820	-0.702	-0.629	-0.735	-0.470	-0.555	-0.609	-0.576	-0.610
Myanmar	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000
Philippines	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-0.959	-0.945	-0.966	-0.869	-0.930	-0.753	-0.087	-0.739	-0.963	-0.967	-0.923
Singapore	-1.000	-0.868	-0.630	-1.000	-0.658	-0.658	-0.950	-0.840	-0.867	-0.948	-0.896	-0.875	-0.932	-0.945	-0.950	-0.866	-0.872	-1.000	-1.000	-0.502
Thailand	-0.670	-1.000	-1.000	-0.196	-0.362	-0.368	-0.823	-0.643	-0.814	-0.753	-0.845	-0.816	-0.882	-0.672	-0.913	-0.880	-0.873	-0.846	-0.712	-0.956
Vietnam	-1.000	-1.000	-1.000	-1.000	-0.894	-0.961	-0.926	-1.000	-0.936	-1.000	-0.962	-0.966	-0.877	-0.958	-0.978	-0.862	-0.843	-1.000	-1.000	-1.000

Table 3.5a – SPT values for imports from Asia

Imports from Asia

Tajikistan	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Brunei Darrussalam	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000
Cambodia	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000
China	-0.531	-0.492	-0.657	-0.458	-0.679	-0.437	-0.491	-0.773	-0.434	-0.714	-0.676	-0.457	-0.209	-0.086	-0.043	0.168	0.325	0.388	0.343	0.733
India	-1.000	-0.896	-0.866	-0.443	-0.956	-0.678	-0.753	-0.580	-0.556	0.377	0.388	-0.482	-0.545	-0.732	-0.640	-0.616	-0.301	-0.368	-0.372	-0.387
Indonesia	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-0.891	-0.932	-0.982	-0.921	-0.899	-0.629	-0.972	-0.953	-0.944	-0.877	-0.885	-0.899	-0.918	-0.363
Japan	-0.889	-0.982	-1.000	-0.984	-0.914	-0.877	-0.684	-0.788	-0.894	-0.913	-0.893	-0.956	-0.945	-0.819	-0.956	-0.878	-0.946	-0.602	-0.916	-0.943
Korea	-1.000	-0.987	-0.899	-0.203	-0.362	-0.134	-0.612	-0.594	-0.507	-0.485	-0.319	-0.561	-0.557	-0.366	-0.405	-0.194	-0.157	-0.123	-0.157	0.126
Lao	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000
Malaysia	-1.000	-0.987	-0.981	-0.999	-0.964	-0.934	-0.673	-0.847	-0.963	-0.939	-0.920	-0.946	-0.778	-0.858	-0.834	-0.686	-0.895	-0.759	-0.772	-0.462
Myanmar	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000
Philippines	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-0.994	-1.000	-1.000	-1.000	-1.000	-1.000	-0.766	-0.900	-0.896	-0.721	-0.930	-0.935	-0.783	-0.489
Singapore	-1.000	-0.996	-0.958	-1.000	-0.995	-0.976	-0.933	-0.942	-0.935	-0.948	-0.893	-0.959	-0.792	-1.000	-0.954	-0.889	-0.873	-0.959	-0.898	-0.834
Thailand	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-0.989	-0.970	-0.962	-0.997	-0.891	-0.980	-0.981	-0.985	-0.986	-0.952	-0.943	-0.925	-0.914	-0.789
Vietnam	0.696	-1.000	0.481	0.266	-1.000	-0.897	-0.127	-0.506	-0.481	-0.635	-0.762	-1.000	-1.000	-1.000	-1.000	-0.956	-0.923	-0.911	-0.831	-1.000

Turkmenistan	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Brunei Darrussalam	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000
Cambodia	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000
China	-0.251	-0.665	-0.642	-0.489	-0.372	-0.438	-0.561	-0.441	-0.540	-0.055	0.261	-0.106	-0.221	-0.157	-0.080	0.193	0.401	0.280	-0.032	0.110
India	-1.000	-0.577	-0.933	-0.653	-0.404	-0.425	-0.578	-0.133	-0.384	-0.438	-0.131	-0.192	-0.291	-0.184	-0.070	-0.001	-0.186	-0.436	-0.528	-0.484
Indonesia	-1.000	-1.000	-1.000	-1.000	-0.993	-0.866	-0.794	-0.613	-0.687	-0.839	-0.831	-0.664	-0.799	-0.733	-0.970	-0.833	-0.707	-0.959	-0.886	-0.798
Japan	-0.542	-0.710	-0.762	-0.747	-0.685	-0.764	-0.699	0.007	0.318	0.356	-0.730	-0.650	-0.165	-0.574	-0.126	0.179	-0.111	-0.600	-0.628	0.447
Korea	-1.000	-0.655	-0.817	-0.972	-0.903	-0.788	-0.659	-0.052	-0.511	-0.463	-0.306	-0.300	-0.484	-0.675	-0.754	-0.709	-0.479	-0.139	0.087	0.434
Lao	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000
Malaysia	-1.000	-0.961	-0.831	-0.835	-0.994	-0.992	-0.117	-0.552	-0.916	-0.911	-0.878	-0.915	-0.872	-0.718	-0.575	-0.239	0.552	0.825	0.182	0.060
Myanmar	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000
Philippines	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-0.924	-1.000	-0.965	-0.979	-1.000	-0.999	-1.000
Singapore	-1.000	-1.000	-0.884	-0.998	-1.000	-0.934	-0.453	-0.974	-0.924	-0.712	-0.629	-0.779	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	0.021
Thailand	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-0.880	-0.419	-0.937	-0.913	-0.917	-0.835	-0.631	-0.750	-0.801	-0.819	-0.832	-0.853	-0.719
Vietnam	-1.000	-1.000	-1.000	-1.000	-0.460	-1.000	-0.994	-0.878	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000

Table 3.5b – SPT values for imports from Asia

Imports from Asia

Uzbekistan	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Brunei Darrussalam	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000
Cambodia	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-0.463	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000
China	0.332	-0.015	-0.107	-0.245	-0.603	-0.361	-0.365	-0.615	-0.386	-0.365	-0.074	-0.097	-0.281	-0.198	-0.033	-0.085	0.005	0.234	0.025	0.057
India	-1.000	-0.821	-0.673	-0.676	-0.785	-0.547	-0.510	-0.583	-0.482	-0.635	-0.724	-0.541	-0.574	-0.517	-0.482	-0.625	-0.666	-0.552	-0.548	-0.446
Indonesia	-1.000	-1.000	-1.000	-1.000	-1.000	-0.966	-0.966	-0.862	-0.895	-0.905	-0.856	-0.801	-0.913	-0.819	-0.847	-0.874	-0.802	-0.799	-0.803	-0.413
Japan	-0.632	-0.673	-0.545	-0.283	-0.539	-0.567	-0.441	-0.288	-0.562	-0.672	-0.661	-0.388	-0.489	-0.590	-0.790	-0.601	-0.604	-0.366	-0.434	0.126
Korea	-0.617	0.468	0.695	0.610	0.591	0.762	0.659	0.649	0.691	0.766	0.631	0.651	0.602	0.699	0.751	0.628	0.670	0.761	0.782	0.815
Lao	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000
Malaysia	-1.000	-0.402	-0.343	-0.397	-0.525	-0.099	-0.764	-0.779	-0.631	-0.629	-0.658	-0.667	-0.565	-0.303	-0.187	0.045	-0.002	0.089	0.183	0.307
Myanmar	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000
Philippines	-1.000	-1.000	-1.000	-1.000	-1.000	-0.839	-0.848	-0.882	-0.602	-0.844	-0.396	0.068	-0.738	-0.809	-0.573	-0.582	-0.715	-0.998	-0.980	-0.892
Singapore	-1.000	-1.000	-0.656	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-0.868
Thailand	-1.000	-1.000	-1.000	-0.166	-0.262	-0.668	-0.724	-0.839	-0.830	-0.706	-0.770	-0.905	-0.869	-0.877	-0.929	-0.950	-0.812	-0.760	-0.798	-0.786
Vietnam	-1.000	-0.809	-1.000	-1.000	-1.000	-0.669	-0.788	-0.819	-0.405	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000

Table 3.5c – SPT values for imports from Asia

3.3.3 Central Asian trade with the European Union

Kazakhstan exhibits a markedly different pattern to its southern neighbours when it comes to trade with the EU. For Kazakhstan only four EU member states offer unexploited export potential in recent years, namely Belgium, Ireland, Luxembourg and Malta. Kazakhstan overall exports more to the EU than what is expected given the characteristics of the economic relationship between Kazakhstan and EU member states. For other Central Asian republics the pattern is more mixed with a number of EU member states offering unexploited trade potential. Particularly Cyprus, Denmark, Ireland, Luxembourg, Netherlands and Sweden represent untapped potential in recent years. What appears to be the pattern for Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan is that the unexploited potential is largely for exports to mid-sized EU member states in Western Europe. Whilst the larger Western European economies, such as Germany, France and the UK, as well as the Central European economies tend to be markets already well-served by Central Asian exports.

European exports to Kazakhstan offer an almost perfect mirror of the pattern of Kazakh exports to Europe – higher-than-expected to balanced level of exports from all EU member states. For Kazakhstan it is clear that policy intervention aimed at trade promotion are needed to increase trade with the EU; a fact reflected in the new, enhanced partnership agreement Kazakhstan has negotiated with the EU (Satubaldina, 2014). However, few EU member states have noteworthy untapped export potential to the rest of Central Asia, suggesting that trade facilitating measures may be warranted in the case of all Central Asian republics.

Kazakh exports to EU member states

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	0.080	-0.314	0.175	0.352	0.171	0.388	0.710	0.787	0.901	0.827	0.859	0.801	0.915	0.893	0.929	0.932	0.924	0.979	0.984	0.988
Belgium		0.279	-0.280	0.313	-0.656	-0.013	-0.368	-0.302	-0.354	-0.545	-0.584	-0.488	-0.498	-0.658	-0.411	0.080	-0.131	-0.487	-0.381	-0.115
Bulgaria		-1.000	0.844	0.577	0.627	0.198	0.674	0.735	0.541	0.424	0.809	0.914	0.938	0.902	0.349	0.845	0.875	0.953	0.921	0.965
Croatia		-1.000	0.213	-0.542	0.699	-0.051	-0.356	-0.658	0.747	-0.265	0.141	0.681	0.907	0.571	-0.947	0.858	-0.415	0.920	0.598	0.804
Cyprus		-1.000	0.031	0.764	0.363	0.780	0.642	-0.149	-0.105	-0.847	-0.042	0.874	0.958	0.971	0.747	0.157	-0.107	-0.286	0.551	0.942
Czech Republic		0.214	0.927	0.806	0.686	0.689	0.709	0.573	0.834	0.794	0.404	0.558	0.744	0.652	0.875	0.798	0.886	0.902	0.931	0.937
Denmark	-0.989	-0.637	-0.736	-0.595	-0.899	-0.791	-0.824	-0.709	-0.993	-0.903	-0.819	-0.542	0.565	0.286	0.692	0.382	0.036	0.477	0.147	0.156
Estonia	-1.000	0.844	0.683	0.845	0.775	0.782	0.924	0.904	0.537	0.385	0.270	0.301	0.708	0.847	0.766	0.661	0.505	0.537	0.686	0.568
Finland	0.665	0.800	0.596	0.804	0.912	0.931	0.793	0.724	0.815	0.856	0.817	0.868	0.895	0.846	0.919	0.937	0.925	0.965	0.923	0.955
France	-0.655	0.097	-0.086	-0.236	-0.198	-0.085	-0.206	-0.043	0.339	0.169	0.282	0.439	0.823	0.846	0.889	0.896	0.860	0.927	0.934	0.942
Germany	-0.209	0.078	-0.173	0.004	-0.123	0.235	0.234	0.293	0.480	0.563	0.396	0.450	0.654	0.626	0.747	0.737	0.661	0.745	0.809	0.795
Greece		-0.759	-0.256	-0.483	0.116	0.646	0.508	0.570	0.632	0.697	0.780	0.371	0.523	0.808	0.913	0.918	0.909	0.943	0.965	0.946
Hungary		-1.000	0.940	0.670	0.718	0.412	-0.056	0.243	0.000	0.435	0.526	0.536	0.849	0.843	0.846	0.884	0.820	0.861	0.941	0.920
Ireland			0.002	0.896	0.560	0.076	-0.425	0.670	-0.371	-0.437	0.003	-0.055	-0.660	0.883	-0.922	-0.426	-0.986	-0.868	-0.925	-0.371
Italy	-0.324	0.276	0.103	0.407	0.382	0.458	0.601	0.606	0.693	0.709	0.634	0.624	0.840	0.859	0.920	0.916	0.906	0.933	0.932	0.944
Latvia	0.955	0.923	0.868	0.938	0.836	0.846	0.754	0.700	0.864	0.795	0.802	0.828	0.843	0.845	0.896	0.886	0.867	0.857	0.911	0.895
Lithuania			0.925	0.973	0.963	0.805	0.394	0.817	0.565	0.249	0.734	-0.353	0.369	0.703	0.648	0.701	0.798	0.848	0.731	0.767
Luxembourg								-0.913	0.315	-0.595	-0.348	-0.986	-0.974	-0.793	0.201	-0.343	-0.817	-0.361	-0.032	-0.974
Malta	-0.881	-0.951	-1.000	-1.000	0.387	-1.000	-1.000	-1.000	-1.000	-0.317	-0.575	-1.000	-1.000	-0.999	-1.000	-0.998	-1.000	0.985	-0.750	-1.000
Netherlands	-0.769	0.030	0.602	0.718	0.572	0.257	0.375	0.126	0.167	0.158	-0.050	0.276	0.518	0.502	0.697	0.759	0.758	0.777	0.852	0.897
Poland		0.889	0.902	0.818	0.596	0.477	0.553	0.711	0.724	0.844	0.853	0.800	0.889	0.919	0.856	0.878	0.845	0.944	0.950	0.937
Portugal	-0.496	-0.353	-0.428	-0.526	-0.455	-0.520	-0.404	-0.433	-0.391	-0.331	-0.361	0.601	0.921	0.893	0.914	0.924	0.909	0.910	0.967	0.972
Romania		0.767	0.845	0.392	0.869	0.190	0.483	0.908	0.959	0.917	0.955	0.914	0.948	0.977	0.983	0.976	0.984	0.989	0.988	0.988
Slovakia		0.965	0.958	0.937	0.826	0.805	0.759	0.680	0.918	0.893	0.828	0.970	0.979	0.875	0.872	0.889	0.982	0.994	0.988	0.929
Slovenia		-0.317	-0.541	-0.796	-0.872	-0.225	-0.907	0.254	0.144	0.540	0.416	0.505	-0.825	0.658	0.731	0.707	0.664	0.641	0.791	0.794
Spain	-0.881	-0.460	-0.448	-0.527	-0.745	-0.551	-0.270	-0.189	-0.178	-0.313	-0.136	0.161	0.640	0.581	0.789	0.721	0.606	0.697	0.756	0.793
Sweden	-0.550	-0.006	0.009	-0.691	-0.077	-0.475	-0.463	-0.094	0.109	0.038	-0.358	-0.146	-0.195	0.315	0.736	0.762	0.741	0.627	0.687	0.575
UK	-1.000	0.502	0.353	0.295	0.348	0.519	0.487	0.064	0.201	0.268	-0.257	-0.159	-0.036	0.061	0.682	0.589	0.519	0.706	0.672	0.730

Table 3.6 – SPT values for Kazakh export to EU member states

Kazakh inports from EU member states

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	-0.065	0.450	0.515	0.649	0.345	0.539	0.552	0.333	0.432	0.371	0.506	0.710	0.698	0.713	0.645	0.571	0.676	0.697	0.684	0.619
Belgium	-1.000	-0.279	-0.329	-0.444	0.071	0.012	0.006	0.049	0.245	0.125	0.022	0.225	0.392	0.325	0.262	0.087	0.108	0.161	0.195	0.132
Bulgaria	-1.000	-1.000	0.807	0.718	0.747	0.735	0.793	0.342	0.592	0.609	0.571	0.677	0.681	0.665	0.604	0.808	0.584	0.643	0.796	0.546
Croatia	-1.000	-1.000	0.671	0.306	0.643	0.738	0.685	0.864	0.693	0.738	0.871	0.906	0.856	0.817	0.720	0.652	0.738	0.760	0.779	0.727
Cyprus	-1.000	-1.000	0.592	0.709	0.605	0.850	0.798	0.733	0.788	0.738	0.636	0.718	0.525	0.643	0.616	0.591	0.298	0.475	0.494	0.447
Czech Republic	-1.000	0.318	0.723	0.703	0.760	0.795	0.876	0.757	0.818	0.729	0.731	0.653	0.754	0.741	0.674	0.611	0.674	0.689	0.702	0.631
Denmark	-0.543	-0.129	-0.595	-0.541	-0.298	-0.100	-0.020	-0.403	-0.099	-0.079	0.106	0.197	0.231	0.106	0.056	-0.018	0.286	0.089	0.223	0.127
Estonia	-1.000	0.906	0.824	0.903	0.881	0.825	0.717	0.518	0.617	0.099	0.353	0.443	0.876	0.721	0.640	0.497	0.653	0.684	0.799	0.553
Finland	0.367	-0.007	0.060	0.349	0.622	0.609	0.658	0.555	0.619	0.551	0.505	0.618	0.670	0.683	0.587	0.586	0.695	0.720	0.637	0.589
France	-0.131	0.038	-0.021	-0.194	-0.169	0.073	0.134	-0.065	0.530	0.201	0.319	0.466	0.646	0.540	0.539	0.389	0.492	0.465	0.357	0.328
Germany	0.290	0.453	0.301	0.159	0.219	0.389	0.416	0.296	0.461	0.364	0.438	0.525	0.535	0.583	0.511	0.478	0.496	0.524	0.494	0.470
Greece	-0.861	-0.190	0.309	0.430	0.731	0.713	0.329	0.347	0.105	0.876	0.593	0.218	0.277	0.228	0.017	0.044	0.088	0.145	0.268	0.099
Hungary	-1.000	-1.000	0.859	0.806	0.883	0.918	0.907	0.851	0.820	0.737	0.752	0.750	0.794	0.774	0.742	0.735	0.833	0.724	0.749	0.760
Ireland	-1.000	-0.624	-0.194	-0.059	0.138	0.289	0.443	-0.032	-0.006	-0.123	0.100	0.059	0.135	0.245	0.175	0.238	0.215	0.326	0.443	0.445
Italy	-0.133	0.118	-0.138	-0.305	-0.230	-0.026	0.616	0.595	0.468	0.412	0.339	0.407	0.509	0.598	0.644	0.424	0.523	0.749	0.705	0.508
Latvia	0.954	0.918	0.866	0.894	0.877	0.908	0.860	0.677	0.721	0.685	0.760	0.775	0.797	0.666	0.689	0.653	0.649	0.668	0.716	0.643
Lithuania	-1.000	-1.000	0.919	0.915	0.936	0.913	0.931	0.816	0.846	0.780	0.812	0.861	0.875	0.855	0.871	0.818	0.776	0.843	0.847	0.818
Luxembourg	-1.000	-1.000	-1.000	-1.000	-1.000	0.758	0.784	-0.001	0.756	0.865	0.800	0.564	0.621	0.637	0.410	0.459	0.414	0.597	0.657	0.592
Malta	-1.000	-1.000	-1.000	-0.666	0.146	-0.725	-0.444	-1.000	0.534	0.453	-0.917	-0.950	-0.863	-0.975	0.889	0.204	0.678	-0.043	0.153	-0.132
Netherlands	0.039	0.306	-0.250	-0.142	0.075	0.220	0.387	0.379	0.384	0.280	0.285	0.388	0.496	0.419	0.315	0.289	0.262	0.376	0.367	0.284
Poland	-1.000	0.741	0.551	0.667	0.776	0.821	0.852	0.839	0.860	0.762	0.781	0.841	0.838	0.834	0.822	0.790	0.784	0.831	0.824	0.764
Portugal	-0.998	-0.771	-0.223	-0.807	-0.407	-0.946	-0.629	-0.766	-0.644	-0.651	-0.738	-0.625	-0.464	-0.308	-0.011	-0.373	-0.334	-0.270	-0.146	-0.208
Romania	0.826	0.674	0.670	0.000	0.326	0.172	0.608	0.543	0.749	0.632	0.798	0.705	0.703	0.786	0.683	0.680	0.663	0.619	0.712	0.696
Slovakia	-1.000	0.916	0.834	0.791	0.874	0.869	0.938	0.854	0.901	0.866	0.856	0.883	0.854	0.800	0.746	0.709	0.705	0.715	0.731	0.743
Slovenia	-1.000	0.286	-0.113	-0.079	0.375	0.734	0.672	0.626	0.860	0.800	0.799	0.887	0.908	0.904	0.892	0.825	0.827	0.888	0.853	0.834
Spain	-1.000	-0.721	-0.446	-0.510	-0.561	-0.285	-0.275	-0.348	-0.257	-0.302	-0.076	0.349	0.205	0.130	-0.007	-0.027	0.055	0.094	-0.012	0.087
Sweden	-0.052	-0.230	-0.419	-0.155	-0.377	-0.359	-0.214	0.003	0.098	0.045	0.103	0.441	0.449	0.540	0.428	0.297	0.293	0.374	0.350	0.461
UK	-1.000	-0.403	-0.003	0.073	0.102	0.308	0.566	0.530	0.583	0.469	0.508	0.523	0.542	0.583	0.486	0.523	0.499	0.627	0.597	0.471

Table 3.7 – SPT values for Kazakh imports from EU member states

Kyrgyz exports to EU member states

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	0.032	0.360	-0.776	-0.995	0.149	0.245	0.128	-0.701	-0.020	0.594	0.524	0.488	0.622	0.118	-0.237	0.086	-0.087	-0.571	-0.777	-0.169
Belgium	-0.820	0.516	-0.529	0.148	0.327	0.328	0.325	-0.414	-0.331	-0.406	0.295	0.397	0.184	0.143	0.285	0.544	0.562	0.022	0.433	0.209
Bulgaria	0.543	-0.065	0.389	0.985	0.619	0.685	0.744	0.387	0.577	0.614	0.399	0.577	0.931	0.887	0.867	0.974	0.915	0.959	0.975	0.965
Croatia			-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-0.321	-0.003	-0.244	-0.905	0.005	-0.218	-0.939	0.321	-0.737	-0.141	0.499	0.501
Cyprus	0.038	0.574	0.920	-1.000	0.899	0.620	0.485	-1.000	-1.000	-1.000	-0.872	-0.257	-0.600	-0.983	-1.000	-0.910	-1.000	-1.000	-1.000	-0.991
Czech Republic		-1.000	-1.000	0.569	0.936	0.957	0.949	0.914	0.903	0.911	0.831	0.790	0.706	0.745	0.757	0.613	0.169	-0.793	0.084	-0.433
Denmark	-0.987	-1.000	-1.000	-1.000	-1.000	-0.395	-0.561	-1.000	-0.996	-1.000	0.357	0.702	-0.843	-0.970	-0.234	-0.993	-0.424	-0.472	-0.447	-0.597
Estonia	-1.000	0.834	0.175	-0.982	-0.261	0.431	0.569	0.509	0.680	0.549	0.555	0.513	0.859	0.825	0.209	0.866	0.946	-0.730	-0.807	0.023
Finland	-0.637	-0.705	-0.098	-0.463	-0.527	-0.648	-0.923	-0.334	0.561	-0.343	-0.444	-0.807	-0.226	-0.449	-0.406	-0.604	-0.786	0.603	0.678	0.755
France	-0.291	-0.580	0.156	0.785	-0.339	-0.621	-0.207	-0.233	-0.217	-0.311	0.007	-0.765	-0.715	-0.639	-0.497	-0.185	0.859	0.832	0.457	-0.413
Germany	-0.464	-0.411	-0.326	0.299	0.168	0.438	0.916	0.791	0.895	0.888	-0.418	-0.392	-0.368	-0.222	-0.200	0.065	0.240	0.183	0.175	0.447
Greece	-1.000	-0.973	-0.851	-0.574	-1.000	-0.998	-1.000	-1.000	-0.989	-1.000	-0.911	-0.943	-0.567	-0.222	-0.392	-0.201	-0.049	0.498	0.132	0.176
Hungary	-1.000	-1.000	0.211	-1.000	0.662	0.644	0.587	0.409	0.249	0.763	0.806	0.162	0.235	-0.314	-0.273	-0.574	-0.948	0.680	0.566	-0.168
Ireland	-1.000	-1.000	-1.000	-0.974	-0.505	-0.743	-1.000	-1.000	-0.413	-1.000	-1.000	-0.817	0.064	-0.206	-0.565	-0.506	0.089	-0.994	-0.976	-1.000
Italy	-0.853	-0.624	-0.346	0.138	-0.286	-0.188	-0.193	-0.708	-0.333	-0.323	-0.571	-0.735	-0.680	-0.537	-0.030	0.077	-0.320	-0.824	-0.555	-0.650
Latvia	0.591	0.624	0.596	0.991	0.509	0.512	0.906	0.769	0.971	0.923	0.964	0.957	0.863	0.916	0.848	0.976	0.979	0.252	0.008	0.196
Lithuania	-1.000	0.894	0.812	0.643	0.437	0.868	0.896	0.786	0.645	0.546	-0.184	-0.267	-0.178	-0.372	0.609	0.825	0.823	0.484	0.839	0.866
Luxembourg								0.539	-0.783	-0.795	-1.000	0.940	0.944	-1.000	-0.594	0.633	0.021	-1.000	-1.000	-0.956
Malta	0.075	-0.966	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-0.818	-1.000	-1.000	-0.708	-1.000	-0.936
Netherlands	-0.169	-0.939	-0.790	-0.704	-0.518	-0.714	-0.562	-0.819	-0.488	-0.400	-0.163	-0.113	-0.580	-0.323	-0.213	-0.236	-0.621	-0.170	-0.522	-0.457
Poland	-0.221	0.338	0.129	0.827	0.314	0.582	0.433	0.405	0.758	0.562	0.413	0.419	0.425	0.612	0.562	0.667	0.427	0.582	0.520	0.352
Portugal	-1.000	-0.995	-0.552	-1.000	-0.664	-0.996	-0.826	-0.820	-1.000	-1.000	0.059	0.419	0.619	0.711	0.732	0.665	-0.890	-0.428	-0.078	-1.000
Romania	-0.207	-0.471	0.021	0.319	0.678	0.795	0.924	0.809	0.846	0.897	0.903	0.923	0.876	0.821	0.602	0.518	0.229	0.541	0.584	0.382
Slovakia		0.898	0.362	0.817	0.920	0.852	0.923	0.815	0.872	0.779	0.882	0.895	0.907	0.781	0.877	0.666	-1.000	-1.000	-0.687	-0.644
Slovenia		-1.000	-1.000	-0.528	-0.829	-0.261	-0.395	-0.301	-0.570	0.527	0.485	0.044	-1.000	0.372	0.128	0.387	-0.651	-0.060	0.642	0.672
Spain	-1.000	-0.828	-1.000	-0.873	-0.706	-0.514	-0.746	-0.882	-0.945	-0.600	0.251	-0.518	0.395	-0.152	-0.739	-0.772	-0.910	-0.085	-0.769	-0.575
Sweden	-0.197	-0.108	-0.742	-1.000	-0.995	-1.000	-0.628	-0.860	-0.737	0.626	0.184	-0.576	-0.439	-0.987	-0.253	-0.502	0.631	-0.820	-0.607	-0.545
UK	0.302	0.565	0.522	0.064	-0.275	-0.206	-0.156	-0.099	0.486	0.416	-0.719	-0.928	-0.609	-0.352	-0.045	0.112	-0.361	-0.875	-0.940	-0.856

Table 3.8 – SPT values for Kyrgyz export to EU member states

Kyrgyz imports from EU member states

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	-1.000	-0.429	-0.338	-0.802	0.511	0.234	0.469	-0.118	-0.141	-0.043	-0.038	0.482	0.145	0.040	-0.149	0.094	0.246	0.443	0.480	0.441
Belgrium	-1.000	-0.095	-0.171	0.080	0.207	0.061	-0.280	0.306	0.266	0.393	-0.154	0.089	-0.020	0.050	0.245	0.231	0.152	0.399	0.409	0.240
Bulgaria	0.720	0.476	0.532	0.657	0.646	0.666	0.731	0.584	0.702	0.387	0.228	0.542	0.626	0.539	0.354	0.520	0.432	0.709	0.578	0.452
Croatia	-1.000	-1.000	0.260	-0.388	-1.000	-1.000	-1.000	-1.000	0.824	-0.386	0.977	-0.134	-0.114	0.132	0.540	0.738	0.240	0.728	0.044	-0.023
Cyprus	-1.000	0.454	0.830	-1.000	0.697	0.671	0.154	-1.000	-1.000	-1.000	0.807	-0.547	-1.000	-0.993	0.102	-0.024	0.511	-0.514	-1.000	-0.744
Czech Republic	-1.000	-0.444	-1.000	0.012	0.226	0.376	0.084	0.270	0.344	0.598	0.471	0.522	0.479	0.226	0.160	0.441	0.275	0.465	0.274	0.389
Denmark	-0.967	-0.190	0.057	-0.229	0.089	-0.257	0.092	0.173	0.209	0.167	-0.537	-0.159	0.098	-0.095	-0.214	-0.075	-0.193	-0.381	-0.436	-0.300
Estonia	-1.000	0.795	0.119	0.710	0.711	0.729	0.576	-0.090	0.127	-0.190	-0.406	0.603	0.505	0.544	0.521	0.738	0.650	0.619	0.762	0.702
Finland	-0.916	-0.928	-0.529	-0.356	0.118	-0.349	-0.358	0.027	-0.222	0.317	0.366	0.339	0.230	0.190	0.499	0.648	0.506	0.552	0.262	0.739
France	-0.839	-0.444	-0.515	-0.472	0.201	-0.108	-0.262	-0.115	-0.269	-0.198	-0.160	-0.293	-0.144	-0.320	0.134	0.097	-0.085	0.092	0.230	0.091
Germany	-0.403	-0.745	-0.025	0.068	0.153	0.066	0.072	0.261	0.110	0.329	0.265	0.371	0.390	0.156	0.060	0.287	0.541	0.201	-0.029	0.169
Greece	-1.000	-1.000	-0.856	0.376	0.431	0.479	0.153	-0.187	0.010	0.226	0.221	0.418	0.099	0.044	-0.241	-0.083	0.285	0.136	-0.116	-0.545
Hungary	0.892	0.906	0.706	0.557	0.724	0.717	0.714	0.727	0.497	0.717	0.494	0.669	0.687	0.501	0.589	0.673	0.635	0.767	0.754	0.706
Ireland	-1.000	-1.000	-0.978	-0.980	-0.945	-0.571	-0.576	-0.846	-0.230	-0.945	-0.820	-0.813	-0.402	-0.662	-0.544	-0.736	-0.702	-0.617	-0.832	-0.762
Italy	-0.545	-0.722	0.159	-0.352	-0.247	-0.278	-0.047	-0.062	-0.412	-0.330	-0.252	-0.032	-0.214	-0.175	-0.292	-0.274	-0.148	-0.259	-0.288	-0.103
Latvia	0.805	0.768	0.765	0.853	0.936	0.755	0.708	0.628	0.664	0.744	0.719	0.780	0.726	0.585	0.725	0.840	0.717	0.719	0.721	0.832
Lithuania	-1.000	0.825	0.922	0.826	0.912	0.838	0.803	0.814	0.812	0.904	0.908	0.894	0.901	0.861	0.859	0.912	0.854	0.893	0.923	0.967
Luxembourg	-1.000	-1.000	-1.000	-1.000	-1.000	-0.202	0.854	0.191	0.621	-0.080	-0.177	0.127	-0.384	-0.492	0.483	-0.035	-0.289	-0.691	-0.449	-0.031
Malta	-1.000	0.993	0.960	-1.000	-1.000	-0.192	-1.000	0.867	0.617	-1.000	0.983	0.964	0.965	0.931	0.798	0.953	0.902	-1.000	0.970	-1.000
Netherlands	-0.186	-0.900	-0.347	-0.158	-0.391	-0.384	-0.310	-0.248	-0.145	0.132	0.671	0.731	0.356	0.250	0.322	0.490	0.386	0.347	0.243	0.349
Poland	-0.422	0.682	0.248	0.217	0.485	0.455	0.431	0.523	0.690	0.779	0.667	0.785	0.831	0.734	0.699	0.811	0.749	0.812	0.758	0.911
Portugal	-0.992	-1.000	-1.000	-1.000	-0.958	-1.000	-0.415	-0.718	0.625	-0.337	-0.404	-0.063	-0.229	-0.847	-0.558	-0.379	-0.418	0.056	-0.920	-0.872
Romania	-0.490	-1.000	-0.393	-0.487	-0.315	-0.108	0.015	-0.802	0.235	-0.372	0.011	-0.026	-0.464	-0.059	-0.425	-0.311	-0.452	0.448	0.629	0.017
Slovakia	-1.000	-0.512	-0.445	0.255	0.441	0.023	0.507	0.127	0.505	0.600	0.659	0.636	0.758	0.528	0.636	0.767	0.543	0.606	0.560	0.575
Slovenia	-1.000	0.915	-1.000	-0.756	0.153	0.421	0.726	0.865	-0.107	0.592	0.817	0.723	0.783	0.805	0.783	0.868	0.813	0.873	0.847	0.879
Spain	-0.027	-1.000	-0.478	-0.951	-0.869	-0.655	-0.679	-0.641	-0.680	-0.318	-0.476	-0.312	-0.237	-0.462	-0.440	-0.344	-0.406	-0.361	-0.130	-0.223
Sweden	-0.991	-0.930	0.139	-0.758	-0.138	0.285	-0.227	0.150	-0.308	-0.485	0.285	-0.241	0.078	-0.203	0.267	0.046	0.346	0.117	-0.438	-0.371
UK	-0.192	-0.026	0.117	-0.253	-0.236	-0.275	-0.736	-0.239	-0.064	0.026	-0.291	-0.252	-0.035	-0.294	-0.431	-0.056	0.112	-0.108	-0.313	0.204

Table 3.9 – SPT values for Kyrgyz import from EU member states

Tajik exports to EU member states

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	-0.079	0.666	0.583	0.603	0.573	0.675	0.414	0.311	0.528	0.402	0.674	0.343	0.604	0.627	0.700	0.748	0.504	-0.191	0.530	-0.671
Belgium		0.497	0.383	0.531	0.259	0.639	0.713	0.547	0.213	0.386	0.438	0.519	0.381	0.213	0.627	-0.158	0.018	-0.313	-0.165	0.138
Bulgaria		0.434	0.250	0.371	0.206	0.776	0.773	0.759	0.963	0.958	0.979	0.981	0.986	0.961	0.967	0.936	0.978	0.961	0.954	0.926
Croatia			0.887	-0.063	-1.000	-1.000	-1.000	-1.000	0.703	0.536	0.111	0.890	0.915	0.742	0.979	0.973	0.966	0.767	0.064	0.362
Cyprus		-0.813	-1.000	0.068	0.207	-0.057	-1.000	-0.352	-1.000	-1.000	0.114	-0.329	-1.000	-1.000	-1.000	-1.000	-1.000	-0.003	-1.000	-1.000
Czech Republic		0.695	-0.095	0.677	0.628	0.670	0.727	0.815	0.868	0.878	0.920	0.881	0.882	0.798	0.655	0.632	0.528	0.987	0.856	0.875
Denmark	-0.648	-0.989	-1.000	-0.999	-0.821	-0.565	-0.671	-0.698	-0.919	-0.786	-0.360	-0.560	-0.860	-0.879	-0.976	-0.975	-0.616	-0.987	-0.932	-0.989
Estonia	-1.000	0.707	0.673	0.896	0.759	0.908	0.940	0.856	0.711	0.788	0.875	0.917	0.872	0.789	0.947	0.926	0.986	0.849	-1.000	-1.000
Finland	0.677	0.883	0.747	0.811	0.763	-0.611	-0.846	-1.000	-1.000	-0.790	-1.000	-1.000	-0.998	-0.999	-0.560	-0.794	-1.000	-0.964	-1.000	-1.000
France	0.008	-0.396	-0.375	-0.271	0.216	0.368	0.424	-0.028	-0.215	0.005	-0.120	-0.045	-0.219	-0.571	0.090	-0.012	0.348	-0.364	-0.027	0.350
Germany	-0.576	-0.478	-0.436	-0.432	-0.618	-0.435	-0.738	-0.872	-0.845	-0.476	-0.632	-0.603	-0.481	-0.640	0.022	0.326	-0.339	-0.508	-0.396	-0.607
Greece		-0.766	0.116	0.153	0.485	0.724	0.876	0.844	0.684	-1.000	-0.816	0.599	0.465	0.395	0.911	0.904	0.929	0.962	-1.000	0.875
Hungary		-0.941	0.702	0.941	0.936	0.946	0.817	0.652	0.821	0.987	0.991	0.986	0.986	0.771	0.643	0.868	0.971	0.683	0.504	0.413
Ireland	-0.943	-1.000	-0.795	-0.131	-0.101	-0.831	-0.727	-0.921	-1.000	-1.000	-1.000	-1.000	-0.920	-1.000	-0.795	-0.824	-0.856	-0.989	-0.935	-0.689
Italy	0.518	0.442	0.234	0.239	0.615	0.466	0.592	0.263	0.336	0.322	0.361	0.589	0.581	0.520	0.618	0.765	0.904	0.807	0.689	0.795
Latvia	0.722	0.953	0.809	0.972	0.943	0.994	0.852	0.945	-0.043	0.954	0.982	0.993	0.987	0.982	0.979	0.975	0.991	0.955	0.984	-0.407
Lithuania		0.943	0.960	0.938	0.935	0.631	0.016	-0.061	0.018	0.500	-0.004	0.425	0.571	0.375	0.274	-0.177	-0.583	-0.043	0.378	-0.877
Luxembourg								-1.000	-1.000	-1.000	-1.000	0.027	-0.088	-1.000	-1.000	0.796	-1.000	-0.123	-1.000	0.400
Malta	0.938	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	0.902	0.671	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-0.971	-1.000	-1.000	-1.000
Netherlands	-1.000	-0.790	0.721	0.856	0.893	0.923	0.936	0.921	0.866	0.901	0.900	0.894	0.934	0.937	0.956	0.951	0.974	0.762	-0.309	-0.727
Poland	0.949	0.170	0.729	0.692	0.612	0.630	0.729	0.552	0.765	0.881	0.903	0.872	0.885	0.244	0.740	0.826	0.912	0.905	0.522	0.064
Portugal	-0.293	0.032	0.103	-0.225	-0.455	0.137	-0.662	0.436	0.253	0.615	0.584	0.764	0.630	0.672	0.466	0.393	0.613	-0.805	-1.000	-1.000
Romania		-1.000	0.661	0.777	0.694	0.887	0.824	0.766	0.697	0.570	0.158	0.488	0.696	0.609	0.618	0.463	0.435	0.930	-1.000	-1.000
Slovakia		0.721	0.916	0.925	0.956	0.898	0.957	0.975	0.984	0.977	0.986	0.787	0.972	0.935	0.763	0.710	0.676	-0.804	-1.000	-0.948
Slovenia		0.844	0.691	0.903	0.866	0.888	0.954	0.973	0.905	0.563	0.870	0.915	-1.000	0.864	0.991	0.979	0.923	0.857	0.298	0.860
Spain	-1.000	-0.138	-0.086	-0.241	0.282	0.489	0.141	-0.472	-0.865	-0.174	-0.477	-0.331	-0.309	-0.599	-0.450	0.106	-0.834	-0.993	-1.000	-0.766
Sweden	-0.621	0.462	-0.747	-1.000	-0.871	-0.761	-0.652	-0.981	-0.829	-0.774	-0.880	-0.998	-0.996	0.357	-0.704	-0.998	-0.963	-0.809	-0.867	-0.999
UK	-1.000	0.813	0.000	-0.071	-0.056	-0.173	-0.073	-0.092	-0.181	-0.484	-0.342	-0.439	-0.853	-0.649	-0.752	0.268	-0.828	-0.928	-0.954	-0.557

Table 3.10 – SPT values for Tajik export to EU member states

Tajik imports from EU member states

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	0.601	0.626	0.684	-0.287	-0.521	0.372	0.239	-0.586	-0.525	-0.285	-0.421	0.259	0.003	-0.176	-0.189	-0.174	0.158	0.140	0.343	0.549
Belgium	-1.000	0.486	0.701	0.579	-0.006	-0.037	0.072	-0.346	-0.058	-0.037	-0.054	-0.253	-0.449	-0.535	-0.643	-0.339	-0.648	-0.581	-0.456	-0.343
Bulgaria	-1.000	-0.881	0.402	0.800	0.966	0.972	0.936	0.593	0.517	0.330	0.466	0.289	0.332	0.186	0.201	-0.054	-0.493	0.553	0.625	0.209
Croatia	-1.000	-1.000	-0.055	0.368	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-0.878	0.490	-1.000	-1.000	-0.066	0.458	0.893	0.875	0.895	0.280
Cyprus	-1.000	-0.700	-1.000	0.927	0.870	-0.791	0.799	-0.510	-1.000	-1.000	0.861	-1.000	-1.000	0.801	-1.000	-1.000	-0.920	-0.978	-0.240	-1.000
Czech Republic	-1.000	0.281	0.714	0.566	0.454	0.475	0.602	0.484	0.245	0.118	0.288	0.279	0.383	0.391	0.486	0.073	-0.056	0.851	0.509	0.376
Denmark	0.093	0.300	0.039	-0.297	-0.740	-0.120	-0.290	-0.597	-0.332	-0.111	0.150	0.285	-0.024	-0.155	-0.565	-0.345	-0.075	-0.173	0.317	-0.596
Estonia	-1.000	0.934	0.970	0.966	0.933	0.874	0.966	0.872	-0.557	0.085	-0.211	0.323	0.448	0.606	0.696	0.849	0.656	0.398	0.262	-0.248
Finland	-0.993	0.091	-0.987	-0.777	0.118	-0.038	-0.243	-0.887	-0.861	-0.556	-0.644	-0.404	-0.393	-0.747	-0.339	-0.113	-0.452	0.143	0.157	0.203
France	0.473	0.226	-0.586	-0.543	-0.218	0.003	-0.561	-0.580	-0.893	-0.771	-0.844	-0.733	-0.580	-0.295	-0.396	-0.499	-0.568	-0.769	-0.485	-0.011
Germany	0.181	-0.501	-0.235	-0.053	-0.313	-0.317	0.198	-0.294	-0.065	-0.395	-0.288	-0.128	0.040	-0.250	-0.246	-0.226	-0.321	-0.195	0.025	0.009
Greece	-1.000	-0.549	-0.573	-0.610	0.337	0.073	0.044	-0.268	-1.000	0.852	0.940	-0.762	0.787	0.834	0.828	0.584	0.824	0.867	0.842	-0.982
Hungary	-1.000	0.787	-0.718	-0.063	0.811	0.234	0.275	0.922	0.070	0.533	0.902	0.721	0.511	0.017	0.534	0.620	0.557	0.784	0.595	0.691
Ireland	-1.000	-1.000	0.641	0.541	-0.047	0.283	-0.625	-0.490	-0.077	-0.994	-0.839	-0.894	-0.998	-0.996	-0.987	-0.829	-0.922	-0.856	-0.884	-0.997
Italy	-0.168	-0.291	-0.394	-0.238	-0.680	-0.396	-0.168	0.031	0.381	0.278	0.392	0.231	0.038	0.456	0.316	0.385	0.088	-0.223	-0.163	0.276
Latvia	0.879	0.793	0.825	0.942	0.813	0.629	0.928	0.595	0.665	0.859	0.881	0.964	0.938	0.876	0.863	0.824	0.848	0.881	0.909	0.877
Lithuania	-1.000	0.913	0.980	0.834	0.870	0.947	0.968	0.944	0.962	0.887	0.904	0.932	0.963	0.957	0.936	0.959	0.952	0.846	0.955	0.961
Luxembourg	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-0.126	0.004	-1.000	-0.992	-0.869	-0.987	-0.215	-1.000	0.691	-0.951	0.558	0.681	0.675	-0.653
Malta	-1.000	0.954	0.768	-0.180	0.476	0.738	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-0.841	-1.000	-0.985	-1.000	0.248	-1.000	-1.000	-1.000
Netherlands	-0.317	0.792	0.564	-0.036	-0.055	0.076	-0.046	0.221	-0.061	-0.079	-0.357	-0.424	-0.398	-0.600	-0.521	-0.470	-0.312	-0.474	-0.298	-0.259
Poland	0.975	0.813	0.559	0.180	-0.259	0.901	0.911	0.778	0.771	0.661	0.734	0.684	0.666	0.603	0.683	0.652	0.579	0.213	0.777	0.527
Portugal	-0.803	-0.428	-0.409	-0.746	-1.000	-1.000	-0.935	-1.000	-0.493	-1.000	-1.000	-1.000	-0.861	-0.999	-1.000	-1.000	-0.924	-0.981	-0.983	-0.993
Romania	-0.023	-1.000	-1.000	-0.394	-0.488	-0.889	-0.820	0.849	0.985	0.911	-1.000	0.976	0.890	0.960	0.920	-0.941	-0.830	-0.924	0.291	-0.994
Slovakia	-1.000	0.677	0.849	0.521	0.710	0.891	0.840	-0.022	-0.221	-0.034	0.147	-1.000	0.474	0.230	0.800	0.022	-0.413	0.134	0.126	0.279
Slovenia	-1.000	0.395	-1.000	-0.309	-1.000	-1.000	0.528	-1.000	-1.000	-1.000	-1.000	-0.224	-1.000	0.158	0.379	0.689	0.567	0.784	0.795	0.916
Spain	-0.942	-0.996	-0.994	-0.573	-0.947	-0.834	-0.394	-0.589	-0.638	0.128	0.057	-0.099	-0.792	-0.825	-0.912	-0.975	-0.595	-0.689	-0.679	-0.471
Sweden	-0.529	0.457	-0.052	-0.998	-0.707	-0.903	-0.712	-0.982	-0.985	-0.900	-0.192	-0.365	-0.316	-0.401	-0.113	-0.564	-0.464	-0.773	-0.765	-0.597
UK	-1.000	0.460	0.776	0.847	0.661	0.128	-0.102	0.802	-0.654	-0.457	-0.302	-0.204	-0.022	-0.034	0.015	-0.217	-0.374	-0.108	-0.593	-0.658

Table 3.11 – SPT values for Tajik import from EU member states

Turkmen exports to EU member states

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	-0.632	-0.010	-0.279	0.538	0.586	0.675	0.610	0.822	0.736	0.804	0.757	-0.693	0.891	-0.432	-0.601	0.969	0.939	0.975	-0.828	-0.673
Belgium		-0.059	-0.044	-0.515	-0.057	-0.452	-0.144	-0.022	-0.578	-0.566	-0.742	-0.824	0.268	-0.146	-0.099	-0.379	0.048	-0.835	0.757	-0.256
Bulgaria		-1.000	-1.000	0.811	0.837	0.724	0.110	-0.583	0.896	0.600	0.494	0.534	0.772	-0.750	-0.645	-0.997	0.966	0.938	0.977	0.987
Croatia		-1.000	0.336	-0.220	0.225	0.063	0.708	0.262	-0.138	-0.089	-0.975	-0.831	-0.330	-0.620	-0.939	-0.900	-0.750	-0.584	-0.492	-0.016
Cyprus	-1.000	-0.605	-0.984	0.995	0.868	-0.982	0.957	0.957	0.972	0.965	0.994	0.893	-0.852	-0.907	-0.946	-0.865	-0.953	-1.000	-1.000	-1.000
Czech Republic		0.129	0.908	0.883	0.652	0.337	0.657	0.637	0.554	0.613	0.894	0.014	0.319	0.944	-0.559	-0.355	0.001	-1.000	-0.586	0.372
Denmark	-0.713	-0.969	-0.993	-0.901	-0.849	-0.115	-0.532	-0.518	0.080	-0.140	-0.867	-0.851	-1.000	-0.980	-0.990	-0.999	-1.000	-0.907	-0.988	-1.000
Estonia	-1.000	0.963	0.839	0.797	0.852	0.706	0.633	0.853	0.418	0.452	0.799	-0.643	-0.860	0.048	0.394	0.549	0.937	-1.000	-0.948	-0.969
Finland	0.973	0.950	0.478	0.321	-1.000	-0.955	-0.156	-0.228	-0.750	0.050	-0.992	-0.188	-0.741	-0.720	-0.673	-0.190	-0.799	-0.966	-1.000	-1.000
France	0.618	0.637	0.460	-0.184	-0.129	-0.185	0.147	0.334	0.025	-0.109	0.093	-0.647	-0.134	0.508	0.593	-0.527	0.626	0.605	-0.793	-0.168
Germany	-0.594	0.165	-0.150	-0.128	-0.333	-0.163	0.177	0.603	0.678	-0.625	0.018	0.509	0.475	0.520	0.358	-0.433	0.387	0.430	0.686	0.542
Greece	-1.000	-0.692	0.295	0.278	-0.708	0.116	0.389	-0.410	0.137	0.240	0.208	0.871	0.912	0.947	0.704	0.939	0.823	0.837	0.437	0.916
Hungary		-1.000	-1.000	-1.000	-0.134	-0.394	0.473	0.564	0.140	-0.416	-0.882	-0.402	0.992	0.998	0.996	0.320	0.999	0.997	-0.562	-0.209
Ireland	-1.000	-0.251	0.242	0.739	0.846	-0.139	0.151	-0.879	0.247	-1.000	0.291	-0.988	-0.999	-1.000	-0.786	-0.993	-1.000	-0.809	-0.471	-1.000
Italy	0.140	0.665	0.592	0.325	-0.155	0.443	0.567	0.771	0.413	0.889	0.948	0.954	0.880	0.905	0.881	0.938	0.883	0.683	0.893	0.931
Latvia	0.970	0.772	0.296	0.474	0.460	0.451	0.716	0.943	0.786	0.708	-0.849	0.894	-0.005	0.174	0.506	0.656	-0.256	-0.152	-0.358	0.364
Lithuania	-1.000	-1.000	0.745	0.825	0.559	0.314	-0.324	0.638	0.119	-0.123	-0.477	-0.982	0.231	-0.894	-0.083	-0.369	-0.956	-0.442	0.716	0.724
Luxembourg							-1.000	-1.000	-1.000	-0.997	0.996	0.996	-0.928	-1.000	-0.723	-1.000	-1.000	-1.000	-1.000	-1.000
Malta	-0.902	-0.985	-1.000	-1.000	-1.000	0.855	0.198	-1.000	-1.000	-1.000	-0.246	-1.000	-1.000	-1.000	-1.000	-0.951	-1.000	0.977	-1.000	-1.000
Netherlands	-0.936	-0.919	-0.977	-0.982	-0.984	-0.148	-0.800	-0.931	-0.939	-0.852	-0.673	-0.879	-0.993	-0.933	-0.818	-0.801	-0.992	-0.950	-0.628	-0.998
Poland	0.923	0.840	0.745	0.397	0.422	0.587	0.681	0.798	0.413	0.229	-0.043	0.934	0.979	0.981	0.362	0.331	0.997	0.988	0.560	-0.157
Portugal	0.426	0.688	0.463	0.415	0.068	-1.000	-0.805	-0.566	-0.884	-0.190	0.279	0.687	0.807	0.841	0.818	0.847	0.437	0.094	0.765	0.840
Romania		-1.000	-1.000	0.884	0.755	0.681	0.897	0.593	0.824	0.963	0.986	0.974	0.992	0.993	0.964	0.993	0.991	0.937	0.934	0.958
Slovakia		0.889	0.870	0.855	0.789	0.607	-0.166	0.900	0.760	0.605	0.684	0.927	0.932	0.999	0.994	0.651	0.652	-0.169	-1.000	-0.989
Slovenia		0.600	0.351	0.280	0.114	0.608	0.644	0.684	-0.409	0.239	-0.506	-0.182	0.150	-1.000	0.817	-0.106	-0.489	-1.000	0.396	-0.087
Spain	-0.899	0.539	0.444	0.183	-0.206	-0.797	-0.161	-0.898	-0.332	0.089	0.174	0.441	0.754	0.644	0.635	0.444	0.843	0.387	0.504	0.355
Sweden	-1.000	-0.771	0.218	0.471	0.422	0.693	0.546	-0.700	-0.930	-1.000	-0.931	-0.486	-0.997	-0.482	0.643	0.968	0.127	-0.966	-0.519	-0.964
UK	-1.000	-0.991	-0.874	0.059	0.128	-0.002	0.279	0.412	0.236	-0.065	-0.104	-0.109	0.084	-0.106	0.660	0.692	0.603	0.819	0.871	0.473

Table 3.12 – SPT values for Turkmen export to EU member states

Turkmen imports from EU member states

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	-0.717	-0.258	0.639	0.554	-0.036	-0.265	0.393	0.322	0.333	0.522	0.192	0.549	0.397	0.761	0.061	0.740	0.638	0.528	0.404	0.680
Belgium	-1.000	-0.497	-0.236	-0.745	-0.339	-0.192	-0.208	0.443	-0.430	-0.120	-0.171	-0.285	0.146	0.129	-0.108	0.084	0.277	-0.084	-0.171	0.027
Bulgaria	-1.000	-1.000	-1.000	0.801	0.862	0.827	0.617	0.678	0.718	0.744	0.745	0.558	0.085	0.030	0.467	0.020	0.230	0.435	-0.185	0.180
Croatia	-1.000	-1.000	0.796	0.913	0.084	0.811	0.463	0.743	-1.000	-0.941	-0.990	0.209	-0.872	-0.875	0.193	-0.213	0.194	-0.206	-0.122	0.153
Cyprus	-1.000	0.176	-0.109	0.991	0.987	0.678	0.762	-0.167	0.261	0.590	0.559	-0.125	-1.000	-1.000	-0.358	-0.991	-1.000	-0.759	-1.000	-0.435
Czech Republic	-1.000	0.175	0.844	0.633	0.661	0.186	0.434	0.779	0.840	0.411	0.497	0.463	0.547	0.216	0.376	0.406	0.703	0.224	0.364	0.304
Denmark	-0.418	-0.763	-0.805	-0.941	-0.905	-0.290	-0.511	-0.736	-0.690	-0.718	-0.692	-0.182	-0.455	0.092	-0.291	0.134	-0.643	-0.591	-0.285	-0.270
Estonia	-1.000	0.948	0.884	0.823	0.852	0.816	0.456	0.420	0.604	0.358	0.430	0.364	-0.784	-0.441	0.448	0.261	0.475	0.742	0.800	-0.209
Finland	-0.013	-0.422	0.282	-0.490	-0.776	0.405	-0.357	-0.049	-0.534	-0.071	-0.184	-0.098	-0.445	-0.254	-0.191	-0.028	-0.125	-0.389	0.260	-0.089
France	-0.858	-0.748	-0.398	-0.242	0.357	0.411	0.075	0.685	0.422	0.139	0.514	0.403	0.588	0.574	0.507	0.327	0.542	0.627	0.540	0.394
Germany	0.050	-0.033	0.304	-0.154	0.151	-0.027	0.236	0.151	0.000	0.498	0.413	0.208	0.375	0.324	0.392	0.454	0.383	0.362	0.362	0.436
Greece	-0.907	-0.270	-0.663	-0.633	-0.835	-0.904	-0.414	-0.314	-0.789	-0.804	-0.172	-0.897	-0.837	-0.840	-0.668	-0.503	-0.871	-0.795	-0.720	-0.815
Hungary	-1.000	-1.000	-1.000	-0.329	0.287	0.399	0.453	0.558	0.606	0.596	-0.041	-0.305	-0.061	0.195	0.579	0.702	0.229	0.579	0.479	0.247
Ireland	-1.000	-0.844	-0.705	0.535	-0.103	0.053	-0.185	-0.525	-0.439	-0.658	-0.230	-0.600	-0.954	-0.996	-0.895	-0.677	-0.716	-0.697	-0.787	0.097
Italy	0.545	0.407	0.435	-0.540	-0.426	-0.326	-0.184	-0.168	-0.341	-0.537	-0.386	-0.158	0.276	-0.093	-0.103	-0.301	-0.213	0.365	0.144	0.481
Latvia	0.880	0.953	0.790	0.645	0.578	0.637	0.466	0.663	0.920	0.714	0.500	0.621	-0.388	0.234	-0.001	0.088	0.517	0.243	0.509	0.430
Lithuania	-1.000	-1.000	0.952	0.782	0.944	0.915	0.873	0.837	0.920	0.830	0.643	0.576	0.177	0.071	-0.519	-0.566	-0.092	0.145	0.613	0.544
Luxembourg	-1.000	-1.000	-1.000	-1.000	-1.000	-0.654	-0.899	-0.857	-0.116	-0.441	0.884	0.908	-0.369	0.640	-0.943	-0.674	-0.882	0.737	0.680	0.799
Malta	-1.000	0.983	-1.000	0.953	0.826	-0.039	-0.296	-1.000	0.901	-1.000	-1.000	0.925	0.963	0.985	0.953	-0.693	0.964	0.942	-1.000	-1.000
Netherlands	-0.074	-0.403	-0.012	-0.477	-0.462	-0.153	-0.318	-0.348	-0.350	0.251	-0.157	-0.358	-0.116	0.077	-0.068	0.060	0.104	0.316	0.128	0.161
Poland	0.905	0.883	0.588	-0.496	0.169	0.261	0.052	0.501	0.633	0.532	0.243	0.077	0.270	0.700	0.617	0.556	0.481	0.376	0.323	0.318
Portugal	0.035	-0.864	-0.158	-0.946	-0.955	-1.000	-0.165	-0.802	-0.899	-0.875	-0.919	-0.599	-0.879	-0.101	-0.732	-0.991	-0.939	-0.453	-0.397	-0.776
Romania	0.817	0.784	-0.804	0.184	0.677	0.184	0.412	-0.201	0.498	0.886	0.834	0.006	0.326	0.463	0.631	0.792	0.711	0.578	-0.038	0.449
Slovakia	-1.000	0.975	0.930	0.730	0.647	0.553	0.753	0.130	0.561	-0.140	0.264	-0.207	-0.184	0.725	-0.119	-0.134	0.219	0.412	0.170	0.279
Slovenia	-1.000	0.707	0.602	0.389	0.593	0.269	0.123	0.758	-0.008	-0.591	-0.300	-0.347	-0.289	-0.025	0.035	0.210	0.325	0.437	0.448	0.672
Spain	-0.896	-0.545	0.217	-0.734	-0.837	-0.826	-0.851	-0.703	-0.687	-0.691	-0.685	-0.872	-0.444	-0.614	-0.890	-0.498	-0.288	0.054	-0.365	-0.222
Sweden	-1.000	-0.747	-0.765	-0.882	-0.184	0.112	-0.475	-0.889	-0.858	-0.754	-0.847	-0.631	-0.888	-0.929	-0.679	-0.662	-0.525	-0.280	-0.705	-0.679
UK	-1.000	0.148	-0.351	-0.314	-0.107	0.063	0.077	0.305	-0.142	0.008	0.036	-0.238	-0.034	0.177	0.148	0.294	0.151	0.123	0.344	0.412

Table 3.13 – SPT values for Turkmen export to EU member states

Uzbek exports to EU member states

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	-0.002	0.501	0.297	0.269	0.610	0.800	0.664	0.637	0.579	0.722	0.580	0.816	0.926	0.967	0.203	-0.350	-0.201	0.159	0.004	0.380
Belgium		0.275	-0.031	0.088	0.342	0.631	0.590	0.471	0.382	0.524	0.538	0.501	0.514	0.390	0.299	0.280	0.242	0.443	0.246	0.128
Bulgaria		-1.000	-1.000	0.868	0.770	0.895	0.858	0.731	0.844	0.880	0.686	-0.094	0.319	0.567	0.822	0.412	0.365	0.703	0.710	0.794
Croatia			-0.114	0.478	0.576	0.727	-1.000	-1.000	0.542	0.503	0.344	0.462	0.415	0.166	-0.375	-0.085	-0.069	-0.178	-0.355	0.530
Cyprus	-1.000	-0.831	-1.000	-0.980	-1.000	-0.995	-0.994	-1.000	-0.979	-0.752	-0.972	-1.000	-0.997	-0.997	-0.986	-1.000	-1.000	-0.963	-1.000	-0.979
Czech Republic		0.753	0.868	0.904	0.883	0.910	0.892	0.839	0.829	0.876	0.893	0.793	0.775	0.687	0.445	0.372	0.789	0.759	0.780	0.782
Denmark	-0.963	-0.176	0.388	-0.108	0.223	-0.144	-0.749	-0.848	-0.752	-0.947	-0.988	-0.952	-0.936	-0.981	-0.547	-0.924	-0.716	-0.816	-0.969	-0.949
Estonia	-1.000	0.855	0.876	0.845	0.933	0.914	0.903	0.917	0.953	0.873	0.845	0.733	-0.073	0.636	0.771	0.620	0.569	0.570	0.059	-0.543
Finland	-0.573	0.706	-0.139	-0.230	-0.920	-0.987	-0.994	-0.957	-0.878	-0.916	-0.900	-0.937	-0.865	-0.821	-0.653	0.597	0.919	0.057	-0.948	-0.995
France	0.335	0.566	0.560	0.467	0.524	0.561	0.427	0.271	0.157	0.215	0.193	-0.051	0.159	0.302	0.320	0.747	-0.544	0.864	-0.364	-0.010
Germany	0.021	0.747	0.536	0.147	0.145	0.289	0.139	0.011	-0.071	-0.023	0.041	-0.218	0.101	0.116	-0.087	0.143	-0.103	-0.018	-0.085	-0.124
Greece	-1.000	-0.885	-0.584	-0.220	0.672	0.438	-0.508	0.354	0.336	0.793	0.626	0.705	0.752	0.815	0.683	0.876	0.943	0.895	0.412	-0.938
Hungary		-1.000	-1.000	-1.000	0.907	0.907	0.789	0.743	0.584	0.698	0.667	0.656	0.932	0.924	0.987	0.995	0.979	0.905	0.926	0.891
Ireland		0.367	-0.316	0.477	-0.382	-0.084	-0.128	0.191	-0.261	0.053	-0.534	-0.514	-0.998	-0.999	-1.000	-0.998	-0.999	-0.327	0.078	-0.181
Italy	0.515	0.668	0.509	0.553	0.696	0.721	0.543	0.608	0.615	0.631	0.684	0.266	0.217	0.400	0.495	0.462	-0.078	0.206	0.128	0.570
Latvia	0.846	0.704	0.199	0.547	0.821	0.831	0.752	0.592	0.603	0.470	0.606	0.760	0.800	0.909	0.805	0.831	0.798	0.732	0.836	0.844
Lithuania		-1.000	0.945	0.905	0.855	0.908	0.835	0.789	0.836	0.806	0.660	0.580	0.488	0.851	0.858	0.838	0.911	0.727	0.687	0.514
Luxembourg							-0.900	-0.855	-0.982	-1.000	0.191	0.701	0.676	-1.000	-0.499	-0.991	-0.995	-1.000	-0.716	-0.919
Malta			0.889	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-0.983	-1.000	-1.000	-1.000	-1.000
Netherlands	-0.985	-0.656	-0.921	-0.944	-0.964	-0.957	-0.925	-0.593	-0.085	-0.176	-0.255	-0.357	-0.422	-0.505	-0.271	-0.354	-0.408	-0.502	-0.507	0.510
Poland	0.972	0.935	0.930	0.917	0.922	0.934	0.905	0.870	0.836	0.926	0.893	0.814	0.883	0.974	0.988	0.989	0.835	0.874	0.888	0.870
Portugal	0.489	0.786	0.696	0.659	0.746	0.730	0.622	0.750	0.779	0.772	0.816	0.802	0.765	0.681	0.571	0.667	0.693	0.822	0.834	0.802
Romania		-1.000	0.747	0.735	0.825	0.900	0.834	0.891	0.861	0.845	0.863	0.835	0.799	0.714	0.973	0.951	0.821	-0.075	0.688	0.770
Slovakia		0.917	0.942	0.945	0.943	0.927	0.906	0.930	0.855	0.888	0.863	0.921	0.938	-0.133	0.833	0.889	0.940	0.800	0.039	-0.243
Slovenia		0.791	0.849	0.864	0.904	0.911	0.856	0.826	0.838	0.903	0.879	0.866	0.940	0.799	0.475	0.560	0.009	0.094	0.337	0.448
Spain	-0.307	0.572	0.457	0.280	0.530	0.246	0.042	-0.151	-0.335	-0.212	-0.270	-0.247	-0.229	-0.552	-0.743	-0.444	-0.724	-0.512	-0.608	-0.483
Sweden	-0.702	-0.923	-0.915	-1.000	-1.000	-0.935	-0.954	-0.764	-0.844	-0.887	-0.972	-0.975	-0.989	-0.998	-0.958	-0.981	-0.998	-0.975	-0.996	-0.964
UK	-1.000	-0.942	-0.733	-0.908	-0.831	-0.054	-0.580	0.024	-0.280	0.069	0.166	0.260	0.251	0.767	0.618	0.337	0.873	0.530	0.611	0.488

Table 3.14 – SPT values for Uzbek export to EU member states

Uzbek imports from EU member states

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	-0.094	0.331	-0.019	-0.017	0.060	0.350	0.222	0.444	0.773	0.404	0.280	0.462	0.489	0.514	0.618	0.562	0.593	0.672	0.691	0.632
Belgium	-1.000	-0.363	-0.296	-0.201	-0.234	0.171	0.146	0.011	0.073	-0.109	0.005	-0.083	-0.249	-0.188	-0.086	-0.092	-0.319	-0.116	-0.140	0.053
Bulgaria	-1.000	-1.000	-1.000	0.896	0.769	0.545	0.711	0.494	0.705	0.672	0.675	0.484	0.414	0.387	0.493	0.372	0.540	0.701	0.629	0.639
Croatia	-1.000	-1.000	-0.070	0.691	0.586	0.773	-1.000	-1.000	0.177	0.664	0.364	0.495	0.610	0.086	0.478	0.399	0.128	0.683	0.283	0.418
Cyprus	-1.000	-1.000	-1.000	-0.059	-0.759	-0.699	-0.821	0.363	-0.752	-0.167	-0.911	-0.970	-1.000	-0.337	-0.995	-0.414	0.220	-0.686	-0.213	-0.910
Czech Republic	-1.000	-0.534	0.453	0.656	0.650	0.828	0.691	0.658	0.799	0.807	0.876	0.533	0.528	0.634	0.613	0.580	0.496	0.691	0.626	0.686
Denmark	-0.312	0.287	-0.571	-0.145	-0.157	-0.446	-0.063	-0.191	0.124	0.204	0.071	-0.075	-0.288	-0.605	-0.368	-0.376	-0.293	-0.393	-0.071	-0.442
Estonia	-1.000	0.884	0.903	0.887	0.795	0.864	0.901	0.787	0.709	0.577	0.596	0.592	0.541	0.561	0.444	0.503	0.454	0.412	0.659	0.390
Finland	0.435	-0.622	-0.168	-0.442	-0.046	0.222	0.038	-0.047	0.217	0.430	0.333	0.178	-0.062	0.207	0.121	0.055	0.428	0.405	0.240	0.227
France	0.332	0.078	-0.200	0.020	0.180	0.004	0.425	0.118	0.416	0.568	0.116	0.119	-0.101	0.074	0.133	-0.023	-0.357	0.036	0.374	0.463
Germany	0.232	0.304	0.468	0.444	0.320	0.457	0.324	0.403	0.534	0.464	0.474	0.415	0.239	0.402	0.377	0.212	0.235	0.391	0.554	0.536
Greece	-1.000	-0.043	-0.140	0.311	0.244	0.283	0.233	0.138	-0.010	-0.185	0.451	0.433	0.216	-0.005	-0.317	-0.261	-0.004	0.860	-0.536	0.590
Hungary	-1.000	-1.000	-1.000	-1.000	0.701	0.844	0.793	0.621	0.729	0.569	0.419	0.594	0.658	0.468	0.644	0.475	0.561	0.678	0.707	0.767
Ireland	-1.000	-0.389	0.473	0.061	-0.885	-0.378	-0.354	-0.429	-0.197	-0.466	-0.669	-0.266	-0.364	-0.615	-0.485	-0.633	-0.684	-0.798	-0.947	-0.932
Italy	-0.301	-0.221	-0.175	-0.292	-0.434	-0.224	0.038	-0.024	0.221	0.070	0.313	0.056	0.083	0.099	-0.135	-0.203	-0.057	0.230	0.170	0.237
Latvia	0.927	0.907	0.889	0.917	0.874	0.780	0.863	0.799	0.898	0.839	0.780	0.789	0.763	0.751	0.815	0.678	0.766	0.828	0.753	0.779
Lithuania	-1.000	-1.000	0.923	0.933	0.933	0.886	0.921	0.882	0.962	0.940	0.880	0.702	0.791	0.852	0.738	0.545	0.393	0.516	0.699	0.662
Luxembourg	-1.000	-1.000	-1.000	-1.000	-1.000	-0.900	-0.539	-0.287	-0.733	-0.715	0.146	0.596	0.585	0.799	0.725	0.606	0.443	0.770	0.315	-0.412
Malta	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-0.198	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000	-0.998	-1.000	-1.000	-1.000	-1.000	-1.000
Netherlands	-0.762	-0.076	0.017	-0.078	0.016	0.071	0.047	-0.237	-0.004	-0.129	-0.169	0.251	0.043	0.028	-0.036	-0.122	0.041	0.051	0.087	0.188
Poland	0.921	0.792	0.686	0.593	0.434	0.886	0.714	0.805	0.865	0.741	0.597	0.752	0.590	0.758	0.797	0.655	0.684	0.666	0.663	0.755
Portugal	-0.834	-1.000	-0.560	-0.748	-0.788	-1.000	-0.820	-0.965	-0.949	-0.985	-0.925	-0.882	-0.784	-0.843	-0.900	-0.512	-0.964	-0.829	-0.782	-0.659
Romania	0.611	0.311	0.161	0.284	0.711	0.297	-0.215	-0.128	0.210	0.487	-0.072	-0.189	0.092	0.829	0.908	0.898	0.822	0.760	0.348	0.333
Slovakia	-1.000	0.758	0.778	0.792	0.808	0.804	0.846	0.816	0.867	0.868	0.834	0.837	0.814	0.807	0.771	0.572	0.406	0.403	0.613	0.714
Slovenia	-1.000	-0.885	-0.276	0.820	0.499	0.531	0.402	0.625	0.729	0.820	0.499	0.749	0.736	0.787	0.852	0.837	0.862	0.885	0.898	0.897
Spain	-0.713	-0.773	-0.889	-0.858	-0.456	-0.585	-0.615	-0.596	-0.649	0.168	0.000	-0.354	-0.554	-0.247	-0.489	-0.456	-0.452	-0.334	-0.159	0.203
Sweden	-0.330	-0.559	-0.819	-0.716	-0.457	-0.306	-0.482	0.118	-0.088	-0.143	0.246	-0.188	-0.418	0.127	0.114	-0.577	-0.363	-0.103	-0.106	-0.061
UK	-1.000	-0.290	-0.151	-0.276	-0.163	0.441	0.133	0.122	0.061	0.128	0.038	0.106	0.055	0.099	0.245	0.176	-0.109	0.206	0.317	0.034

Table 3.15 – SPT values for Uzbek import from EU member states

3.3.4 Summary

The analysis throws up a number of interesting findings; first and foremost, that the patterns of international trade relationships and potentials for increased exports of the five Central Asian republics are strikingly similar. Kazakhstan is to some extent the exception, for instance, having a bilateral trade relationship with the EU significantly exceeding the expected level. However, overall Europe does not represent significant untapped export potential for the other Central Asian republics either, nor does Central Asia represent much such potential for the majority of EU member states. Thus, while most pronounced in the case of Kazakhstan, trade promotion between Central Asia and the EU, generally, would require policy intervention, suggesting that enhanced partnerships should be considered for all of Central Asia.

The Central Asian states appear to all be over-reliant on trade with their immediate neighbours in Central Asia as well as its wider neighbourhood, including the post-Soviet region. The analysis, thus, confirms previous findings that the republics have been slow to redirect trade after gaining independence. Only Pakistan in the wider neighbourhood present untapped trade potential. Asia, India and ASEAN member states in particular, are shown to offer the Central Asian republics potential for increased exports not reliant on policy interventions. This potential is reciprocated in the sense that Central Asia also represents significant untapped export potential for all ASEAN members but Malaysia. Trade potential with China, on balance, appears realised or surpassed; this is also the case for a number of the bilateral relationships of Korea and Japan with Central Asian republics. The latter two developed Asian economies do, however, represent some untapped potential for Kyrgyzstan and Turkmenistan.

The findings generally chime well with the pattern of foreign trade outlined initially, which demonstrated a dominance of Russia, China and the EU in Central Asian trade.

3.4 Integration scenarios

The above analysis suggests need for policy action within Central Asia if increased intra-regional trade is to be achieved, and that trade facilitation measures are needed to boost trade with larger economies in Europe, Asia and Russia. Moreover, it establishes that the pattern of external trade and direction of untapped trade potential is very similar across the Central Asian republics, suggesting cooperation on trade promoting measures beyond the region is pertinent. This section considers the impact of suggested intra-regional integration on extra-regional trade.

Three scenarios are considered. Firstly integration between the five post-Soviet Central Asian states: Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan. This scenario represents the prospect of Central Asian region-building, the focus of this thesis. Next a narrower Central Asian grouping is considered, namely integration between Kazakhstan, Kyrgyzstan and Tajikistan. The second scenario reflects the more closed nature of the Uzbek and Turkmen economies, as well as the more isolationists economic policies pursued, which indicate less likelihood of economic integration with neighbouring countries. Latterly, the third scenario simulates an extension of the ECU to include Kyrgyzstan and Tajikistan. This scenario reflects ongoing political developments with Kazakhstan already pursuing an Eurasianist integration path, Kyrgyzstan having committed itself to joining the ECU, and speculation as to whether Tajikistan may follow. Though the estimation results can only give indication of potential economic benefits, exploring the three scenarios in parallel enables a consideration of their individual merits as well as a comparison of the economic benefits each may offer for Central Asian republics.

Evaluating the effects of economic integration schemes involves measuring the net effect on trade. The net effect on trade is composed of the trade creating and trade diverting effects of the integration scheme. Trade creation entails trade in goods not previously traded between partner economies owing to the elimination of trade barriers. As discussed in chapter 1, trade diversion occurs when partner economies shift imports from more efficient third parties to less efficient producers in partner economies. Whilst the best evaluation of the effect of integration involves evaluating changes in intra-bloc and extra-bloc trade factors, this cannot be done under current methodology as the integration blocs are treated as one economy. The analysis considers the predicted trade flows of alternative equations for each suggested integration schemes, which are considered as common market, held against the predicted trade flows of the benchmark equation as discussed above. Hence, the following analysis is limited to considering extra-bloc trade factors.

3.4.1 Share of imports to GDP ratio

The share of imports to GDP can be seen as an indicator of an economy's openness and a relative measure of trade creation and trade diversion. A relatively higher share of imports to GDP suggests trade creation, whereas a relatively lower share of imports suggests trade diversion (Schiff and Winters, 2003: 37).

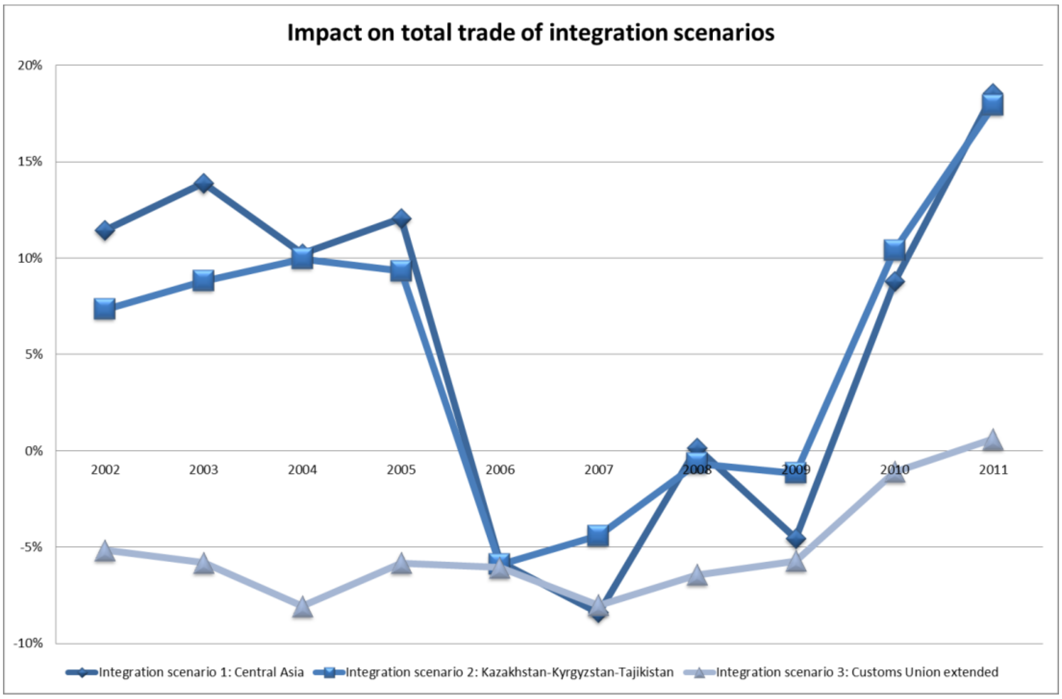
	Integration scenario 1: Central Asia	Benchmark	Integration scenario 2: Kazakhstan-Kyrgyzstan-Tajikistan	Benchmark	Integration scenario 3: Customs Union extended	Benchmark
2002	0.15	0.14	0.18	0.16	0.11	0.12
2003	0.13	0.13	0.15	0.14	0.13	0.13
2004	0.15	0.15	0.16	0.15	0.14	0.15
2005	0.16	0.14	0.17	0.15	0.12	0.14
2006	0.14	0.16	0.16	0.18	0.12	0.15
2007	0.17	0.20	0.19	0.22	0.14	0.16
2008	0.18	0.18	0.20	0.19	0.16	0.18
2009	0.12	0.14	0.14	0.15	0.13	0.15
2010	0.12	0.12	0.15	0.13	0.16	0.16
2011	0.14	0.13	0.16	0.15	0.16	0.16

Table 3.16 – impact on imports to GDP ratios of integration scenarios

Table 3.16 shows the imports to GDP ratios for each of the three integration scenarios against their respective benchmarks (that is, the total imports to total GDPs of the constituent states of each scheme). The simulations suggest that the imports to GDP ratios are only marginally affected by the integration scenarios. In the first scenario, the ratio shifts between being unchanged, slightly higher or slightly lower. The second scenario, on the other hand, appears to involve a slight trade creating effect in most years. Conversely, the third scenario -an extension of the Eurasian Customs Union to include Kyrgyzstan and Tajikistan- is estimated to involve trade diversion with a more marked impact than in the former two scenarios.

3.4.2 Total trade

Contrasting the predicted total trade of the integration scenarios with their benchmark predictions (that is the predicted total trade (imports and exports) of the constituent economies), the simulations indicate that the first two scenarios - integration of all Central Asian republics and integration of Kazakhstan, Kyrgyzstan and Tajikistan, respectively- could push outward the trade potential. Graph 3.1 illustrates the findings. In six of the last ten years of the sample, the simulations suggest that scenarios 1 and 2 would have implied a larger overall trade potential for the constituent economies than their shared experience on an individual basis. In the last two years of the sample, the indication is that the trade potential would have been 10-20 per cent higher.

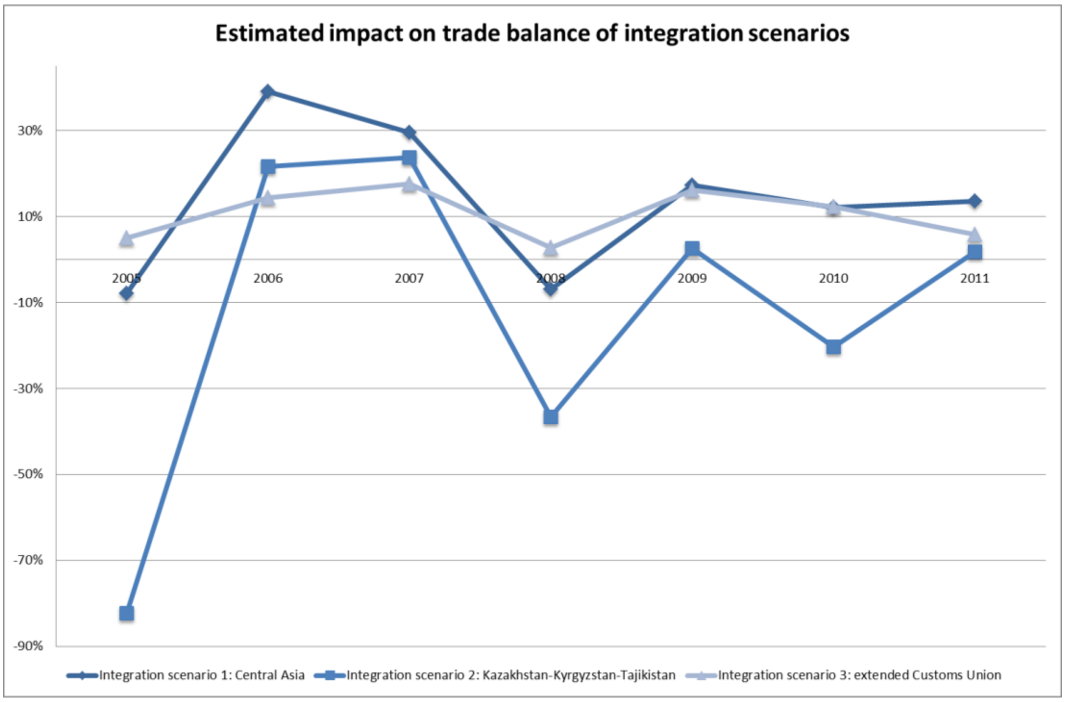


Graph 3.1: Impact on total trade of integration scenarios

Conversely, the simulation of the third scenario implies that an extension of the ECU to include Kyrgyzstan and Tajikistan in the majority of the ten years would have had a negative impact on the bloc's total trade position to the tune of 5-10 per cent, though this negative impact in the latest years of the sample turns neutral.

3.4.3 Trade balance

The simulations furthermore indicate that the first integration scenario (integration of all five Central Asian republics) would have a positive impact on net trade by 12-17 per cent in 2009-11, illustrated in graph 3.2. Similarly, an extension of the Customs Union, the third scenario, is estimated to have a slightly positive impact on the trade balance, though moving into neutral territory in the last years of the sample, whilst the second scenario of integration between Kazakhstan, Kyrgyzstan and Tajikistan is estimated to have a negative impact in several years.



Graph 3.2: Estimated impact on trade balance of integration scenarios

3.4.4 Impact on external trade patterns of integration scenarios

The suggested integration schemes would not significantly alter the pattern of extra-regional trade potential and the degree to which actual trade patterns match predicted trade. In the first two scenarios, involving only Central Asian republics, the SPT value change sign only in up to 3 per cent of bilateral partnerships over the period from 1992-2011. In the third scenario of an extended Customs Union, the SPT value reverses in 5-6 per cent of the extended Customs Union's trade partnership. In the majority of these cases, across scenarios, which are all listed in appendix E, the changes are minor, the SPT shifting from just above zero to just below or vice versa.

Changes to SPT signs (%)

	Export	Import
Integration scenario 1: Central Asia	2.79	2.74
Integration scenario 2: Kazakhstan-Kyrgyzstan-Tajikistan	1.86	3.04
Integration scenario 3: extended Customs Union	5.00	5.89

Table 3.17 – Changes to SPT sign across integration scenarios

Consequently, the conclusion above, that purposeful policy measures are required to facilitate further trade with FSU economies, the EU, China, Turkey, Iran, Afghanistan, and in some cases Japan and Korea, still stands under the simulation of the integration scenarios; as does the conclusion that the Central Asian republics have untapped trade potential with ASEAN, Pakistan and India – a potential, which one expects fulfilled over the long run without need for policy measures.

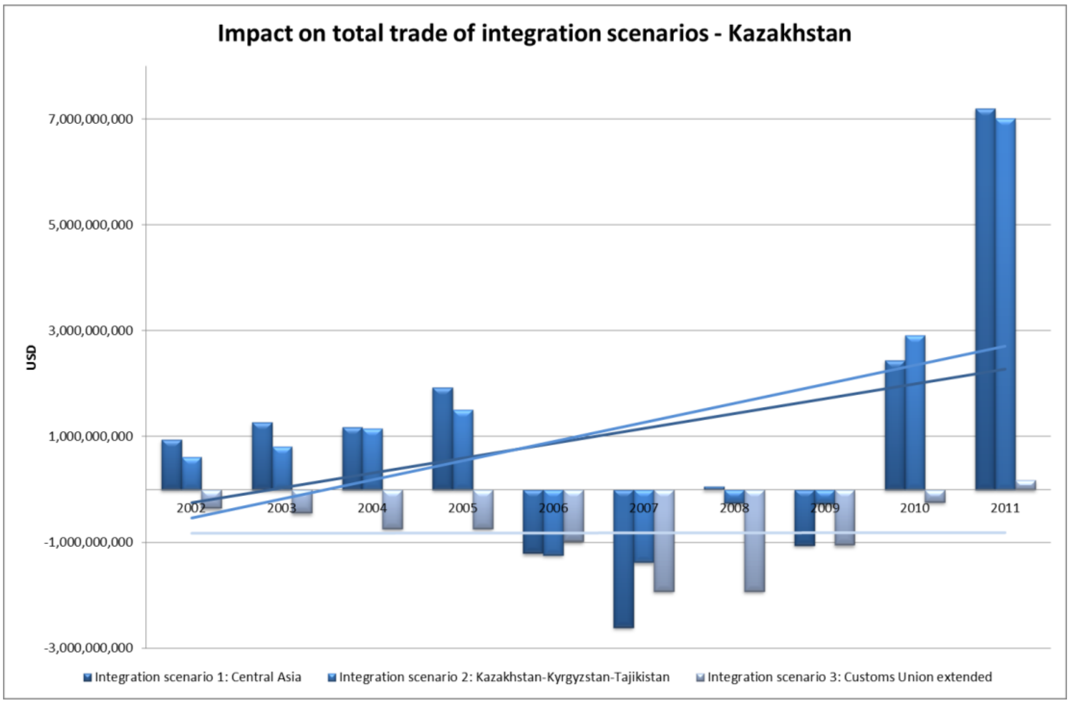
* * *

Overall, this suggest that the extension of the ECU could reduce the total external trade of the bloc and involve trade diverting effects, whilst having a slightly positive impact on the members' overall net trade position. Meanwhile, regional integration between all Central Asian states would boost the total external trade and net trade positions of the bloc, while on balance trending towards slight trade diverting effects. Integration of only Kazakhstan, Kyrgyzstan and Tajikistan on the other hand tends towards slight trade creating effects and boosts total trade of this smaller bloc but tends towards negatively impacting their trade balance.

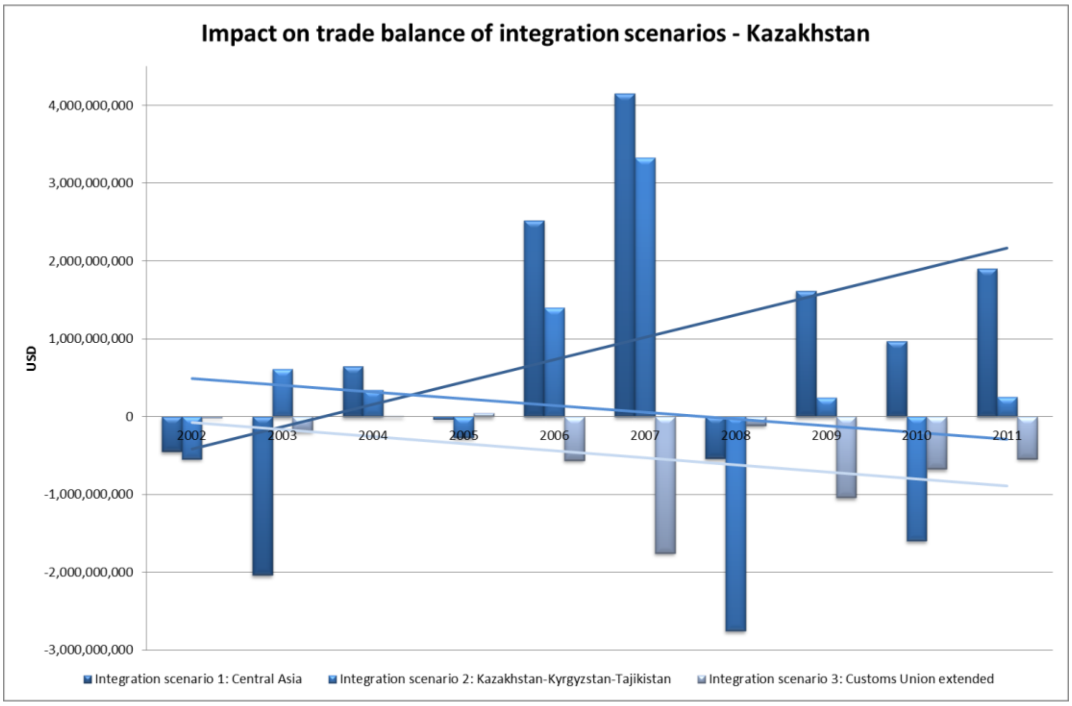
The following five sections consider the impact of each of the suggested integration schemes on the five Central Asian republics individually. The calculations are based on the relative shares of exports and imports of each republic within the respective groupings in each year. For each republic is estimated its relative share of the increase or decrease in predicted net trade and total trade. Tables are presented in appendix D.

3.4.5 Kazakhstan

The figures below estimate the possible impact on Kazakhstan of each of the three integration scenarios. Integration with all Central Asian republics tends towards an increasingly positive impact on the total trade of Kazakhstan. Though the calculations suggest that it would have had a negative impact in the late 2000s, this is turned towards an increasingly positive impact in the 2010s, potentially adding more than USD 7 billion to Kazakhstan's total trade in 2011. The impact of Central Asian regional integration on Kazakhstan's net trade position is estimated to be generally positive, in the years 2009-11 in the range of USD 973-1,901 million.



Graph 3.3: Kazakhstan – impact on total trade of integration scenarios

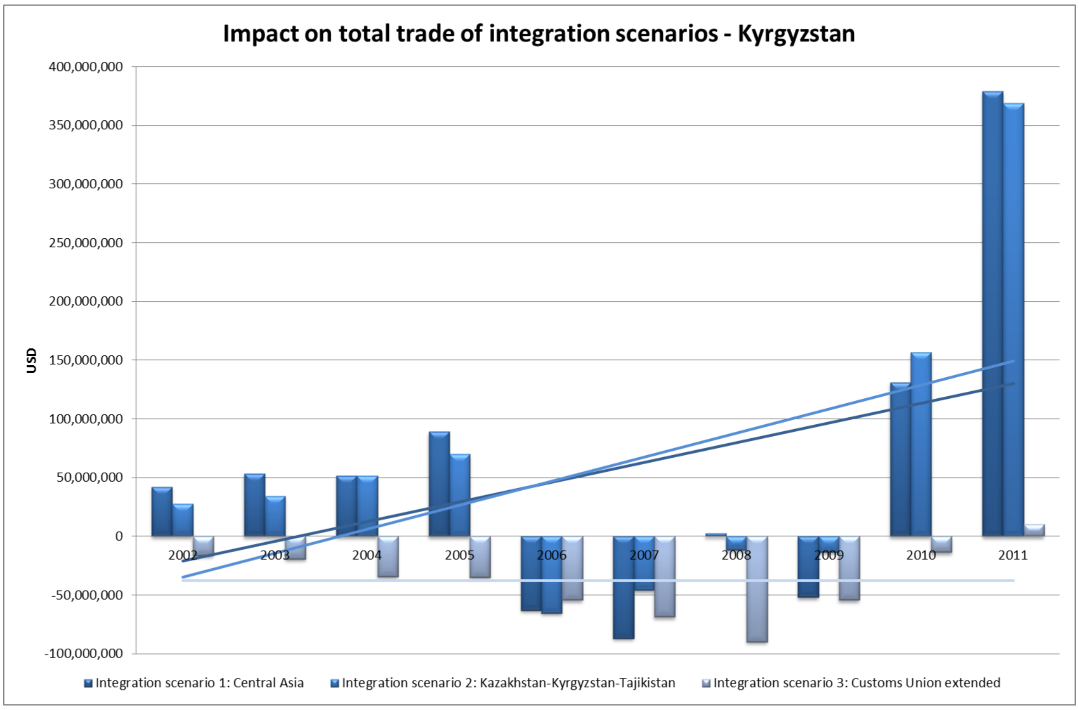


Graph 3.4: Kazakhstan – impact on trade balance of integration scenarios

The scenario of integration between only Kazakhstan, Kyrgyzstan and Tajikistan similarly tends towards a positive impact on Kazakhstan's total trade, also standing at USD 7 billion in 2011. Meanwhile, the net trade position tends towards a worsening vis-à-vis Kazakhstan's individual net trade, though the trend line indicates only a small impact. Latterly, the third scenario, an extension of the ECU, is estimated to have a negative impact on both Kazakh total trade as well as trade balance. In all years of the sample, the simulation suggests that Kazakh trade would have been significantly lower, up to USD 1.9 billion in 2008 and 2009; whilst the net trade position would have been markedly lower since 2006. Overall, this suggests, that the integration scenario involving all Central Asian republics, may best benefit Kazakhstan's trade position in comparison with the alternative scenarios suggested.

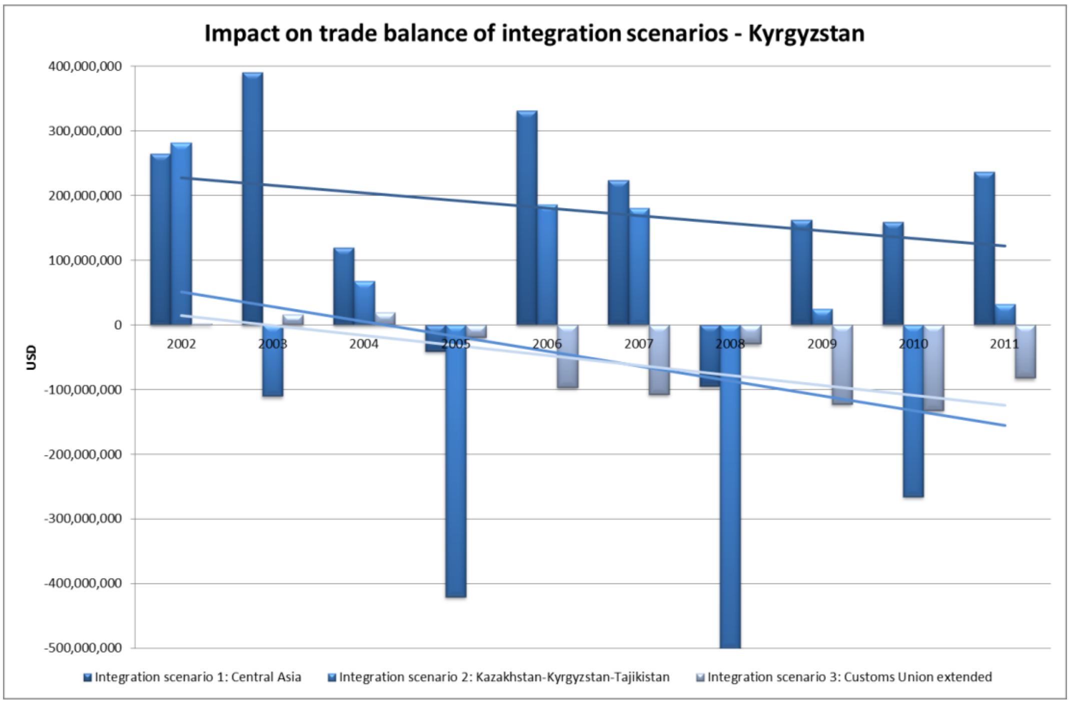
3.4.6 Kyrgyzstan

The impact of Central Asian integration (scenario 1) on Kyrgyz total trade is suggested by the calculations to have an increasingly positive impact. Though the impact through the second half of the 2000s was slightly negative, this shifts in 2010 and in 2011, when it is estimated that Central Asian integration could have raised total Kyrgyz trade by USD 131 million and USD 379 million, respectively. Kyrgyz net trade would have been higher in nearly all of the last ten years of the sample, though the trend line has a negative slope, and the increase is reduced to a range of USD 159-237 million in 2009-11 from USD 265-390 million in 2002-2003. The impact on the total trade position of the Kyrgyz economy of the second scenario, integration with Kazakhstan and Tajikistan only, is similar to scenario 1, with the trend line, however, indicating a slightly stronger increase in total trade towards 2011. However, the impact on the net trade is suggested on balance to be negative, though a small improvement is suggested in some years of the sample.



Graph 3.5: Kyrgyzstan – impact on total trade of integration scenarios

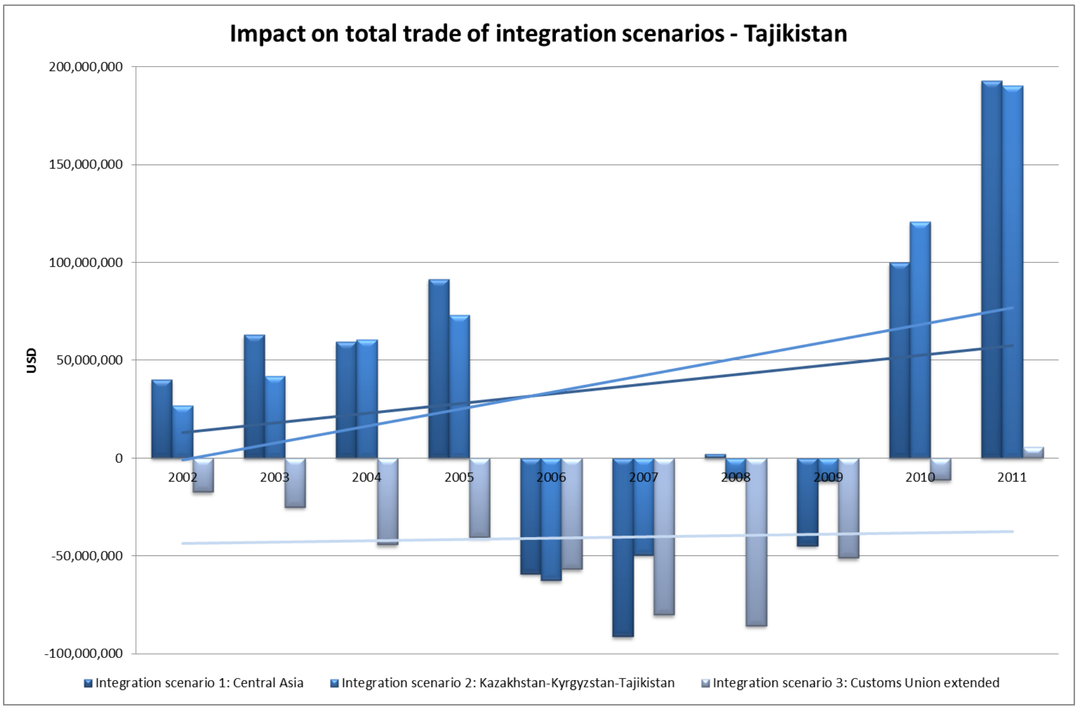
The third scenario, Kyrgyz integration into the ECU alongside Tajikistan, is estimated to cause a decrease in the level of total trade of Kyrgyzstan over the 2002-2010 period. The impact on the trade balance is estimated as roughly equivalent to that of the second scenario, that is, increasingly negative averaging around USD 100 million in the last six years of the sample period. Overall, this suggests that the former scenario would be superior for Kyrgyzstan, though the positive impact on the trade balance appears to be decreasing over time.



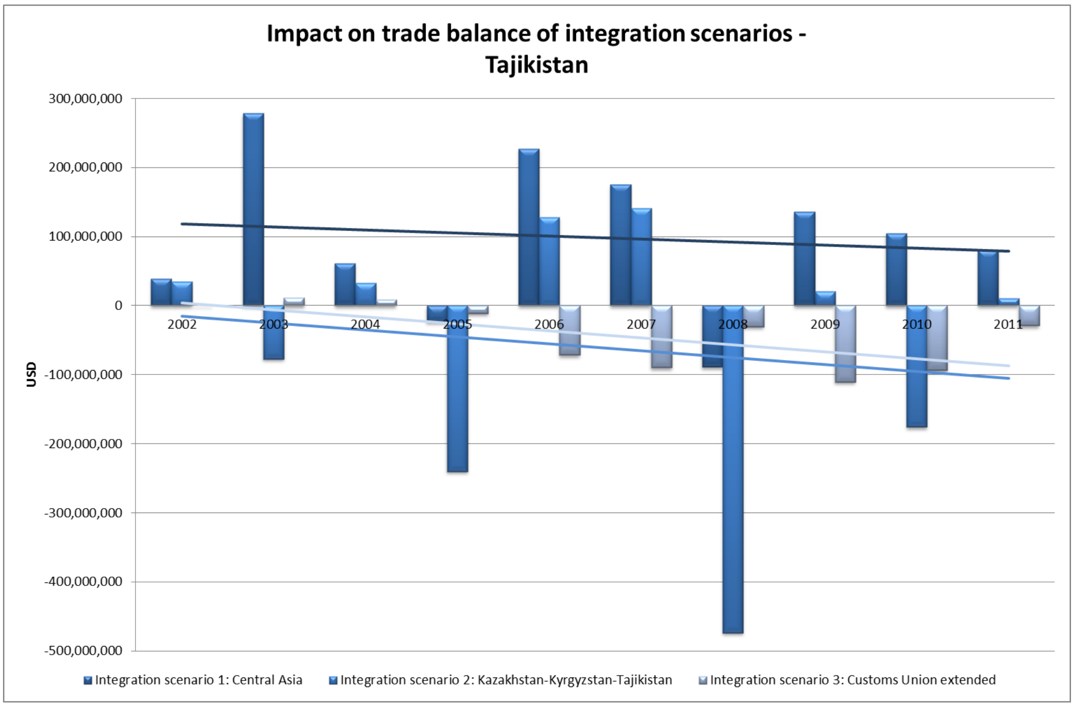
Graph 3.6: Kyrgyzstan – impact on trade balance of integration scenarios

3.4.7 Tajikistan

The expected impact on Tajikistan of the three suggested scenarios strongly mirrors the one outlined for Kyrgyzstan above. That is, the trend effect of the first and second scenarios on total trade of Tajikistan are slightly positive and increasing, being stronger for the second scenario involving only Kazakhstan, Kyrgyzstan and Tajikistan. Conversely, the second scenario has a slightly negative and worsening trend effect on the trade balance, while the former scenario involving all five post-Soviet Central Asian republics, though decreasing over time, is positive to the tune of USD 80-136 million in 2009-11. Meanwhile, the third scenario is suggested to involve a negative impact on the predicted total level of trade for Tajikistan of USD 51-86 million over 2006-09, though the impact becomes close to neutral in 2010-11. The impact of the third scenario on the trade balance is neutral to negative throughout the ten year period, averaging USD -62 million over the years 2005-2011. This, thus, also suggests that on balance, the former scenario is likely to bring more benefits to Tajikistan's trade position than the second or third scenario, despite the decreasing trend of the positive effect on the trade balance.



Graph 3.7 – Tajikistan – impact on total trade of integration scenarios

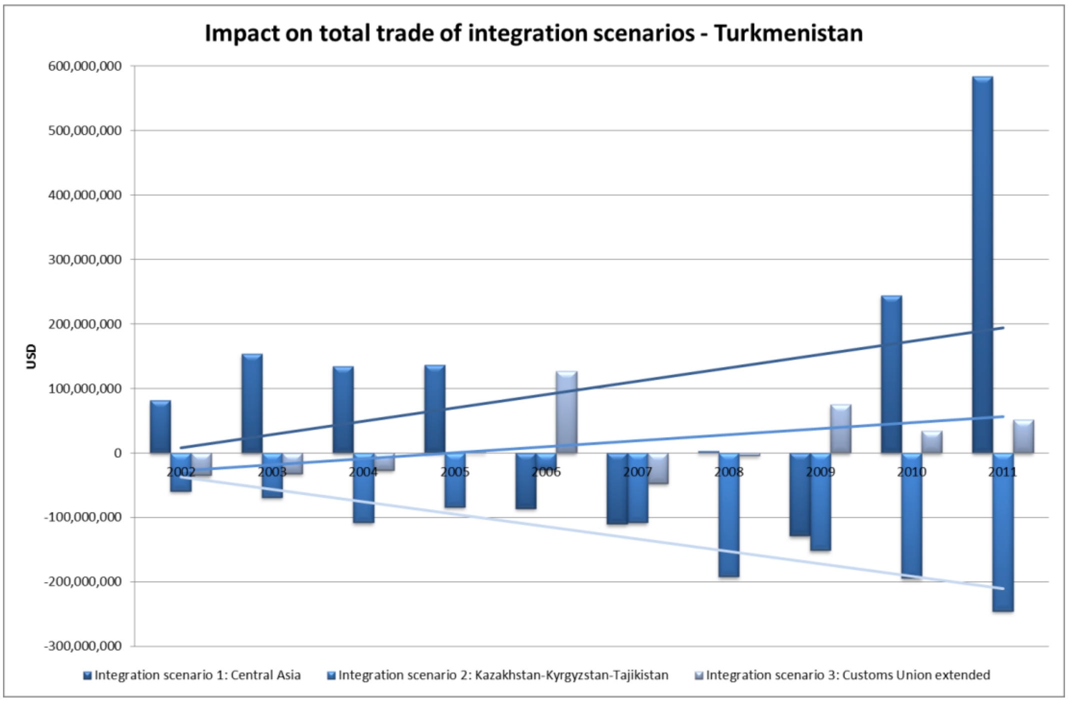


Graph 3.8 – Tajikistan – impact on trade balance of integration scenarios

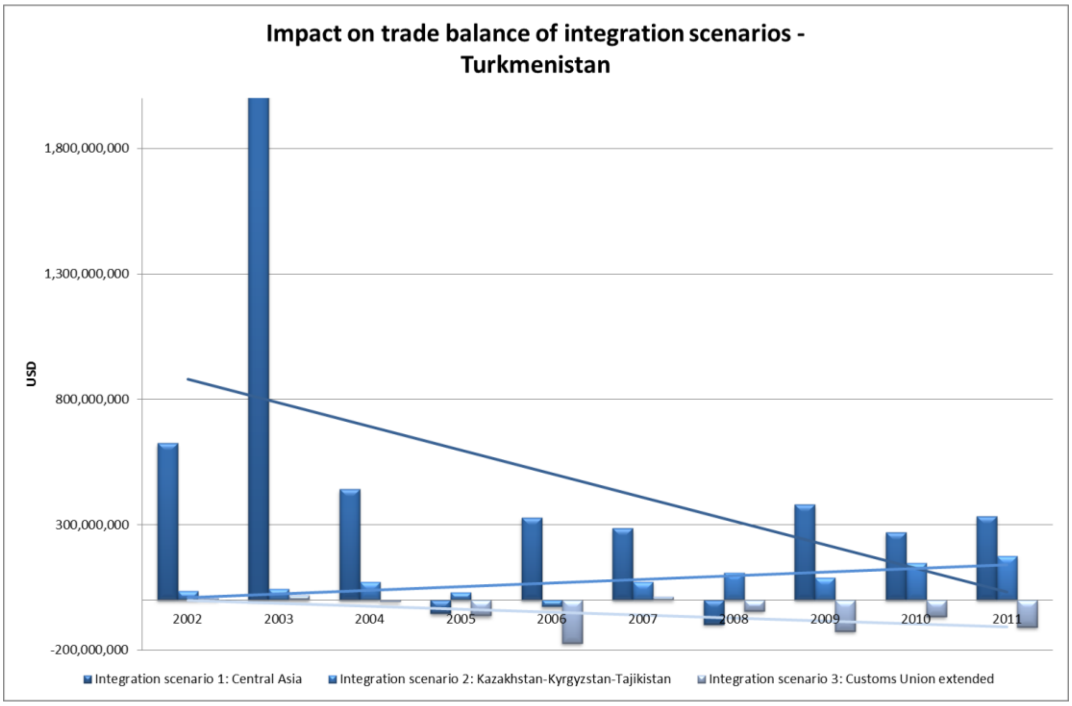
3.4.8 Turkmenistan

While Turkmenistan is only suggested to participate in the first of the three scenarios, the three graphs below illustrate the expected impact on the Turkmen economy also of its neighbours engaging in integration schemes without it. The predicted total trade level of Turkmenistan is estimated to be higher in most years under condition of Central Asian integration, the first of the three scenarios. The suggested trend is gradually increasing, reaching nearly USD 200 million in 2011. The impact on the trade balance is similarly positive in almost all years with a boost of USD 268-380 million in years 2009-2011.

The second scenario in which the Central Asian partners Kazakhstan, Kyrgyzstan and Tajikistan integrate is suggested to have a negative impact on the total trade position of Turkmenistan to the tune of around USD 200 million in the later years of the sample, while the impact on the Turkmen trade balance is suggested to be positive averaging USD 118 million in the last five years of the sample. The opposite trend appears for the extension of the Customs Union scenario, which is suggested to positively impact on the total trade position of Turkmenistan -at an average USD 53 million in the last three years of the sample- whilst negatively affecting the trade balance to the tune of USD 44-125 million in 2008-2011. Though the positive impact on net trade decreases over time only the first scenario, which involves Turkmenistan in regional integration, is suggested to have a positive impact on both overall trade levels and the trade balance of the country.



Graph 3.9: Turkmenistan – impact on total trade of integration scenarios

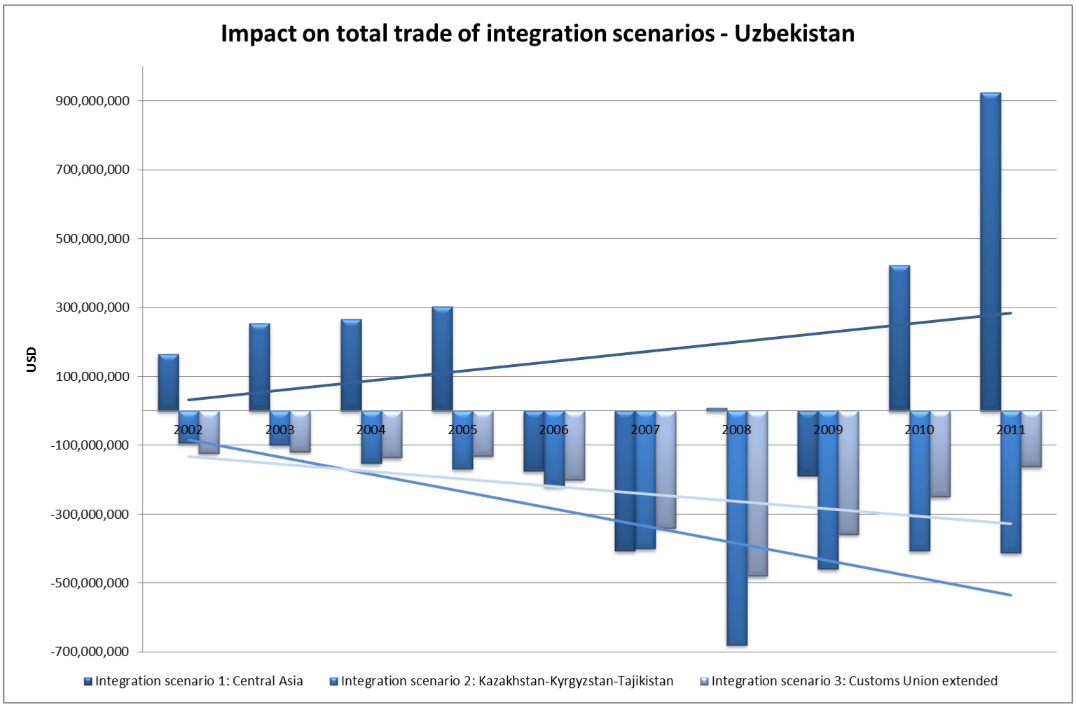


Graph 3.10 – Turkmenistan – impact on trade balance of integration scenarios

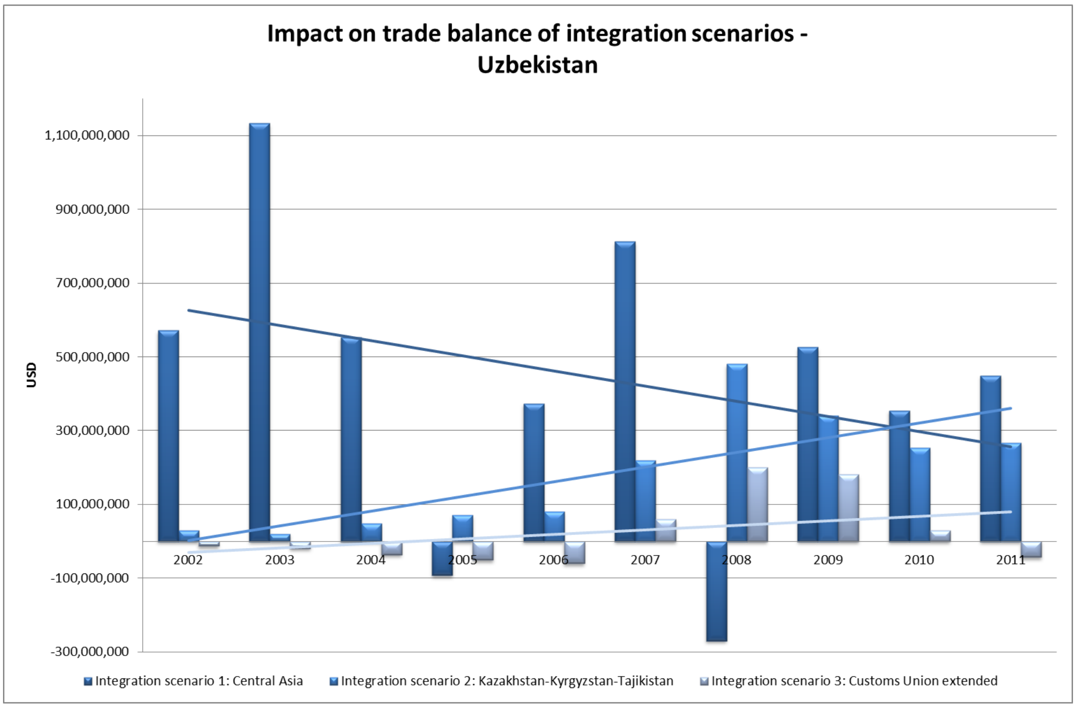
3.4.9 Uzbekistan

Lastly, also for Uzbekistan is illustrated the estimated impact of integrating with Central Asian neighbours, as well as for standing outside of the suggested integration schemes. The total trade position of Uzbekistan would in most years of the sample be boosted by integration with Central Asian neighbours; integration is estimated to enable a boost of total trade of Uzbekistan by up to USD 926 million in 2011. The impact on net trade of the suggested Central Asian integration scheme would have been almost consistently positive, though decreasing over time to USD 354-526 million in years 2009-11.

Both scenarios, which leave out Uzbekistan, are suggested to impact the total level of trade for Uzbekistan negatively, and increasingly so over time; this mostly in the case of integration between neighbouring Kazakhstan, Kyrgyzstan and Tajikistan. Meanwhile, this same scenario is suggested to positively impact the trade balance of Uzbekistan, and increasingly so over time – by USD 220-480 million in the period 2007-11.



Graph 3.11 – Uzbekistan – impact on total trade of integration scenarios



Graph 3.12 – Uzbekistan: impact on trade balance of integration scenarios

The impact on the trade balance of an extension of the Customs Union is more varied, positive in some years, negative in others, though on trend slightly positive and increasing. Overall, as with Turkmenistan, only the integration scheme including Uzbekistan itself has a positive impact on both the country's total trade and balance of trade positions, though in the latter case of a slightly decreasing trend.

3.5 Summary

The preceding analysis employs a properly specified gravity model to explore the trade relationships within Central Asia and between Central Asian republics and external trade partners. The results of the analysis establish that trade levels between Central Asian republics exceed the levels that one would expect given the characteristics of their bilateral economic relationships. The corollary of this is that were the Central Asian republics to wish to increase intra-regional trade, policy actions aimed at this must be implemented. Such actions could be in the form of economic integration. The analysis furthermore suggests that the patterns of international trade relationships and potentials for increased exports of the five Central Asian republics are comparable. The CARs generally trade at levels expected or higher with partners in the post-Soviet region, China and the EU suggesting there is a need for trade facilitation measures to increase trade with these partners. Southeast and South Asia, including with ASEAN economies, India and Pakistan, on the other hand offers untapped potential for increased trade without taking direct policy measures towards this. For trade with Japan and Korea there is significant variability between the CARs for trade in both directions. Thus there is not necessarily a shared interest between the Central Asian republics for jointly pursuing trade facilitation with either Japan or Korea.

The analysis then contrasted the predicted trade levels of the benchmark model, in which the Central Asian republics are included individually, with predicted trade levels of alternative equations, in which the Central Asian republics are simulated as engaging in economic integration. The results indicated that current political discussions on extending the ECU to include Kyrgyzstan and Tajikistan may not be beneficial for the two potential entrants themselves. Indeed, the results suggest that an extended ECU could have trade diverting effects, and could reduce the total external trade levels of the proposed members. By contrast, economic integration within Central Asia is suggested to have better prospects. Comparing the two scenarios for integration within Central Asia, a scheme involving all five republics could increase their shared level of predicted external trade, as well as positively impact their trade balances. On balance, however, this scenario may involve trade diverting effects, though in the last year of the sample, the effect is suggested to be trade creating. For Kazakhstan, Kyrgyzstan and Tajikistan there could be merits also in the smaller scheme involving only these three republics. The trend over the period examined is towards trade creation; though the predicted expansion in total trade levels tend towards also slightly worsening their net trade positions. For Turkmenistan and Uzbekistan, it is suggested by the analysis, that standing outside of a Central Asian regional integration initiative could reduce their total trade positions but slightly improve their trade balances.

From the perspective of Central Asia, the findings of this paper suggest that intra-regional integration would be beneficial on two accounts. Firstly, it could, if designed accordingly, increase the scope for intra-regional trade, and, secondly, could increase the shared scope for external trade of the Central Asian republics. Consequently, since the CARs generally have similar patterns of over-trading and unexploited trade potentials, they may benefit from pursuing trade facilitation measures with external partners, notably China, the EU or Russia, collectively.

Chapter 4 Demand and supply of economic integration policy

The preceding chapter suggested that Central Asian republics may benefit from economic integration. This chapter explores the underlying dynamics for regional integration to occur, that is, whether there is supply of and demand for economic integration policies in Central Asia. Following *The Logic of Regional Integration* demand for economic integration is expected to arise from market actors, who would benefit from increased opportunities for market exchange, including expansion to foreign markets, economies of scale and specialisation. Supply on the other hand is expected to derive from national leaders in the form of willingness to cooperate on the basis of expected political pay-off, *inter alia*, linked to national economic growth. Additionally, an undisputed regional leader willing to compensate less willing states, and commitment institutions that can enforce agreements, raise the likelihood of successful integration.

Boris Rumer (2005a: 3) suggested that after nearly ten years of independence the five CARs had come to the end of their fundamental transition processes resulting in stable, roughly alike authoritarian states. Since then, Turkmenistan has seen an orderly transition of power following the death of the country's first president, Saparmurat Niyazov; while Kyrgyzstan has gone through upheavals in 2005 and 2010, the latter resulting in a constitutional change to parliamentary democracy. Despite the changes in Kyrgyzstan, the country continues to share a number of characteristics with other CARs. Central Asian political structures have been described as democratic mimicry (Ibid: 3-5) and '*Potemkin-style democratic institutions'* (Gleason, 2003: 145). Shirin Akiner (2005: 124), for instance, has suggested that Central Asian parliaments' chief function is to rubberstamp presidential decrees. This may be undergoing change in Kyrgyzstan. The constitutional changes since the 2010 revolution has to some extent increased openness and plurality of policy debates as well as strengthened parliament, the *Jogorku Kenesh*, as a political forum (Chotaev, 2013; Kurmanov and Kurmanov, 2013; i/w Nurlanbek (#63/IF); Claytor (#74/FB); Shamiev (#71/LE)). However, implementing parliamentary democracy is a challenging process, which will take time, and authoritarianism continues to be a common trait of Central Asian political regimes (Cummings, 2012: 63).[27]

Other attributes of the region include the fusion of political power with economic resources (Özcan, 2010: 3; Cooley, 2012: 25-27), and the ruling elites' focus on maintaining the underlying structures of power (Cooley, 2012: 21). Moreover, the judicial systems are allegedly used as instruments for the predatory execution of power, whilst simultaneously being employed to disguise this predation (McGlinchley, 2011: 57).[28] These characteristics suggest a need to look beyond formal political structures when analysing supply as well as demand of policy.

A key feature shared by the Central Asian states is the fusion of executive power and capital (Cummings, 2012: 130). For instance in Uzbekistan elite members control the trade of strategic commodities such as gold, cotton and uranium, but also basic food products like flour and sugar (i/w Tolipov (#84/AC)).[29] The organising principle behind the fusion of economic and political power has over time been designated varyingly, for example as clientelism and corruption. Rumer, for instance, claimed that corruption lies at the heart of these systems (Rumer, 2000a: 6). Kathleen Collins (2006), meanwhile, focused on kinship. Prior to Russian colonisation and subsequent Soviet rule, Central Asian society was organised through kinship ties in the form of tribes, clans and community-level groups such as the nomadic *aul*, rural *quishloq*, or urban *mahalla*; but it is contested to what degree such ties have survived both Russian colonisation and Soviet administration.[30] Akiner (1994: 13) has suggested that kinship ties was '*almost the only fea-*

[27] In March 2014 constitutional changes proposed by President Karimov were introduced in Uzbekistan, which are suggested to involve a formal shift of power from the post of president to the prime minister with the intention of strengthening the role of political parties. There have been speculation as to whether such changes are reflective of an upcoming presidential succession but the changes have similarly been dismissed as 'window dressing' (Hashimova, 2014a).

[28] The US Commercial Services, for instance, noted that the Turkmen judiciary is directly under the control of the president (US Commercial Services, 2012: 3). It is also notable that in the case of Kyrgyzstan, the judicial system is still perceived to be subject to political interference (Chotaev, 2013).

[29] For an outline of recent developments in the control of Uzbek sugar trade see: Pannier, 2014a.

[30] See for instance Scott Radnitz (2010: 127-128) and Eric McGlinchley (2011: 41). Their contrary findings might be explained by the fact that the modern discourse portrays clans as something primitive, as argued by Schatz (2004: xxvi), which could drive people to disassociate themselves with the concept and its related concepts such as kinship.

ture of pre-Soviet society to survive' the Soviet period; while Philip Robins (1994: 59) explained the continuation of tribal and subnational loyalties with the inability to develop inclusive notions of citizenship, which would enable the populations to identify with the new states, along with the absence of the rule of law, inhibiting citizens from relying on the state. In the absence of these factors, Robins suggested, only kinship ties protect and facilitate access to resources for the individual.

According to Collins the Central Asian states are based on '*clan politics*', defined as: '*politics organised by and around informal identity networks commonly known as clans*' (Collins, 2006: 1). Clan networks represent the informal institution behind the formal regime through which power is exercised (ibid: 3); as Akiner explained, kinship on the one hand is dominating because personal allegiance rather than issues dominate ways of thinking but also because leaders are bound to reward their kin for their support, a principle that cuts across politics and business (Akiner, 1994: 17). Kinship may be '*fictive'* whereby individuals are included in a clan, for instance, by way of marriage, family alliances or school ties (Collins, 2006: 17). Similarly, Akiner suggested that during the Soviet period membership of tribal groupings was extended to individuals who were linked via life experiences, such as through schooling (Akiner, 1994: 16). Collins characterised clans by two principles; kinship identity at the core, supplemented by networks as the organising principle (Collins, 2006: 25). Thus, she differentiated clan politics from clientelism and corruption, which do not include an element of identity, and thus represent weaker ties relative to kinship (Ibid: 19, 26). Clan politics, according to Collins, overlaps with both clientelistic and corrupt practices but not all corruption and clientelism can be considered clan politics, just as the latter cannot always be described as corrupt or clientelistic (Ibid: 40).

Collins' proposition has been contested by scholars finding less, or contradictory, evidence of the importance of kinship ties in Central Asian society.[31] An alternative approach to the analysis of Central Asian regimes is that of Pauline Jones Luong (2002), who has argued that subnational identities are the more salient po-

[31] See previous note.

litical identities in Central Asia (Luong, 2002: 17). The analyses of Luong and Collins are often held up as oppositional. However, Luong did not deny the continued prevalence of subnational clan networks, though arguing that such were weakened or restricted to the social sphere (Ibid: 52). Rather, as Collins noted (2006: 53-54), the singular focus on formal institutions led Luong to ignore the informal networks operating within formal institutions.

Kinship connects the elite and the masses through vertical ties, which are continuously reinforced through repeated, dense interaction. Through such interaction a high level of trust is build, based on reciprocity and interdependence, which can be easily carried across political, social and economic spheres, thus lowering transaction costs. Consequently, a kin-based society is characterised by the blurring of public and private spheres (Ibid: 17, 27-8). Kin groups are characterised by a collective identity united in common goals, as well as a socio-economic dependence on the kinship network (Ibid: 30). Understanding the informal regimes behind the formal political structures in Central Asia is critical to the analysis of leaders' preferences and willingness to enact reforms as well as dynamics underlying demand for policies. The fusion of political power and economic resources affects the interest formation of the ruling as well as the broader elite, which keeps the former in power, inclining both towards the *status quo*, which enables the ongoing practice of rent extraction. The dynamics, however, also affect the behaviour and interest representation of other groups in society, including emerging entrepreneurs and mid-sized businesses, who on the one hand may be linked to elite networks through vertical ties but more generally face impediments to doing business stemming from the fusion of capital and executive power. In the following, I shall analyse, first, the demand for and, secondly, the supply of regional integration policies across Central Asia.

4.1 Demand factors

Exploring the demand for integration policies in Central Asia, I examine the interests and lobbying of a series of actors. Firstly, the business community, *inter alia*, through their organised forms: business associations. Secondly, I look at the potential for formation of independent elites, that is, wealthier businessmen, who may have interests separate to those of the ruling elite. Additionally, I look at the interests of wider groups of society, including trade unions and migrants; before latterly considering the role of foreign investors. The section concludes by considering the lobbying activity of these actors and effectiveness thereof.

4.1.1 Entrepreneurs and smaller businesses

While small businesses are often opposed to regional trade agreements for fear of the competition from foreign companies, small businesses in Central Asia may be in a position to benefit from regional integration because the small domestic markets inhibit their growth, while significant trade barriers hinder expansion to other markets (CASE-Kyrgyzstan, 2005: 7). Also trade integration could attract investment and improve access to imports, including technology, more widely creating better opportunities for growth (Olimova, Kurbonov, Petrov and Kahhorova, 2006: 56). This section explores the character, interests and strategies of entrepreneurs and small business-owners across Central Asia on the basis of primary research in the region.

Who are Central Asian entrepreneurs?

The transition from a command to a market economy, in several Central Asian republics, represents a significant rupture in the lives of Central Asians. One Tajik interlocutor likened the situation to being a Christian, waking up one morning to be told that he is now a Muslim but having no understanding of what that means or the norms he should now adhere to (i/w Boymamat (#54/BA)). One manifestation of this is in the disinclination towards growing business or seeking higher profits. To paraphrase a respondent's characterisation of this mentality: 'If you are comfortable with your business, why grow it?' (i/w Nurlanbek (#63/IF)). During Soviet times a farmer would never sell excess production for profit; as one entrepreneur suggested: 'a man will not hunt, if not hungry' (i/w EN). The response of Kazakh food product manufacturers to the Russian ban on Western food products is both illustrative of the supply constraints suffered by Kazakh producers as well as the disinclination towards growth. One dairy producer stated: '*If tomorrow someone asks us to supply milk at a 10 percent higher price to Russia instead, we will not take the offer because we have our own market here (in Kazakhstan)*'

(Tashkinbayev and Satubaldina, 2014). Such disinclination towards business growth suggests that smaller businesses in fact are not likely to demand market enlargement through regional integration.

Kinship ties affect the way in which many entrepreneurs do business. On the one hand many businesses are family-driven and organised through family links (i/w WD). At the same time, entrepreneurs are unwilling to make a profit on friends and family, who for their part are prone to seek out the services and goods offered by extended family members rather than strangers (i/w Paauwe (#49/IA)). One entrepreneur recounted how generosity toward her kin led her first business venture to bankruptcy, whereby she learned the hard way that her responsibilities first and foremost are to her immediate family (i/w Dodhodoeva (#50/BA)).

The region continues to be affected by a Soviet mentality, whereby the government is seen by people, and sees itself, as a provider or father of the nation (i/w Madumarov (#2/AC); Claytor (#74/FB); Drakinos (#99/IF)). For instance, an entrepreneur recounted how in search of financing for her second business venture, she had turned to the local mayor (i/w Abylkasymova (#61/EN)). Citizens of Kyrgyzstan and Kazakhstan are said to have escaped the Soviet mentality to the greatest extent accepting the benefits of entrepreneurialism, having seen that hard work can pay off (i/w Madumarov (#2/AC)). For instance, Kyrgyz businesspeople are seen to be relatively more worldly and well-educated having had better opportunities for travel as well as benefiting from WTO membership which, *inter alia*, has facilitated an intensive trade relationship with neighbouring China (i/w IA). Indeed, in Kyrgyzstan some businesspeople are said to have fully divested themselves of the Soviet mentality and taken on a liberal view of government, expecting nothing at all from the state (i/w Claytor (#74/FB)).

In the 1990s, the period immediately following the fall of Communist rule, it was popular to become an entrepreneur (i/w NN). As people saw oligarchs rapidly accumulating wealth, people engaged in business hoping to copy the experience (i/w BA). While, being money-driven might be said to be the first grain of entrepreneurialism (i/w Bethom (#37/IA)), one interlocutor suggested that nine out of ten small businesses are aimed at making quick money, not developing a long-term enterprise (i/w BA). On the one hand, such short-termism may be the result of the need to feed your family, but, on the other, naivety and risk-averseness are also said to fuel such short-termist drive for profit. Landlords, for instance, leave their assets idle by refusing to negotiate on rent levels, thereby foregoing rental earnings (i/w Bethom (#37/IA)). The short-termist approach to business not only impedes growth-oriented business models but hinders the development of value-added production in the region (i/w EN; Baimambetova (#81/BA)). People simply prefer to engage in trade, where turnaround is quicker and the labour effort less (i/w Baimambetova (#81/BA); Paramonov (#96/AC)). An entrepreneur, who previously sought to build scale in their business by buying inputs from other local producers, recounted how the suppliers delivered a quality product the first year but the following year shirked, and delivered produce of a lower quality (i/w EN).

Understanding the market economic business model and working out a business plan are significant hurdles for entrepreneurs, particularly those over the age of 40 (i/w AC; IA; Altaev (#17/GO); Bethom (#37/IA)). One common problem, for instance, is to only account for the start-up but not operational costs (i/w Paauwe (#49/IA)). Another widespread problem is lack of basic administration and management skills. For example, bazaar stall keepers frequently do not know what their turnover is, while many entrepreneurs do not understand, or see a need, to save part of their income for future business development (i/w Dodhodoeva (#50/BA); IA). Another issue is in the appreciation of quality and consistency of products and the impact thereof on customer retention (i/w EN; LE). For example, if one day you buy a green soft drink that tastes of kiwi, the next time you buy it, it may taste of mint, and the original product can no longer be found on the market (i/w LE).

Younger generations, who have lived their formative years in more liberalised economies, are said to more easily accept and adapt to the liberal mentality and market economic approach (i/w AC; Boymamat (#54/BA)). There are many young and bright people in Central Asia (i/w WD); particularly, young people who have studied abroad (i/w Boymamat (#54/BA); LE). However, in several countries, young people often do not return upon completing their studies, particularly if having studied in the West (i/w AC; NN). Students stay abroad because their skills are currently not in demand in their home countries (i/w Boymamat (#54/BA)), or because they seek higher salaries abroad (i/w Abylkasymova (#61/EN)). By contrast, in Turkmenistan, where the return rate of students is high (i/w 2xIO; Drakinos (#99/IF)); there is a sense that foreign-educated people are not trusted, but instead seen as disloyal renegades (i/w LE).[32] One academic suggested that young people are held back in their entrepreneurial endeavours by parents, who not only fail to appreciate the market economy, but doubt their children's abilities to conduct business, and hence interfere with their business management (i/w AC). Indeed, while young people may have a good theoretical understanding of business, they lack practical experience (i/w 2xAC; 2xBA; IA).

Despite these difficulties in adjusting to the way of doing business in a liberal market economy, the Central Asian republics do all exhibit evidence of a belief that over time the requisite mentality will take hold and successful enterprises develop (i/w AC). A foreign businessperson, claimed to have witnessed great development of the skills of local entrepreneurs. Where in Kyrgyzstan in the early 2000s an entrepreneur might present a factory floor plan as their business plan, the interlocutor suggested that most now appreciate the concept of a business plan and are able to develop such (i/w FB). Similarly, businesses are beginning to appreciate the value of product consistency, standards and certification (i/w Uskenbaeva (#83/BA); NN). The push for higher standards and certification is market driven indicating the importance of integration with global markets. (Potential) suppliers of multinational companies or foreign customers are forced to adopt standards and have products certified in order to sell their goods (i/w NN; TT). Export-oriented businesses are increasingly aware of the need to reach international quality standards, and the demand for consultancy services in this domain is increasing (i/w NN). This suggests that integration into GVCs could contribute significantly to development of competitive businesses in Central Asia.

[32] Reasons given for why the return rate of students is perceived to be high in Turkmenistan varied. Some interlocutors believed it was out of fear for what would happen to students' families if they did not, while others pointed to strong family bonds, the requirement to do so, when having studied on a government grant, or the risk of losing citizenship (i/w 2xIO; NN; DI).

Concerns and interests of Central Asian entrepreneurs

While the mentality and skills of entrepreneurs may present challenges for business development, so do a range of factors in the business environment. On paper, the business environments may, in some cases, appear relatively attractive but while legislation may conform to international standards, implementation often does not (i/w AC; Bethom (#37/IA)). The business environment varies across the region in terms of its restrictiveness. For instance, the business environment in Kyrgyzstan is perceived as being relatively good (i/w 2xGO; FB; Shamiev (#71/LE); Zhunushov (#68/IF)) though the country's economic development is stymied by political instability (i/w IA; GO). In Uzbekistan, on the other hand, businesses are said to 'not grow in the same way as in other countries' (i/w AD). A diplomat suggested that while in Kazakhstan businesses are allowed to grow as long as they do not challenge authorities, in Uzbekistan the approach is discretionary; a business is allowed to grow as big as the authorities deem appropriate, and business expected to show gratitude in exchange (i/w WD).[33] In Turkmenistan, space for the private sector is opening up. However, while the rhetoric favours the development of a private sector, the occasional arrest of a CEO and seizure of the company the person runs, signals a lack of full commitment on part of authorities (i/w LE). Moreover, opposition news sources claim that small private businesses are finding it increasingly difficult to operate in Turkmenistan (Khronika Turkmenistana, 2014). Nevertheless, there is a sense in the country that the development of the private sector is only a matter of time (i/w NN; WD; Drakinos (#99/IF)).

While all business environments are uncertain because of (potential) changes to legislation, legislative changes in Central Asia happen with incredible regularity (i/w BA; Claytor (#74/FB); Khakimzhanov (#6/BP); Tungatarov (#66/BA)). Thus, while technically the business climate may be good, political and/or legislative instability hurts the perception of the business climate (i/w Tungatarov (#66/BA);

[33] This notion was confirmed by a local journalist, who suggested that the impetus to hide one's success varies across the region. He claimed that while in Kazakhstan, authorities take only a small amount from you at the indication of improving living standards (such as purchasing larger quantities of meat) in Uzbekistan, they will take everything; thus the incentive to hide success is relatively higher in Uzbekistan (i/w Askarov (#27/JO)).

Claytor (#74/FB)). A survey in Tajikistan suggested that 18 per cent of investors, domestic and foreign, refrain from investing because of frequent changes to the legislative framework (i/w AC); by way of example, the tax code is said to have changed three times in one year with no positive impact (i/w IA). Similarly, indicators such as the World Bank's 'Doing Business' are criticised for missing the point by not measuring the issues that actually matter but, nevertheless, indicating improvements from year to year, which are not experienced by people on the ground (i/w WD). For instance, one indicator measures access to credit, without acknowledging that having the right connections is critical to obtaining a loan (i/w WD; Lermusiaux (#4/FB)). Such discrepancy between legislation and practice, formal and informal institutions, and contradictions between different legislative acts, is prevalent across the region (i/w Nurlanbek (#63/IF); Madumarov (#2/AC); Tungatarov (#66/BA); WS). One aspect of this is varying interpretations of the same legislation by subnational authorities (i/w BA; WD; Spechler, 2008: 49), or the lack of commitment by ministers to legislation or obligations made by their predecessors (i/w Tungatarov (#66/BA); IO).

Across the region, bureaucracy represents a challenge for entrepreneurs arising, *inter alia*, from a Soviet mentality in government or seemingly inappropriate regulation (i/w BA; Lermusiaux (#4/FB)). Entrepreneurs repeatedly note the complicated bureaucracy involved for instance in registering a business or acquiring necessary documentation for export (i/w Abylkasymova (#61/EN); EN). One entrepreneur noted the inefficiencies of government recalling five different tax inspectors working on her case within one year with no hand-over between them; or queuing for official stamps on documentation with the clerk not even looking at the document before stamping (i/w Abylkasymova (#61/EN)). In Turkmenistan, while the scope for the private sector is growing, many businesses cannot operate without explicit approval. For instance, in using printing or conference facilities, at least foreign representatives, require explicit permission from authorities issued to specific businesses for the latter to supply goods and services (i/w WD; IO). Meanwhile, in the pharmaceutical sector in Kazakhstan, products are only licensed for three years, which in some cases may be less than the sell-by-date of the products, which thus require re-licensing to stay on the market (i/w BA).

Moreover, businesses acting as suppliers to the public sector are limited in their ability to plan long-term because government procurement contracts run for short periods, such as three years (i/w BA).

The tax codes in several of the Central Asian republics are criticised for being complex and subject to frequent changes (i/w 2xNN; BP; GO; 2xBA). In several Central Asian republics tax codes have been re-written with support of international donors. Despite this, they are reputed to read unprofessionally and be unworkable (i/w NN; Claytor (#74/FB)). While in Turkmenistan the tax level is praised for being particularly low, thus allowing the private sector to grow (i/w NN), generally across the region the tax level is said to be so high that conducting one's business fully within the law becomes unprofitable (i/w BP; BA). Bureaucracy also presents a challenge in the form of corruption, a form of indirect taxation. On one level, this is about survival with public servants finding supplementary revenue streams to their low salaries or their agency's operating budget, and businesses paying bribes to be allowed to operate; as such creating a vicious cycle (i/w Agan (#80/DI)). Businesses are, for instance, often faced with requests for financial contributions by public bodies or political parties, and feel pressurised into paying for fear of otherwise losing their business (i/w Umarov (#45/AC); GO; IA; NN).

Inspections of tax, health and safety or fire authorities represent another obstacle to business development. A survey of Kyrgyz SMEs suggested that 73 per cent of SMEs and 57 per cent of individual entrepreneurs faced at least one inspection in 2011; while inspected SMEs and individual entrepreneurs averaged four and seven inspections in 2011, respectively (IFC, 2013: 25-26). Inspections may in some cases be one-off opportunities for authorities to extract bribes but the frequency of such occurrences pushes many businesses into the shadows and bankrupts others (i/w 2xBA; NN; Tungatarov (#66/BA); Mambetalin (#28/OP)). Inspections which are supposed to occur annually are, in effect, often imposed on businesses monthly (i/w BA); and inspectors can become confused if a businessperson presents them with the books, rather than cash (i/w AC). The problem is supposedly increasing in Tajikistan as well as Kazakhstan (i/w 2xBA). One business association has suggested that 15,000 businesses in Kazakhstan have closed under pressure from civil servants, and related corruption. For example, a business which may lawfully have been issued a KZT 30,000 fine, may in practice face a fine of KZT 3 million (Akuov, 2013).

In other cases, inspections may be an indicator of an imminent attempt at corporate raiding or racketeering. The approach followed varies little across the region, where companies are confronted with inspections, sometimes after being asked to sell. Subsequently claims of wrong-doing lead to prosecution, which in some cases can be avoided by paying bribes (i/w WS; Khakimzhanov (#6/BP)). Infringement of property rights are less an issue for small businesses in Kazakhstan and Kyrgyzstan, who are primarily faced with inspections or customs-related corruption (i/w Shamiev (#71/LE); AC). In Uzbekistan and Tajikistan businesses of all sizes and shapes are considered targets (i/w AC); and while in Kazakhstan businesses reliant on inalienable human capital are less at risk (i/w Khakimzhanov (#6/BP)), in Uzbekistan Gulnara Karimova's Fund Forum was said to have run a racket in the arts and crafts industry by offering partnerships against a share of profits. In exchange all barriers to export would be eliminated but should a business decline the offer, it would simply be shut down (i/w NN).[34]

With judicial systems across the region perceived as corrupt, businesses have no recourse against hostile takeover attempts (i/w Shamiev (#71/LE)). Moreover, trials are expensive, and thus beyond reach for smaller companies (i/w BA). Judges are said to be poorly-educated and, as an expression of a lingering Soviet mentality, expected to support government (Ibid). One interlocutor, doubting claims that Kyrgyz judges accept bribes, suggested that judges either side with authorities, or with the side that gets its story to the judges first – usually the prosecutor (i/w Claytor (#74/FB)). Another suggested that a judge will rule in favour of the person paying the bigger bribe in some cases, while in others the ruling will depend on the relative degree of influence held by the claimant and defendant (i/w Shamiev (#71/LE)). An interlocutor, who had experienced winning a case against a local authority, suggested that judges do in fact listen, consider and give rea-

[34] With Fund Forum being under pressure following the arrest of Gulnara Karimova (Sindelar, 2013), this may now have changed.

soned arguments for their judgements. He remarked that while there clearly is logic behind such verdicts, it may be a '*Mad Hatter'* logic (i/w Claytor (#74/FB)). Consequently, the judicial system is one of the least trusted institutions across Central Asia (McGlinchley, 2011: 57).

A range of shortages and imperfections in enabling conditions for businesses also negatively affect business growth. This includes inconstant access to electricity (i/w 3xWD; AC), inadequate infrastructure (i/w Kadamshoev (#51/GO); Drakinos (#99/IF), Nurlanbek (#63/IF)), and limited access to land or work space (i/w LE; US Commercial Services, 2012: 39) as well as credit (i/w Nurlanbek (#63/IF); NN; Abylkasymova (#61/EN); Umarov (#45/AC)). Often money follows business, in the sense that no credit is given before a business has proved itself (i/w WS). In other cases, particularly if requiring larger loans, it is possible to access credit only if one has the right connections (i/w WD; Lermusiaux (#4/FB)). Also lending processes are long and cumbersome, and interest rates high (i/w BA). Most lending is short term, and though it is possible, at least in parts of the region, to access long-term loans it is difficult, particularly for manufacturing companies (i/w Zhunushov (#68/IF); Dodhodoeva (#50/BA); AC). In Tajikistan over 50 per cent of lending is said to go to the trading sector (i/w WS) supporting the bazaar economy and traders crossing into China to purchase consumer goods for resale. Many people do not trust banks and bank-client relationships are difficult to develop; people are said to require education on how banks work (i/w WD; BA; IF). Instead, some turn to family networks or pawnbrokers for lending, in the latter case, facing even higher interest rates (i/w NN; BA). Businesses that are '*politically exposed'*, typically larger businesses, face further obstacles, such as lower capital limits on lending than the average business, as banks guard themselves against the political risks involved (i/w FB). In keeping with the policy to expand the private sector, the Turkmen government is subsidising loans resulting in interest rates as low as 5 per cent (i/w Drakinos (#99/IF)). However, Turkmen entrepreneurs face similar issues to other Central Asian businesses in accessing finance relating to corruption and patronage (i/w LE).

Across the region, business growth is stymied by the small size of domestic markets. The small size of populations in most Central Asian republics, combined with low purchasing power, result in weak demand in the domestic market (i/w Boymamat (#54/BA); Nurlanbek (#63/IF)). For instance, in Turkmenistan it is noted that the government's policy of expanding the private sector has so far been successful but that the low-hanging fruits have now been picked and that a larger market is needed for the sector to develop further (i/w NN). With small domestic markets, businesses look for customers and markets beyond national borders, particularly to immediate neighbours in the region (i/w NN; Tolipov (#84/AC); Shamiev (#71/LE)).

Trade

Following 70 years of Soviet integration, people-to-people links continue to be strong but politically imposed obstacles to both social and business interactions risk rupturing these links over coming generations (i/w AC). The Fergana Valley can be described as being home to a natural division of labour, which has been disrupted by the erection of national borders (i/w NN). The obstacles to trade hit small-scale entrepreneurs particularly hard, who in some cases are, or were historically, particularly reliant on markets in neighbouring countries (i/w EN; NN).

There is a high level of interest in trade within Central Asia, particularly between Kazakhstan, Kyrgyzstan and Uzbekistan. Uzbek businessmen are said to be keen to develop trade particularly with Kazakhstan and Kyrgyzstan (i/w Tolipov (#84/AC); DI). When a Kyrgyz airline opened direct flights between Bishkek and Tashkent, the demand proved so high that a second weekly flight was added within months (i/w Shamiev (#71/LE)). Nevertheless, politically induced hindrances and fear of authorities impede trade by making it highly risky (i/w Tolipov (#84/AC); Shamiev (#71/LE); DI). For instance, Uzbekistan, located in the middle of Central Asia and having the region's largest population, in principle represents an attractive market for entrepreneurs in neighbouring countries (i/w Shamiev (#71/LE); BA). However, the political difficulties in some bilateral relationships of Uzbekistan as well as the strict trade regime imposed by the Uzbek government lead many entrepreneurs to discount of the opportunities altogether (i/w BA). A Kyrgyz civil servant suggested that despite bilateral agreements on trade, verbal orders from high levels of the Uzbek government hinder trade in practice (i/w GO).

Visa requirements and poor treatment of travellers and entrepreneurs on border crossings, particularly minorities and diaspora communities, reduce people-to-people exchanges (i/w GO; Kislyakova (#44/BA)). One government official readily admitted that citizens are harassed by border guards and that crossing a border can take up to six hours (i/w GO). An academic described border guards as operating by a bribe extracting-logic rather than serving the national interest (i/w AC). The treatment is said to have such an impact on some citizens that they refuse to ever cross regional borders again (i/w TT). However, the biggest obstacle to trading is often said to be cumbersome customs procedures, which in some cases involve duplicate certificates from different authorities (i/w Uskenbaeva (#83/BA)). Moreover, given the frequent changes to legislation and regulation, officials are often unaware of current regulations (i/w BA).

Problems in regional trade are, however, not restricted to obstacles to the movement of goods and people. The foreign exchange limits imposed by the Uzbek government make it unattractive for entrepreneurs in neighbouring countries to trade with Uzbeks as payment in UZS are worthless to foreign businesses (i/w Uskenbaeva (#83/BA)). Nevertheless, the currency regime and trade restrictions pose obstacles to Uzbek businesses first and foremost (i/w LE); receiving permission to exchange currency can take weeks or even months (i/w AD). Other restrictions characterising Uzbekistan and Turkmenistan, include requirements of upfront payments on exports and payments on imports only allowed following goods' arrival in the country (i/w Drakinos (#99/IF); BA). Thus, businesses are reliant on the trust of foreign trade partners, which is often absent given the lack of established partnerships (i/w Drakinos (#99/IF)). These restrictions are particularly harsh on small businesses (i/w BA). Moreover, periods in which all imports are forbidden can be imposed at the discretion of authorities, for instance in case the government is running low on cash (i/w WD).

Political risks also affect the attractiveness of trading with neighbouring markets. The political instability in Kyrgyzstan negatively affects the perception of the country in the region. Kyrgyz democracy is described as anarchy, and it discourages businesses communities in neighbouring countries from seeing opportunities in bilateral trade (i/w Boymamat (#54/BA); BA). For instance, in Kazakhstan there is concern that Kyrgyz entry to the ECU will increase the inflow to Kazakhstan of contraband (i/w BA). Similarly, as described above, the economic policy pursued by the Uzbek government discourages business communities in neighbouring countries from pursuing trade.

Geography, infrastructure and people-to-people links to a certain extent determine the trade orientation. While there is significant trade between Murgab in the Gorno-Badakhshan Autonomous Province (GBAO) of Tajikistan and Osh in Kyrgyzstan, in part facilitated by ethnic Kyrgyz living in the Murgab region, but also the geography of the mountain region (i/w Boymamat (#54/BA); GO), the opening of road links between GBAO and China, Afghanistan and Dushanbe has reduced Badakhshan's trade level with Osh *oblast* markedly (i/w Boymamat (#54/BA)). In southern Tajikistan the interest in trading with Afghanistan, as well as Pakistan is high (i/w Boymamat (#54/BA); Kadamshoev (#51/GO)). Tajiks find it easy to trade with Afghans given their shared language and other cultural similarities, in addition to sharing a long border which is easy to cross (i/w Soliev (#31/GO)). Cross-border markets provide a good opportunity for Tajik traders to sell consumer products not accessible in Afghanistan, including soft drinks, mineral water and alcohol; and the traders are able to sell at a higher profit at the markets, than in their local shops. Many of the consumer products sold at the market are sourced from China creating opportunities for re-export trade for Tajik traders (i/w Paauwe (#49/IA)). There are plans to open more markets in the future, though the security situation in Afghanistan does limit the trading opportunities (i/w Boymamat (#54/BA)). The impact of the security situation is however, more marked in Turkmenistan, where the border regions are considered no-go areas because of the drug trade, which is perceived to be controlled by crooked Committee for National Security of Turkmenistan (KNB) officials, giving no one access to the area (i/w LE). With strong restrictions on cross-border trade with Afghanistan, Turkmen traders and consumers appear oriented towards shuttle trade with Iran and Turkey (i/w LE; Badykova, 2005: 69). Turkmen private entrepreneurs are reportedly keen to have their opportunities for international trade widened (Annayev, 2013).

The Kyrgyz also look to the Afghan market for agricultural produce. In this case, it is perhaps less a question of geography as it is scale. Russian distributors require purchases at scale, which small-scale farming does not easily facilitate. Consequently there are discussions on whether to open a market for Kyrgyz-Afghan trade in Osh *oblast* in southern Kyrgyzstan (i/w GO). The ECU is perceived to disrupt trade links with Kazakhstan and Russia (i/w AC). The re-export trade and the Kyrgyz textile industry, whose primary markets are Russia and Kazakhstan, have, for instance, felt the pinch. In recent years, it is said that up to 30 per cent of the textile industry has shut down owing to rise in duties, some of these businesses relocating to Russia taking their Kyrgyz workers (i/w Shamiev (#71/LE)). Also the meat and dairy sector in Kyrgyzstan is said to suffer from loss of Russian and Kazakh markets because the Kyrgyz producers cannot live up to the technical requirements but also because of allegations of sick livestock (i/w BA; Uskenbaeva (#83/BA)). Also, for Uzbek businesses the Kazakh market has become less attractive (i/w Altaev (#17/GO))

Kazakh entry into the ECU has proved a disappointment for many Kazakh businesses, which find that their existing supply networks are being disrupted by trade barriers erected towards third countries, while transaction costs within the ECU have not reduced for many businesses, and higher external tariffs are making Kazakh companies less competitive (Rakhmatulina, 2011; i/w 2xBA; Khakimzhanov (#6/BP); WD). Customs procedures with third countries have become more complicated increasing the amount of time spent on declarations from 15 minutes to one hour (Rakhmatulina, 2011). Moreover, cross-border procedures within the ECU continue to be complicated, so that for instance, Russian certificates of origin must be replaced by Kazakh certificates when arriving from Russia and vice-versa (Ibid). Kazakh companies also face relatively higher transport fees in Russia than do domestic companies (Ibid), and there are increasing concerns regarding non-tariff barriers, which hinder access to ECU markets, Russia in particular (i/w WD; BA; BP; Zhunushov (#68/IF)). One example is quotas and prepayment of excise duties on alcohol imports to Russia (see Forbes 2013b, 2013c).

The ECU is, thus, said to create artificial barriers to trade in Central Asia (i/w Mambetalin (#28/OP)), which in Kazakhstan particularly affect businesses in the south for which the natural market in many cases lie in Uzbekistan or Kyrgyzstan (i/w BA). Consequently, the ECU is perceived to mostly benefit business in northern Kazakhstan (i/w Madumarov (#2/AC)).

Businesses fear the higher quality requirements of the ECU, which given their reliance on Kazakh and Russian markets, many businesses must adapt to regardless of whether they join the Union or not (i/w Nurlanbek (#63/IF)). Kyrgyz businesses appear split on the issue of whether to join the ECU, in part reflecting the industries they represent as well as their trade orientation (i/w Shamiev (#71/LE); GO). Traders who import from non-ECU markets fear that membership would damage their business, while businesses in the production sector hope for a positive impact, though also fearing loss of access to Western and Asian technology and competition from Russian and Kazakh producers (i/w Shamiev (#71/LE); BP). As such Kyrgyz re-exporters are a countervailing force to those stakeholders who lobby for Eurasian integration. Such distinctions are, however, not clear-cut. The textile industry may gain better access to its markets through joining the ECU, though risks losing access to cheap inputs from non-ECU markets (i/w Zhunushov (#68/IF)), thus illustrating the complexities of anticipating the impact of membership on the economy overall.

Coping strategies

Some businesses find that when they stay on the right side of the law, and know their rights, conducting 'clean' business is possible. More generally, however, businesses employ a range of coping mechanisms in the face of the restrictions and obstacles described above. These can be divided into three types of approaches. Firstly, businesses stay small to avoid unwanted attention from authorities. Secondly, businesses employ various 'tricks' to circumvent cumbersome or prohibitive regulation and, thirdly, many businesses conduct at least part of their operations informally.

Small businesses in particular, may have freedom to operate if they stay compliant with regulations. For instance, in Kyrgyzstan it was suggested that the conditions are there to do business and the challenge is for business to use the conditions properly (i/w Zhunushov (#68/IF)). This is, at one level, a question of business people knowing their rights. While knowing one's rights may not fully protect businesses, there is a sense that one at least stands a better chance (i/w Tolipov (#84/AC); NN; IFC, 2013: 21). Even in Tashkent it was suggested that businesses can operate below the radar of authorities, though this does not extend to other parts of Uzbekistan (i/w BA). Nevertheless, operating above board is not easy. Legislation is complicated, intransparent and often contradictory; while the regulatory system and tax level make it difficult to operate at a profit in the legal economy (i/w NN; Claytor (#74/FB)). Infringements allow officials to blackmail businesses, exploiting their weak points. If authorities seek errors or unlawfulness, they are likely to find it given the many contradictory and inconsistent regulations (i/w Nurlanbek (#63/IF); FB; NN).

Larger businesses are, arguably, subject to higher levels of scrutiny by authorities, and therefore benefit from a sponsor to protect their business. For instance big business was described as '*politically exposed*' (i/w FB). Consequently keeping a business small to some extent allows entrepreneurs to operate outside the watchful eyes of authorities (i/w NN). While smaller businesses may not be frequent targets of hostile takeover attempts in Kazakhstan and Kyrgyzstan, mid-sized businesses are aware of the risk to larger businesses and thus often avoid growing their business (i/w IA; GO; Shamiev (#71/LE)). One interlocutor suggested, that entrepreneurs in a certain industry were content with net profits of USD 4,000 knowing that if they were to double that, they would become subject to the attention of authorities, while reaching profits five times that would see their business shut down (i/w NN).

Across Central Asia, but particularly in Uzbekistan and Turkmenistan, entrepreneurs are forced to employ a range of tricks in order to do business (i/w Tolipov (#84/AC); AD; IO). One way of reducing the tax bill is to put every member of the family, including grandparents and small children, on the payroll, paying everyone at the minimum tax threshold level to reduce the family's tax bill overall (i/w WD). Restrictions on foreign financing and payment restrictions on import and export in Uzbekistan and Turkmenistan can be circumvented via use of foreign bank accounts (i/w Tolipov (#84/AC); Drakinos (#99/IF)). A foreign account allows a business an intermediate bank account from which to make payments for imports in advance of receipt in the country, or to pay itself upfront for exports. Such intermediate accounts in foreign banks are also used to expatriate profits (i/w BA). Another trick is to headquarter one's business in a foreign country. Location in a neighbouring country reduces the risk of raiding or racketeering in the home country, and may in some cases also offer less cumbersome start-up procedures relative to Uzbekistan, for instance. Headquartering further afield, in for instance Western countries, also may offer a degree of international protection in case of authorities' intervention in the business (i/w EN). Generally, engaging in a GVC is said to bestow businesses some protection as authorities will understand that the operation of the business relies on international relationships and that exporting businesses bring in foreign currency (i/w NN; WD). This would suggest that deeper integration with the world economy via value chains may force better domestic business environments.

The bias towards operating in the shadows is caused by the factors described such as incomplete rule of law processes, deficient protection of property rights, corruption, and a heavy tax burden (Olimova, Kurbonov, Petrov and Kahhorova, 2006: 21; Rumer, 2000a: 12). Moreover, the politics is accepted as fact and obstacles to trade are sought overcome through corruption (i/w BA; TT; Shamiev (#71/LE)). A business association representative claimed that the main reason why businesses operate in the informal economy is unwillingness to pay tax (i/w Baimambetova (#81/BA); BP). Tax avoidance is claimed to have become so culturally entrenched that re-education of the public will be necessary to stamp out the practice (i/w WD). A survey among Kyrgyz businesses has suggested that '*the share of SMEs resorting to unofficial methods to comply with regulations*' fell from 76 per cent in 2008 to 52 per cent in 2011 (IFC, 2013: 4). This downward trend would suggest that simplification of regulation as pursued in Kyrgyzstan does have a positive impact in terms of bringing businesses in from the shadows (Ibid). In Uzbekistan regulation is considered so complex and demanding that full compliance will render any business unprofitable (i/w NN, BA; Bendsen (#97/IA)). Interlocutors estimated that at least 50 per cent of economic activity in

Uzbekistan is conducted informally (i/w WD; NN). Similarly in Tajikistan it was suggested that while all, or most, businesses are likely to be registered, they will conduct significant activity outside the formal economy (i/w IF).

Competitive pressures from businesses operating in the informal economy are likely to force many businesses to also operate in the shadows. For instance, if the general practice in a sector is to use informally imported inputs, employing legal imports at higher cost would make a business uncompetitive (i/w NN). Marketing is another indicator of the bias towards the shadows. Marketing is commonly conducted through social connections, partly as a consequence of the fragmentation of domestic markets and an intuitive reliance on kin, but also because entrepreneurs are dissuaded from bringing attention to their businesses as this leads to scrutiny from authorities (Özcan, 2010: 80-82). The domination of cash in the economies also contributes to this bias (i/w IF). People do not trust banks, and therefore keep their funds in cash, often in US dollars. The latter particularly in Uzbekistan because of the currency exchange system (i/w WD). The Uzbek authorities have sought to stem the cash dominance by forcing retailers, hoteliers, restaurateurs and other service trades to regularly -daily or weekly depending on sector- deposit income in banks, ensuring that the banking system and the government has sufficient cash liquidity (i/w BA; Bendsen (#97/IA)). Businesses are faced with a sales quota, which they have to fulfil, facing inspections if they do not. Almost predictably these procedures themselves stimulate the informal economy, with businesses fulfilling their sales quota and keeping sales above this level off the books (i/w BA).

Similarly, despite the restrictions and official statistics indicating declining bilateral trade, cross-border trade continues informally (i/w WD; IA; Tungatarov (#66/BA)). Uzbek products in high demand across the region include fertiliser, and fruit and vegetables, which are traded either through unofficial border crossings or by bribing of customs officials. The extensive people-to-people links, particularly families split by national borders, facilitate such trade (i/w Tolipov (#84/AC); EN; AC). The currency restrictions in some cases lead to barter trade (i/w Uskenbaeva (#83/BA)), while the region-wide restrictive trade regimes lead to innovative methods of concealing trade such as transporting liquid goods across borders in petrol tanks for customs officials to think it is merely fuel for the journey (i/w EN).

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Smaller businesses and entrepreneurs in Central Asia often are not driven by a desire to grow their business. This, partly, is explained by short-termist inclinations towards earning quick profits and a lack of appreciation of market-economic business models. It also, however, reflects the business environment, where barriers to business development include bureaucratic and political hindrances inducing businesses to stay small or operate in the informal economy to avoid attention. This applies also to the potential for cross-border trade, in which there is notable interest, but which is often conducted informally to circumvent political and bureaucratic barriers. The establishment of the ECU has to some extent countered this trend towards informal regionalisation by increasing trade barriers between Kazakhstan and its Central Asian neighbours. Mentality, domestic and cross-border trade barriers, thus, align against growth-oriented business models, inducing businesses to stay small or operate in the informal economy. Together these factors suggest that entrepreneurs and smaller businesses are unlikely sources of demand for market enlargement and regional integration, despite their interest in cross-border trade.

4.1.2 Business associations

An avenue for collective identity and action is business associations. Such exist in Central Asia, though established literature would have it that such organisations are largely ineffective as they are often continuations of Soviet-era institutions (Özcan, 2010: 146-168, Kourmanova et al., 2008:7). The general trend across the region is, indeed, for business associations to have limited independence of authorities, if any. In some instances, this may derive from the Soviet legacy, for instance the chambers of commerce and industry, which typically are based on distinct legislation (i/w BA) but also governments being a source of funding, as suspected in the case of the Turkmen Union of Industrialists and Entrepreneurs (SPPT) (i/w NN; LE). Often the chambers of commerce and industry are described as part of the regime or as quasi-governmental organisations that do not represent the views or interest of their members (i/w WS; WD; IO; NN, BA; Bendsen (#97/IA)). There are nevertheless perceived differences in the degree of independence enjoyed by chambers of commerce and business associations more widely. While some describe the Tajik Chambers of Commerce (TPP) as quasi-governmental it is said to enjoy a higher degree of independence than Uzbek and Turkmen Chambers (i/w WD).[35] The Kyrgyz Chamber of Commerce and Industry is perhaps perceived as the most independent Chamber in the region, described by some as one of a handful of effective business associations in the country (i/w Zhunushov (#68/IF)).

The Turkmen business community is extremely weak, made up of few small businesses and shuttle traders who are poorly, if at all, organised and hold no political voice (Badykova, 2005: 69). As a representative of an international organisation noted, the organisation is not engaged in private sector development partly because there are no implementing partners or NGOs to work with (i/w IO). In 2008 the SPPT was founded (Halnazarova, 2013). Membership of the union is voluntary, although rhetorical pressure for businesses to join is increasing. The SPPT can be said to act as a replacement for the Chamber of Commerce and Industry - described as a toothless body without mandate- in the sense that had the latter fulfilled its purpose, the former would be redundant (i/w NN). Similarly to the chambers of commerce in the region, the SPPT is established by law (Law of Turkmenistan, 21 May 2011), and by some described as a government institution as nothing in Turkmenistan is truly private (i/w DI).

In 2005 Atameken Union, National Economic Chamber of Kazakhstan, was founded on the initiative of President Nazarbayev (Central Communications Service, 2014). Atameken organises sectoral and regional business associations as well as individual entrepreneurs (i/w GO). While officially, membership of Ata-

[35] The TPP maintains that it is independent and non-governmental, funded solely by membership fees and consultancy and service charges. According to a TPP representative, one of its largest members, Talco, however, pays as little as TJS 1,000 in membership fee (i/w Kislyakova (#44/BA)), arguably raising doubts as to whether the organisation can sustain itself through fees and charges. Indeed, a Tajik business association representative claimed that the TPP were subject to the same level of state control as that of Uzbekistan and Turkmenistan (i/w BA).

meken is voluntary, it has always been semi-mandatory for big businesses, and Atameken has been perceived to have strong state backing (i/w Khakimzhanov (#6/BP)). In summer 2013, the Kazakh *Majilis* (lower house of parliament) adopted legislation on the formation of a new National Chamber of Entrepreneurs (Law of the Republic of Kazakhstan, 4 July 2013). By some accounts, the measure is aimed at addressing a market failure by which businesses have failed to organise voluntarily despite needing collective representation (i/w BA). The initiative is being implemented through Atameken, which was considered the appropriate implementing partner because its regional leaders are trusted locally and hold authority and respect (i/w GO). While the word mandatory is not appreciated in government circles, membership of 'the new Atameken' will be compulsory (Ibid). The organisation is expected to undergo three phases of development: one year of foundation followed by two to five years of transition before becoming fully fledged. In the interim period, the government will be represented in the presidium, while the new Atameken gradually assumes responsibilities currently held by the government (i/w BA).

The initiative came as a surprise to some in the business community and has been met with some scepticism (i/w BA); first and foremost as regards to how it will work. While some recognise the need for improving the level of organisation and representation of business, there are questions particularly as to how the new Atameken will effectively represent the interest of small business and whether it will crowd out civil society outfits (i/w 2xBA, NN; AC). More importantly, question marks remain over the organisation's independence as well as its ability to face up to strong *akimats* (local authorities) (i/w WD; AC; BA). Within the Kazakh opposition, there is suspicion that the true aim of the initiative is to turn Atameken into a political force for presidential son-in-law Timur Kulibayev by endowing it with financial resources (i/w Mambetalin (#28/OP); BA). Indeed, a government official acknowledges the risk of Atameken developing into a political party noting both the strong membership base and the financial resources it will have; contrasting this with the dominant political party Nur Otan, which has a small membership and dearth of capital (i/w GO). Atameken has supposedly in the past been encouraged (but resisted) to create or turn itself into a political party (i/w BA).[36] These concerns can be said to echo the situation in Turkmenistan, where the SPPT was ordered by Berdymukhamedov to set up a political party representing the private sector (i/w WD). While the two Turkmen outfits are organisationally separate, there are strong personal links between them (i/w NN).

In Uzbekistan, associations nominally considered to be in the third sector, are said to be bottom-up driven only in principle, existing mainly as organs of control and with a view to extracting taxation through so-called membership fees (i/w 2xNN). A foreign businessman described Uzbek society as '*frozen'*, implying that it is impossible to organise industry organisations (i/w FB). In Kyrgyzstan, Tajikistan and Kazakhstan, on the other hand, there appears to be a move towards interest-driven, bottom-up processes, though the change is not occurring at a rapid pace (i/w 2xBA; NN; Zhunushov (#68/IF); Dodhodoeva (#50/BA)). Kyrgyzstan provides the clearest example, where some business associations seem to effectively represent business interest (i/w Tungatarov (#66/BA); Zhunushov (#68/IF)). The extent to which businesses are organised in Kyrgyzstan is relatively high, which by some is explained by the comparatively higher levels of freedom enjoyed by Kyrgyz civil society (i/w Zhunushov (#68/IF)). In fact it was suggested that Kyrgyzstan has too many associations of which only five to ten are effective (i/w Tungatarov (#66/BA); Zhunushov (#68/IF)).

The volatile events in 2010 had differing impacts on the business community in Kyrgyzstan. In the south a well-functioning business community, protecting and promoting the rights and interests of businesses, was led by strong businessmen prior to the ethnic clashes. In the aftermath, the community appears to have disin-

[36] Whichever way one turns it, the fate of the new Atameken appears intimately linked with that of Timur Kulibayev. It was presumed prior to Kulibayev's election to the presidium in September 2013 (Zhumzhumina, 2013) that he would lead also the new Atameken (i/w BA). One interlocutor suggested that while on the one hand, the establishment of a credible and independent National Chamber of Entrepreneurs was dependent on the strong stewardship of Kulibayev in the initial phase of formation, and thus his maintained interest in and commitment to the project; the new structure would, at the same time, represent a potential political instrument for Kulibayev, should he wish to employ it (i/w NN).

tegrated as many skilled businessmen left. Now, though, businesses are starting to reorganise, particularly around the Association of Young Entrepreneurs (JIA) (i/w IA). In Bishkek, on the other hand, the 2010 events led to the formation of a new business association. Retailers were unable to pay suppliers for goods lost in relation to riots, and claimed *force majeure*. This led a group of distributors and suppliers to organise and seek compensation. While the results they achieved were not fully to their satisfaction, the negotiations with retailers and government led to a realisation of the value of collective representation, and the creation of a permanent association (i/w Uskenbaeva (#83/BA)). Kyrgyz business associations are not only considered to be effective, but also engage in mutual cooperation (i/w 2xBA). Lately a group of associations have developed an advocacy programme together. A representative of one such association argued that the worsening business climate acts as an impetus for the associations to cooperate (i/w BA). This consolidation of the Kyrgyz business community appears to centre on the International Business Council (IBC), the Chamber of Commerce and Industry, the Bishkek Business Club and JIA (Ibid).

In Kazakhstan and Tajikistan the voluntary sectors appear underdeveloped and weaker relative to Kyrgyzstan but nonetheless under formation (i/w Khakimzhanov (#6/BP); Madumarov (#2/AC); WS). One business association representative estimated that Kazakhstan has as many as 800 different business associations, in part spurred by legislation in 2006, which established a right to consultation for registered business associations (i/w BA). A threat of increased tariffs on import of harvesters at the ECU level also led to the rapid creation of a strong business lobby on the issue (i/w WD). However, a representative of one association, which operates independently, suggested that it has limited scope to represent its members (i/ BA). In Tajikistan many business associations do exist but several are inactive and considered ineffective, and many associations are said to not have developed a nature of representation, partially explained by the lack of a lobbying mentality. Only some engage with the public and government in active discussions about the regulatory environment (i/w GO; WS).

Underdevelopment of business associations

To the extent independent associations exist, they are hobbled by certain weaknesses. One source of weakness of associations is lack of funding. Some Kyrgyz business associations, notably JIA and IBC, sustain themselves solely via membership fees and or service charges (i/w 2xBA; Tungatarov (#66/BA)). Beyond this, examples are few and far between, others struggling to cover their operating costs (i/w Uskenbaeva (#83/BA)). Some business association representatives claim that many businesses are willing to pay fees and for services of good quality (i/w Kislyakova (#44/BA); Dodhodoeva (#50/BA); Baimambetova (#81/BA)). Others suggest that businesses do so at best begrudgingly (i/w Claytor (#74/FB)), or that businesses' reluctance to pay membership fees is the biggest obstacle to the development of associations (i/w BA). A business association representative noted that for many businesses, membership of an association is solely about the rights they gain from it, with many not accepting having to pay fees to obtain these rights, and that even a small fee would put businesses off membership (i/w BA).

An alternative source of funding for associations seeking to maintain independence of government is through donor grants. It was suggested that as many as 100 associations in Kyrgyzstan operate on donor funding (i/w Tungatarov (#66/BA)). While running a strong and effective association on donor grants is possible (i/w Tungatarov (#66/BA); Zhunushov (#68/IF)), it renders associations vulnerable. Moreover, inefficient associations are propped up by donor funding, undermining the incentive for businesses to pay the membership fees and service charges that would make the well-functioning associations viable without support (i/w NN; IA; BA; Baimambetova (#81/BA)).[37]

Latterly, many entrepreneurs may simply not know of business associations or the benefits of being a member (i/w Abylkasymova (#61/EN)). Some entrepreneurs,

[37] It should be noted that this narrative was not accepted by all interlocutors in the region. One business association chairman drew parallels between the donor funding received by Central Asian business associations and state support for associations in Western countries, arguing that Central Asian businesses are not sufficiently developed to sustain their own business associations (i/w Boymamat (#54/BA)).

for instance, do not see benefits of membership, while others may say that they are or have been members of a business association but be unable to say which, or what benefits were derived from membership (i/w GO; Paauwe (#49/IA)), suggesting that some associations simply do not offer value for money and possibly weaken the image of the sector.

Below, I will explore factors holding back the development of civil society more generally in Central Asia, focusing on the absence of independent business associations in Uzbekistan and Turkmenistan specifically. Uzbeks are said to be patient people waiting for better times (i/w Khusainov (#26/AC); 2xNN); this echoes Gül Berna Özcan, who argued that the deteriorating economic situation in Uzbekistan leads entrepreneurs to be increasingly submissive to authorities as the success of their venture is reliant upon the state (Özcan, 2010: 114). Contrary to Özcan, Eric McGlinchley (2011: 134, 141-143) has found that there could at the local level in Uzbekistan be scope for dissent against government. Indeed, Özcan herself recognised that there is a widespread feeling of contempt for the political, administrative and business elites among entrepreneurs in Central Asia, who are angry at their inferior position in society (Özcan, 2010: 59). McGlinchley argued that the interpersonal trust, which exists locally, enables local businesses to grow, and as they do entrepreneurs can create local, independent bases of power. In Andijon, for instance, 23 local businessmen provided employment and charity through successful enterprise, which gave them a strong local support base, and seemingly shifted the allegiance of the regional governor from President Karimov to the entrepreneurs (McGlinchley: 2011: 13, 122-123).[38] Whether the 2005 events in Andijon relating to the imprisonment of these businessmen have damaged the potential for such alternative power bases to develop in the future, the fact remains that they were of a vertical nature reflecting traditional kin-based forms of allegiance, and thus not indicative of horizontal, interest-based organisations.

[38] It should be added, however, that no political ambitions or interests other than financial gain apparently lay behind the charity work of the businessmen (Radnitz, 2010: 172); and even if subversive interests had been present, Karimov effectively obliterated the rising alternative power base.

The sense of fear of speaking out is palpable in Uzbekistan and Turkmenistan. In Uzbekistan, interlocutors suggested that between one in ten, and one in four, are employed as informers by the security services, and monitoring of communications pervasive (i/w NN; BA). The tendency towards conducting economic activity in the shadows further contributes to people's fear of speaking freely (i/w NN). There is little or no feedback from civil society to government. Rather than protest the lack of employment opportunities domestically, Uzbeks prefer to work abroad under poor conditions (i/w DI). Uzbekistan is said to be primed for revolution but for cultural reasons, or mental unpreparedness, upheaval does not happen (i/w Lermusiaux (#4/FB); BA; DI). Uzbeks simply aspire to leave the country (i/w BA) though an array of underground networks is suspected to exist (i/w WD).

A lack of dissent also dominates in Turkmenistan, which can be described as a police state with no freedoms (i/w WD). International representatives often feel hindered from engaging with local society, authorities breaking up even small seminars, as they fear discussions may centre on the overthrow of government rather than, for instance, development of business skills (Ibid). While the internet is allegedly kept slow to reduce the impact of foreign influences (i/w WD), Turkmens are not wholly isolated in a hermit kingdom. Internet access has increased through smartphones, and access to non-Turkmen media is widespread in both urban and rural areas through satellite dishes receiving mostly Russian and Turkish signals (i/w WD; LE). Recent media coverage suggests, correspondingly, that Turkmens increasingly are willing to speak up, anonymously, about their concerns (Najibullah, 2014). Nevertheless, there is some way to go before civil society develops a forceful voice.

Role played by business associations

Business associations in Central Asia define their role much like business associations elsewhere. Many define their primary role as lobbying for the interests of businesses and protecting their rights (i/w 3xBA; Kislyakova (#44/BA); Uskenbaeva (#83/BA)). Others focus on assisting their members, or businesses more widely, in creating national and international networks as their primary, or one of their main, functions (i/w 2xBA; Kislyakova (#44/BA)). In many instances, however, the main activity of business associations appears to be providing training and seminars on business skills (i/w BA; Dodhodoeva (#50/BA); Baimambetova (#81/BA)). Additionally, many business associations provide practical support for businesses, such as information dissemination and sharing, and individual support through consultancy services (i/w 4xBA; Baimambetova (#81/BA); Uskenbaeva (#83/BA); Abylkasymova (#61/EN)). An additional but important function of business associations is the protection membership offers from arbitrary interventions by authorities (i/w Abylkasymova (#61/EN)).

Numerous business associations define their primary role as promoting and defending the rights and interests of businesses. One representative simply stated that without effective interest representation, the organisation would not be able to attract members (i/w BA). Kyrgyz associations are judged to be relatively more active, and effective, than their regional peers (i/w AC; FB). Some Kyrgyz associations operate on an analytical basis, on knowledge of the needs and circumstances of businesses (i/w AC; BA). Financially weak associations can sometimes benefit from individual businesses commissioning analysis in support of the association's ideas and arguments (i/w Uskenbaeva (#83/BA)). Despite the perception of associations like Atameken and SPTT being top-down driven and state-linked, they do get some credit for promoting private sector interests, even if they as associations cannot be considered representative (i/W Madumarov (#2/AC); Khakimzhanov (#6/BP); BA; LE; NN).

Associations engage in the policy making process by commenting on draft legislation, specifically outlining support and disagreements, and changes sought (i/w 3xBA), or raising to the attention of policy makers, as well as the wider public, issues of concern to entrepreneurs (i/w Uskenbaeva (#83/BA); BA). Associations generally reflect the concerns of business outlined above. Lobbying thus focuses on reduction of administrative procedures and regulation, including inspections, as well as simplification and improving consistency of legislation and regulation; improvement of the investment climate; stronger quality control; and improvements of the education system as well as improved access to government procurement (i/w Uskenbaeva (#83/BA); Kislyakova (#44/BA); Tungatarov (#66/BA); Boymamat (#54/BA); 4xBA).

Protection of the rights of businesses is a key concern across the region. In Kazakhstan, for instance, associations are lobbying for an ombudsman institution to protect the right of businesses; some inspired by the alleged success of a similar institution in Russia (i/w 2xBA; Akuov, 2013).[39] In Khorog, Tajikistan a local business association has introduced a contract between the administrators of and vendors at the local bazaar which offers protection of vendors' rights. The contract insures vendors against theft outside of market opening hours and against fire in the bazaar (i/w Dodhodoeva (#50/BA)). Following North (1990: 124-125) this may be seen a development towards a dispute resolution mechanism with judicial enforcement that may over time strengthen the formation of business groups based on shared interests if the scheme proves itself viable and popular. As of September 2013 only 70 of 1,000 stall-keepers had, however, signed up (i/w Dodhodoeva (#50/BA)), and no similar initiatives were observed elsewhere during fieldwork.

A few business associations raised a more fundamental concern, namely the structure of the national economy and its reliance on services and trade, suggesting that there was need for a stronger public debate on and effort towards refocusing the economy on production industries (i/w BA; Baimambetova (#81/BA)). Overall, it is clear that the main concern for businesses across Central Asia is the domestic business environment, partly because many businesses only or primarily operate in domestic markets (i/w BA). Nevertheless, some associations do focus on issues of cross-border trade, including customs procedures and trade integration, which will be explored further below (i/w 2xBA).

Many business associations define one of their main justifications as helping businesses to network nationally and internationally (interviews with BA; Kislyakova (#44/BA)). The TPP, for instance, organises foreign trips, which are free for

[39] While the Kazakh government has previously declared intentions to introduce an ombudsman, the implementation is still outstanding. A reason behind this may be the difficulty in finding a person of sufficient integrity to establish and lead the institution. Local stakeholders question whether such a person exists in Kazakhstan (i/w BA; WS). At the same time, the government is accused of dragging its feet because a potential ombudsman would defend the rights of entrepreneurs', currently lingering in Kazakh jails, whom the government does not wish to free (i/w BA).

their members (i/w Kislyakova (#44/BA)). Similarly, the SPPT organises exhibitions and trade fairs, and enable Turkmen companies to establish international contacts, including through participation in international fairs (i/w NN). One independent association focuses particularly on creating networks for rural businesses, which are seen to have stronger needs owing to their remote locations. The association initially builds local links between businesses, before seeking to establish national and latterly international links. A particular emphasis is put on connecting entrepreneurs who have studied abroad with those who have not (i/w BA).

The educational function of Central Asian business associations often has both a practical and a theoretical stream. The younger generations are seen to have a good theoretical understanding of market principles but lack the practical experience (i/w 2xBA). Associations address this through lectures by experienced entrepreneurs, by running their own school, in cooperation with universities or through ad hoc seminars, and some facilitate internships with their member businesses (i/w 2xBA; NN). In Turkmenistan, the SPPT is seeking to establish the first private sector university offering MBAs, which is considered potentially revolutionising in the Turkmen context (i/w LE). The initiatives also cover practical issues such as how to start a business, create a business plan or conduct accounting, as well as training in vocational skills (i/w 2xBA; Dodhodoeva (#50/BA); Baimambetova (#81/BA)).[40] The educational initiatives and experience over time are seen to have increased business skills in the region (i/w Dodhodoeva (#50/BA); BP), and entrepreneurs whose skills improve are prone to come back to improve themselves further (i/w Dodhodoeva (#50/BA)).

In addition to educational offers, many business associations engage in information sharing. In Kyrgyzstan, for instance, associations may hold roundtables where the impact of potentially joining the ECU may be discussed (i/w Uskenbaeva (#83/BA)); while in Tajikistan seminars may focus on Tajikistan's WTO

[40] Often such training and seminars are offered on the basis of donor grants or provided by foreign aid delivery agents (i/w NN; IA; LE; Zhunushov (#68/IF); Uskenbaeva (#83/BA)).

entry (i/w Kislyakova (#44/BA)).[41] Another means of information sharing is databases organised by associations, which give members the opportunity to list job advertisement or to share information about dishonest former employees (i/w BA; Uskenbaeva (#83/BA)). Individual support for businesses include chargeable services such as consultancy or judicial support, which also provide the associations with a separate revenue stream, and often is open to non-members (i/w BA; Kislyakova (#44/BA); Baimambetova (#81/BA)). One association sells accountancy services to members, which over 80 per cent of members make use of (i/w BA). The chambers of commerce, typically, issue certification, for instance on origin (i/w Kislyakova (#44/BA); BA).

Membership of a business association affords a certain degree of protection for businesses. A membership certificate in a business office can, for instance, deter unwarranted inspections but more generally membership of a business association contributes to entrepreneurs' understanding and knowledge of their rights, enabling them, for instance, to demand documentation from inspectors (i/w Abylkasymova (#61/EN); NN; Lermusiaux (#4/FB)). Moreover, businesses individually may struggle to obtain redress from government, which is more likely to respond to complaints made by business associations on behalf of members (i/w Tungatarov (#66/BA)). Also, in some countries membership of certain business associations, for instance SPPT in Turkmenistan, may facilitate businesses obtaining access to land, getting loans, buying equipment or landing government procurement contracts (i/w NN; LE).

Additional functions of business associations include cross-border cooperation. Mostly such initiatives are aimed at creating cross-border networks for businesses and sharing of resources, for instance linked to skills development (i/w 2xBA; Baimambetova (#81/BA); Kislyakova (#44/BA)). Such networks also serve to exchange information on obstacles faced by businesses to cross-border trade or on shared challenges, such as the development of an insurance industry (i/w Kislyakova (#44/BA); BA). These networks, nevertheless, do not include Turkmenistan

[41] Again, this is a type of initiative supported by donors, who work closely with business associations to provide roundtables and seminars on the business climate and how to improve it (i/w NN).

and there are also complaints about the difficulty in cooperating with Uzbek associations, which are not independent of government (i/w Kislyakova (#44/BA)).

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Representation of private sector interests is in some countries, notably Kazakhstan and Turkmenistan, dominated by top-down led business association which do get some credit for pursuing private sector interests. Meanwhile, Kyrgyzstan has a relatively strong group of bottom-up driven business associations, while similar developments are taking place in Kazakhstan and Tajikistan, where such associations, however, are perceived to be weaker. Associations define their role as lobbying for business interests as well as providing training and other services to their members.

4.1.3 Independent elites

Owners and representatives of larger commercial structures are also likely to have an interest in the development of a regional market. However, there is often convergence between these actors, and those who benefit from existing trade barriers by means of rent-extraction and corruption. There is a great amount of rent seeking involved in high level business dealings in Central Asia, which counteract the logic of market integration. As argued by Eshref Trushin and Eskender Trushin (2005: 332), owners of businesses secured in post-independence privatisation processes quickly learned that rather than advancing these businesses or engaging in new economic activities, there were much larger profits entailed in securing privileges from the political elite. The question is, whether in Central Asia an '*independent elite*' -defined by Scott Radnitz (2010: 17) as not formally a member of the ruling elite but holding significant resources, of which they are wholly in control, and who exercises power in society on the basis thereof- has developed. Independent elite members look very similar to members of the ruling elite but may pursue diverging interests (Ibid). A prominent example of such an individual, in the Russian domestic context, is arguably Mikhail Khodorkovsky.

Early liberal reform allowed the Kazakh elite to gain control of resources and enterprises. This capture of resources, and the rent extraction it allows, has meant that the business elite subsequently has been less in favour of further economic and political liberalisation, as this would undermine their oligarchic hold on power and resources (Auty, 2006a: 6). It follows that the majority of the elite in Kazakhstan supports the *status quo* both in terms of policies and ruling elite. Demonstrating the fusion of economic and political power, one civil servant pointed to the potential conflict of interests of elected politicians, when stating that it is an open question whether one is an entrepreneur because of opportunities derived from political office, or if one seeks political office to protect one's business interests (i/w GO). The Kazakh political system has, however, seen some degree of dissidence, but many of the more prominent non-conformists -such as Rakhat Aliev, Akezhan Kazhegeldin or Olzhas Suleimenov- do not meet Radnitz' definition of independence given their official posts within the formal power structures. One might consider Mukhtar Ablyazov an independent elite agent. Ablyazov was in the early 2000s instrumental in establishing a, in name, democratic party, thus, challenging President Nazarbayev's political agenda (Hagelund, 2008: 91). What each of these elite agents' stories have in common, however, is that they demonstrate Nazarbayev's skills for co-opting or coercing potentially independent elites; Aliev, Kazhegeldin and Ablyazov were all eventually driven into exile, while Suleimenov was co-opted (Ibid: 73, 76, 93; Lillis, 2009).

Radnitz claims that Kyrgyzstan developed an independent elite in post-Soviet years of independence; the development of which was facilitated by the liberal policies of former President Akayev. According to Radnitz (2010: 54, 70-76), the independent elite was instrumental in driving the changes of government following the Tulip Revolution. Former President Bakiyev, when coming to power in 2005, however, did not change the rules of the game but sought to replace the ruling elite (Ibid: 204-205). Similarly, the elite disagreements in today's Kyrgyzstan, despite formal changes to the political regime, appear to centre on obtaining control of power, not subverting it (Dyatlenko, 2014).

In Tajikistan the elite is fragmented, resting on corrupt and mafia-like practices (Collins, 2006: 206, 279, 290), though President Rakhmon increasingly appears to be firmly in control of the entire country (Marat, 2006: 25; i/w IO; WS). Zayd Saidov in the early 2010s developed into what may be interpreted as an independent elite actor. Saidov was a successful businessman and former adversary of President Rakhmon during the civil war who subsequently proved himself able to cooperate with Rakhmon, holding various government positions through the 1990s and 2000s. As Saidov, a wealthy businessman of independent means, became head of an association of business groups and founded a political party in advance of presidential and parliamentary elections he became subject to political persecution (Kadirov, 2013). The prosecution of Saidov (Najibullah, 2013) may, thus, be interpreted as Rakhmon intervening to prevent the establishment of an independent elite actor.[42]

In Uzbekistan foreign trade is dominated by large businesses (CASE-Kyrgyzstan, 2005: 23) which tend to benefit from existing trade barriers either through participation and rent-extraction in the shadow economy or by engaging in the import-substituting industries (Paramonov et al., 2006: 23; i/w Tolipov (#84/AC)). The Uzbek elite considers private entrepreneurs to be a challenge to their own economic interests, which explains the high barriers to entrepreneurship in the country (Trushin and Trushin, 2000: 140). Radnitz describes the Uzbek state as the *'sole bastion of power*' (Radnitz, 2010: 57), where centralised control of government bodies and security services' monitoring of society have been barriers to the formation of independent elites and collective action (Ibid: 68-69). In Turkmenistan, where the private sector is only now starting to develop, it is clear, that an independent elite does not exist. As interlocutors suggested, an oligarchy is not permitted to develop in Turkmenistan or Uzbekistan (i/w 2xDI).

Thus, independent elites are not yet a feature of Central Asian society. However, they may develop over time. In Uzbekistan the rents with which the regime can maintain the loyalty of the wider elite are slowly being exhausted, for instance, through declining yields on the cotton production (McGlinchley, 2011: 140). As this happens, the incentives for the wider elite to stay loyal to the ruling elite may decrease (Radnitz, 2010: 66). Nevertheless, even to the extent that an independent elite develops, it will not necessarily be an obvious source of demand for market-

[42] It has been rumoured that Saidov was prosecuted because Rahmon felt Saidov had the support of the Kremlin (i/w WS).

oriented reforms or regional integration policies owing to their precarious position in society. As Radnitz has noted (2010: 18), establishing the rule of law is a collective action problem; lobbying by independent elites attracts attention from authorities, which is often-times best avoided; Khodorkovsky being a case in point. Indeed, while Kazakh wealth owners may not feel that their fortunes are secure, they expatriate their funds via foreign investments (i/w BA) rather than voice demands for the rule of law and protection of property rights.

4.1.4 Groups within wider society

Social groups such as consumers, workers, labour migrants and ethnic minorities are potential beneficiaries of regional integration (Olimova, Kurbonov, Petrov and Kahhorova, 2006: 19). However, civil society in Central Asia is generally weak, often controlled by authorities, and such groups as labour migrants and ethnic minorities lack both a collective voice as well as bargaining power to influence policy (Badykova, 2005: 69). Furthermore, interests may vary within groups. While employees in export-oriented businesses would derive benefits from open markets, employees of import-substituting businesses or in industries protected by existing trade barriers may not (CASE-Kyrgyzstan, 2005: 20). Moreover, the potential benefits from regional integration are spread across a large section of consumers and employees, lessening the impetus for collective action.

Central Asians are considered to be tolerant people, few of whom would question the system. The majority prioritises stability over political engagement (i/w Khakimzhanov (#6/BP); 2xBA; 2xWD): '*To be silent is democracy in Kazakhstan*' (i/w BA); or as an Uzbek saying describes the national character: '*Think lots, say little*' ('*Kob oylä, az soylä*') (Spechler, 2008: 2). People do not perceive government as being representative and there is no social contract between government and people on which to hold the former to account (i/w WS; Madumarov (#2/AC)). Instead, people rely on kin to protect and represent their interests (i/w WS). The dominance of kinship ties across public and private spheres in Central Asia provides a part-explanation for the difficulty of horizontal interest groups developing. The impersonal trust that traditionally underlies civic associations is low; people predominantly interact through networks of kin. Local interlocutors pointed to this lack of interpersonal trust and the local culture as obstacles to the development of a voluntary sector (i/w BA; NN; Khakimzhanov (#6/BP)); one suggesting that also the nominal nature of the rule of law, that is frequent violations thereof, undermine trust within society (i/w BA). Radnitz (2010: 3-6) observed the high level of distrust between citizens in Central Asia, as well as an overwhelming preoccupation with immediate concerns: poor people are more likely to mobilise over material and parochial concerns than abstract issues (i/w DI).

While the public in Central Asia may generally tend to accept policy innovation as a given, there are signs that Kazakh and Kyrgyz civil societies are relatively more vibrant. In Kazakhstan there has increasingly been displays of strong feelings against the ECU (i/w Khakimzhanov (#6/BP)) reflecting a general sense of public discontent following price increases on a range of consumer products, which tend to be imported (i/w 2xBA). Already in spring of 2010 members of the media, NGOs and Kazakh opposition parties in an open letter urged President Nazarbayev to leave the ECU (Laruelle, 2012: 9). A Kyrgyz business association representative also suggested that the public increasingly distrusts the government because of attempts to join the ECU (i/w Tungatarov (#66/BA)), and spring 2014 has seen Kyrgyz activists protest against ECU membership, reflecting an active public debate. Kazakhs meanwhile have demonstrated against the EaEU (Lillis, 2014a) as well as in response to the 2014 currency devaluation (RFE/RL, 2014j; Lillis, 2014a). Earlier in 2013, a campaign against pension reform in Kazakhstan was perceived victorious, when President Nazarbayev returned the law to parliament and sacked the responsible minister (Mukhametrakhimova, 2013b).

Nevertheless Kyrgyz government surveys of public opinion are said to indicate public support for the course towards ECU membership (i/w GO; Ahmetova (#70/GO)). The EDB surveys of public opinion confirm such public support for the ECU across Central Asia; 72 per cent of the Kyrgyz public support membership according to the EDB survey, as do 75 per cent of Tajiks. Only 14 per cent of the Kyrgyz public are opposed to ECU membership, a sentiment shared by just 3 per cent of Tajiks. In Uzbekistan, public support for joining the ECU is even higher with 77 per cent claiming they wish to see their country do so; only 5 per cent of the public are opposed. The Turkmen public are the least excited about the ECU, though as many as 50 per cent are in favour of joining the ECU, whilst 28 per cent are opposed (EDB, 2013: 13). In Kazakhstan public opinion appear to be slowly shifting against ECU membership since the Union's formation. 73 per cent of the public were in 2013 positively disposed towards the ECU, representing a reduction by 7 percentage points since 2012. Similarly the share of the public negatively minded towards ECU membership has grown 2 percentage points to 6 per cent, while 15 per cent are indifferent (up from 10 per cent) (Ibid: 12).

The shares of the Central Asian publics which believe that greater convergence within the post-Soviet space will actually occur are, however, significantly smaller. In Kazakhstan, Kyrgyzstan and Tajikistan 50-51 per cent of the publics believe that economic convergence between FSU republics is likely, while 30 per cent, 28 per cent and 23 per cent, respectively, believe divergence is more likely (Ibid: 20). In Uzbekistan, the confidence in convergence is significantly higher at 60 per cent of the public, while only 14 per cent expect divergence (Ibid). The Kyrgyz and Uzbeks have from 2012 to 2013 grown more confident in convergence, while the opposite trend is discernible in the cases of Tajikistan and Kazakhstan (Ibid). In Turkmenistan, 41 per cent believe convergence to be most likely, 21 per cent that the FSU economies will move away from each other (Ibid).

The public support for Eurasian integration may reflect a positive view of economic links with CIS countries. Across the region, there is a high preference for goods from CIS countries (from 59 per cent in Kazakhstan to 67 per cent in Turkmenistan). This, however, is questioned by anecdotal evidence, such as complaints that Russian and Kazakh goods are poor value, relative to cheap Chinese consumer goods (i/w BP). Others, though, maintain that Russian and Kazakh goods are of a higher quality (i/w NN).

The preference for Eurasian integration may also reflect the widespread consumption of Russian news, which may arguably bias the public in favour of pro-Russian policies, including Eurasian integration (Rickleton, 2014b). This may also go some way toward explaining why Turkmens are relatively less favourable towards Eurasian integration, as many satellite dishes there are tuned into Turkish channels. Nevertheless, caution may be warranted in relying on the evidence provided by the EDB surveys. The EDB was founded by the Russian and Kazakh governments, and has as its specific purpose to support Eurasian regional economic integration. Consequently, the EDB itself has an interest in presenting evidence in pro-Eurasian integration sentiments.

There is little consensus on the likely impact of joining the ECU for the Kyrgyz consumer. While some suggest that tariff increases to the ECU level will result in up to five-fold price increases (i/w GO; NN), others point to the fact that foodstuffs already are imported primarily from Russia and Kazakhstan, and that the inflationary impact of joining the ECU will therefore mainly be on luxury goods from the West (i/w Nurlanbek (#63/IF)). With rural people being accustomed to sustaining themselves through subsistence farming, they are likely to more easily adjust to the changes that ECU membership might bring, whereas the urban professionals in particular may find it difficult to adapt to the cost of living changes potentially brought by ECU membership (i/w IA).

In Uzbekistan, people face the same living standards as they did at independence, having enough to eat but lacking drinking water and electricity. Thus the public, it is suggested, know that the country is not developing well (i/w WD). While energy supply constraints are problematic for businesses, they also seriously affect daily lives. Trees lining the streets of Tashkent are missing branches, because people cut them down to use as firewood, while diesel cars are being converted to run on gas (Ibid; Yusupov, 2013). Inflation in the country is high, one interlocutor suggested that inflation over the 20 year period since independence has amounted to 1,000 per cent (i/w NN) with annual rates estimated to be around 20 per cent in recent years (i/w WD). Public sector pay and pensions are raised twice a year, officially with a view to raising living standards but it is claimed that the increases in practice merely compensate for corresponding increases in gas and electricity prices. The overall effect is to boost inflation, as market prices go up in response to the wage increases (i/w NN). Thus, whereas, at independence, Uzbeks had euphoric dreams of a better life ahead, they are said today to be dreaming of Soviet times as there is no social protection, employment levels are lower and inequality high (i/w DI; Paramonov (#96/AC)). Despite the pressure on living standards, there is a demand for higher quality products, including Russian foodstuffs, which the presence of Russian companies in the country is testament to (i/w NN). One interlocutor explained the popular support for economic integration with the ECU with reference to expectations that prices would fall and travel would become easier with an integrated market (i/w NN).

The current developments in Ukraine could, however, change the pro-Eurasian sentiment across the region. While the dominance of Russian media in Central Asia may limit the extent to which the publics take a negative view on Russia's role in the crisis, there are signs of opposition to Russian actions. For instance in Astana, the Kazakh authorities ended a demonstration against Russia in front of the Russian embassy (Bohr, 2014), and activists have launched an anti-Eurasian Union movement (Ibid; Altynov, 2014a). Meanwhile Farkhod Tolipov suggests that sentiment expressed on social media in Uzbekistan is anti-Russian (Central Asia Program, 2014: 5). Nate Schenkan (2014) has noted how Putin's remarks on the relative novelty of Kazakh statehood at an August 2014 live Q&A session were phrased in ethnic tones, which is likely to further inflame Kazakh nationalism and anti-Eurasianism.

With diaspora communities dotted around the region, regional integration may be considered particularly beneficial to ethnic minorities. As already described above, the kinship ties across borders are currently a means to facilitating cross-border trade in face of restrictive border regimes but many suffer from the treatment of border guards. Ethnic communities are in some cases subject to distrust and discrimination, which may ultimately lead to clashes, as seen in southern Kyrgyzstan in 2010. Ethnic minorities do not have effective means of representing their interests. While authorities in Osh, Kyrgyzstan and Khorog, Tajikistan cooperate, including on conditions for their respective minorities, not all such relations are said to be functional. For instance, relations are tense between authorities in Osh and Sughd *oblast* in Tajikistan given the local territorial disputes (i/w Boymamat (#54/BA)), as has most recently been borne out in the summer of 2014 (Yuldoshev, 2014). Similarly the Uzbeks in southern Kyrgyzstan have a strong dislike of the Uzbek government and its policies, a dislike which is said to be mutual (i/w Shamiev (#71/LE)).

Labour migrants form another significant constituency in many Central Asian countries, Kyrgyzstan, Tajikistan, and Uzbekistan in particular. This may be another reason, why popular support for Eurasian integration is high, with most migrant labourers seeking out the Russian and, secondarily, the Kazakh labour markets (i/w NN). Trade unions are generally weak in Central Asia (Ergashev, 2011). It has been suggested that unions are relatively strong within some sectors in Kazakhstan, such as the oil industry as was illustrated by strikes in Mangistau (Khamidov, 2011; i/w Madumarov (#2/AC)). Disputes of concern to them include the use of Chinese migrant workers by Chinese companies, and the resolution of such conflicts by the payment of bribes to the Kazakh regulator (i/w Madumarov (#2/AC)), as well as pension reform and cheap illegal labourers (Ergashev, 2011). However, recent legislation in Kazakhstan has restricted the freedom of association and collective bargaining rights of trade unions (Ekzarkhova, 2014).

While several groups have interests related to integration, including migrants, diaspora communities, and consumers, these are large groups, generally not organised, thus having significant participation costs relative to the widely dispersed benefits that would accrue to such groups.

4.1.5 The foreign investor[43]

Foreign investors may also be argued to have an interest in Central Asian market integration. Market sectors such as tourism, manufacturing and agriculture could have potentially significant rate of returns for investors in a regional market-scenario (CASE-Kyrgyzstan, 2005: 47).

Regional market

Foreign investors do not necessarily look to Central Asia as a regional market, though many recognise the similarities in taste and culture, and some, notably East Asians, describe Central Asia as a regional market (i/w AD; NN). One diplomat for instance likens Central Asia, and Russia, to one big swimming pool fea-

[43] This section relies on interviews with foreign businesspeople from Asia and the West as well as representatives of business associations representing both foreign and domestic companies and diplomats from a wide spectrum of countries.

turing arbitrary borders across which the water and the fish are the same, from time to time floating from one side to the other, with connections intact from before the borders were erected (i/w DI). Many foreign businesses are said to operate a regional headquarter in Kazakhstan and have sales operations across Central Asia, in some cases operating at a loss currently but positioning themselves for the future (i/w Khakimzhanov (#6/BP); WD; BA).

The businesses are keen to do business in the region but find that governments make it difficult. The issues holding foreign investors off, however, are related more to the individual domestic business environments rather than cross-border issues or market segmentation (i/w BA). As implied by the swimming pool-metaphor for many foreign investors the interest in Central Asia may start from Moscow, though headquartering in Moscow may also be a means of avoiding becoming embroiled in regional rivalries within Central Asia (i/w Yuzo (#15/AD); BP; FB; 2xW; NN). Some conversely see Kazakhstan as an entry point to the Russian market with the latter being difficult to operate in because inefficient producers are heavily subsidised (i/w Yuzo (#15/AD); BP; WD).

The ECU is not seen to have (yet) had a significant impact on the practices of foreign investors in the region. One businessman indicated that this was largely because technical regulation was yet to be harmonised; something that would however expectedly have a significant and positive impact on the business (i/w FB).

Interests and concerns

While it is recognised that economic integration, such as through the ECU, can ease market access across the region, integration or the concept of a regional market in terms of similar taste, is not the key to whether foreign businesses will engage in Central Asia. The consumption level, in other words, the size of the market is essential (i/w FB). There is wide agreement that Kazakhstan is the more attractive market in the region; one diplomat suggesting that the interest in the Kazakh market is four to five times higher than in other Central Asian markets put together (i/w WS; WD). As one Western diplomat suggested, while it may not be the primary export market for Western countries it is seen to offer good opportunities, despite difficult operating conditions (i/w WD).

The attractiveness of Kazakhstan stems first and foremost from its significant subsoil resources but also the relatively high degree of political stability and the backing up of political intentions with government investment as well as the potential for Kazakhstan to become a transit hub between Europe and Asia (i/w Madumarov (#2/AC); WS). The preference for Kazakhstan does not merely reflect good business opportunities but also the heterogeneity of the region, including relatively better circumstances for doing business in Kazakhstan as well as higher purchasing power (i/w WD). In Uzbekistan, the currency regime is a particular deterrent, while in Tajikistan and Kyrgyzstan the markets are small and the geography difficult leading to high transaction and transportation costs (i/w 2xWD; TT; Madumarov (#2/AC)). In other words, with Kazakhstan being attractive enough in itself, there is no need for foreign investors to look south, and the best Tajikistan and Kyrgyzstan can hope for, seemingly, is a spill-over effect (i/w FB; 2xWD). This does, however, not signal a complete lack of interest in other Central Asian markets. Uzbekistan is considered to have great potential, though currently a small market owing to limited purchasing power of the large population, and interest in Kyrgyzstan, Tajikistan and Turkmenistan is growing (i/w Shamiev (#71/LE); Agan (#80/DI), AD; DI; 4xWD; BA; NN).

Despite the widely recognised potential of Uzbekistan, companies, which established themselves in the country in the 1990s, waiting for the business climate to improve, while bleeding money, have now started to leave. Examples include PETRONAS and KNOC which withdrew from Uzbekistan in 2013. While the official reason -concern about the actual level of gas reserves- surely has played a role, political risk is suspected to be the main reason; as one interlocutor noted: '*they are tired of all the crap*' (i/w WD; BA).[44] The departure of these companies leaves the Uzbek natural reserve industry open for Russia and China to increase their positions through LUKOIL, CNPC and Gazprom (Kim, 2014). Meanwhile, in Kyrgyzstan, political instability including frequent changes in government in recent years has deterred investment (i/w Shamiev (#71/LE); Tungatarov

[44] Tethys also withdrew from Uzbekistan early 2014 out of concerns for the business environment after the Uzbek government opened a criminal case against the company in November 2013 (Kim, 2014).

(#66/BA)). As one diplomat suggests, the yardstick in Kyrgyzstan is different to what is familiar among many foreign businessmen: in Bishkek, if only a handful of people enter the White House, you have a revolution, whereas in other countries thousands can demonstrate, and they merely reflect a healthy civil society (i/w Agan (#80/DI)). Regardless of where in the country volatile events occur, they affect the overall image of the country negatively in the eyes of investors (i/w IA; GO). More specifically the enmity of the Kyrgyz public towards foreign investment, along with a reputation for hot tempers, is holding investors back (i/w IA; AC; Zhunushov (#68/IF)). One 2013 local investment fair saw no foreign investors attend, though it did enjoy foreign diplomatic attendance (i/w IA). As a local academic explains, while Western investors officially demand democratic practices from countries, they invest in, in reality, they are seeking stability and thus often invest in countries with '*predictable dictators*' (i/w TT).

In Tajikistan the civil war had a significant impact on the country's investment climate (i/w AC). Today, the investment climate continues to suffer, partly from proximity to Afghanistan -as one civil servant noted, investors fear that the Tajik government cannot keep investments safe from terror and instability (i/w Soliev (#31/GO))- but also from the arbitrariness or predation of executive powers, such as the arrest of the businessman Saidov in winter 2013 (i/w WD).

Many of the concerns facing domestic businesses are problematic also to foreign companies and investors in Central Asia, including small markets, skills shortages, inadequate infrastructure and energy shortages, corruption, the shortcomings of judicial systems, inconsistent and intransparent legislation, and restrictions on foreign exchange (i/w Shamiev (#71/LE); TT; DI; NN). Nevertheless, foreign investors also face a set of specific challenges. Local content regulation and obtaining work permits is a key concern (i/w WS; Lermusiaux (#4/FB); Shamiev (#71/LE)).[45] These issues may be most pertinent in the initial phases of foreign

[45] In Kazakhstan, for instance, 90 per cent of employees must be Kazakhstani citizens, though at management level the required ratio is lower at 70 per cent; the proportion of goods and services to be sourced from Kazakhstan is said to increase from 50 per cent to 85 per cent by 2020 (US EIA, 2013: 4). The establishment of the CES with Russia, however, means that foreign companies can

business engagement, when expertise is needed but local staff not yet trained (i/w Yuzo (#15/AD)). Some authorities are said to simply not appreciate the value of foreign employees, deliberately imposing obstacles to businesses obtaining visas and work permits (i/w WD; Lermusiaux (#4/FB)). Furthermore, local content regulation is specific to each of the Central Asian republics creating a distinct level of market segmentation in the region (i/w BP).

While many sectors offer opportunities across the region, and some companies, as described, do see Central Asia as a regional market, national governments are said to exert pressure on companies to establish registered offices in their jurisdictions (i/w WD). Furthermore, operating in Central Asia as a foreign investor typically necessitates having a local partner, which can be time-consuming to find (i/w WS; NN; BA; 3xDI). This may be a formal or informal requirement. In Turkmenistan, for instance, foreign investors must enter a partnership with a local company, and within strategic sectors such as oil, gas and construction have contacts in government (i/w Drakinos (#99/IF); WD). In other cases, it may not be a requirement as such but a necessity to make operations run or to simply get started (US Commercial Services, 2012: 3, 11). In a 2006 survey of foreign investors in Tajikistan, around 90 per cent suggested that they refrained from making investments if they did not have a formal agreement with a local business partner (i/w AC). Similarly in Kazakhstan, high-level relationships facilitate investments in strategic sectors and may involve a certain degree of *quid pro quo*. For example, companies keen to engage in the extraction of one particular mineral, may see themselves investing in the extraction of other types of mineral or other productive activities, which the Kazakh government are keen to see developed or attaining the technology and training of local staff for (i/w WD).

A major concern for foreign investors in Central Asia is the security of their investments and the lack of property protection (i/w WD; DI; AD; Agan (#80/DI)), including creeping appropriations such as attempts by governments to raise the

now source employees and supplies from Russia and Belarus. It has been suggested that increasing numbers of investors make use of this opportunity (Wiśniewska, 2013: 16).

national stake in agreements on natural resource extraction (i/w Shamiev (#71/LE)). In Uzbekistan, the risk of arbitrary interference by authorities and racketeering is seen as being particularly high (i/w BA, Khakimzhanov (#6/BP)); and while political connections are necessary to operate a business, it is not guaranteed to keep your investment safe (i/w BA). As with domestic businesses, foreign businesses struggle to make profitable business if operating fully legally, and face the same difficulties in doing so arising from contradictory regulations (i/w NN). Some of the high-profile cases in Uzbekistan, such as the closures of the Turkish shopping centre Demir and the Turkuaz trade centre in 2011 and the expropriation of MTS in 2013, are said to have been conducted fully legally, the authorities taking the companies to court exploiting infringement of legislation (Ibid). Meanwhile, MTS provides a similar tale of corporate harassment in Turkmenistan, where authorities after sustained pressure on the company eventually withdrew the company's licence and declined a review of the company's compensation claim (Crude Accountability, 2011).

Authorities across the region are prone to resort to unilateral regulations and requirements, which can change at any time, or simply not abide by commitments made to large investors (i/w AD; DI; Khakimzhanov (#6/BP); WD). One company was for instance said to have reached agreement with Uzbek authorities on selling a modern, efficient consumer product and given reassurances of achieving certification. It later transpired that legislation only allows the sale of Russian units. While the company keeps receiving reassurances, nothing happens and their investment is locked in storage (i/w WD). In both Uzbekistan and Turkmenistan, there is particular concern about the lack of recourse to international regulation and arbitration (i/w AD; DI; WD; NN). Even if access to international arbitration is specified in a contract, it may not be possible for the company to achieve redress from the government (i/w WD). This reluctance towards international arbitration is by some explained as an attempt to protect the country's image by preferring informal solutions to problems (i/w DI). Informal solutions may often require bribes. For instance, it is speculated that MTS was allowed back into Uzbekistan by passing shares to the president (i/w WD). Perceived high levels of corruption also deter foreign investors. In Kyrgyzstan, for instance, the climate is said to have improved since the change of government regime in 2010 but the high levels of corruption and corporate raiding during the Bakiyev era continue to deter investors (i/w Zhunushov (#68/IF)).

Sub-national variation in implementation is another issue for foreign businesses. This is said, in part, to reflect whether an *akimat* (district government) is investment-oriented or not (i/w WD), for instance some *akimats* do not value foreign employees and impede businesses obtaining visas and work permits (i/w WD). While requirements recently were relaxed on foreign representative offices, the regulation has been arbitrarily enforced, and visa regulations simultaneously tightened creating further barriers (i/w BA).

The prevalence of informal solutions and corruption in the region means that it is easier for smaller businesses, which face less public scrutiny, and non-Western companies, particularly Chinese and Turkish, to navigate the Central Asian markets (i/w FB; BA). For instance, in cases where the local skills base is insufficient, solutions are reduced to a company's willingness to bribe authorities to ignore local content regulation (i/w BA; NN). Western companies are deterred in their ability to please the powers that be by anti-bribery acts in their home jurisdiction (i/w 2xWD). Moreover, it is claimed that Western businesses are often impeded by a lack of appreciation of the norms underpinning the local business environment, and thus struggle to adapt to it (i/w DI). Larger American, Chinese and Russian companies may benefit from the backing of their governments (i/w Khakimzhanov (#6/BP)). Only large foreign companies, who can count on their government's support stay in Uzbekistan; SMEs stay small or sell up and go (i/w DI). The currency restrictions pose particular difficulties for SMEs in Uzbekistan (i/w NN).

Representation

Foreign businesses and investors are organised through international business organisations, such as Eurochamber and AmCham, judged to be of varied usefulness, some merely offering networking opportunities (i/w BP). In Turkmenistan such foreign NGOs are not allowed (i/w DI). Larger companies often engage with Central Asian governments directly, finding this to be the more affective approach (i/w BP; DI). Some foreign governments represent the interests of their businesses on an ad hoc basis or through intergovernmental commissions, while others engage on behalf of individual companies as and when needed (i/w 2xWD; DI; NN). Other countries maintain bilateral business councils, which advise the governments and make recommendations on behalf of constituent members (i/w NN).

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There is no consensus among foreign investors as to whether Central Asia constitutes a current or potential regional market, though there are companies who are interested in operating in all countries but generally find obstacles to doing so. Nevertheless, preoccupation is with improvement of domestic business environment, and foreign investors do not constitute a force for demand for integration.

4.1.6 Lobbying for trade facilitation or integration

While business communities are mostly concerned with domestic business environments, trade has risen on the agenda in recent years (i/w Tungatarov (#66/BA)). Trade facilitation and integration initiatives are fundamentally welcome by business communities and some business associations do claim to prioritise this highly in their lobbying efforts (i/w Uskenbaeva (#83/BA); Baimambetova (#81/BA); BA; AC; Madumarov (#2/AC)). Meanwhile, in what may appear a thinly veiled criticism of the Eurasian integration projects, the business community cautions against engaging in integration schemes under any conditions, particularly conditions dictated by others but also whether Central Asian integration is feasible with markets being relatively small (i/w Uskenbaeva (#83/BA); Boymamat (#54/BA)). Arguably Central Asia is by many still seen to be an economic region, but the countries are not making the most of this fact through current policies (i/w Madumarov(#2/AC)). Businesses are most keen on improving conditions for both trade and investment with their immediate neighbours (i/w Baimambetova (#81/BA); BA). This is particularly the case for small businesses (i/w Madumarov (#2/AC)).

Interlocutors highlighted the following sectors as having good potential for regional trade and potentially development of regional value chains: energy, textiles, agriculture, light industry and services (i/w Kislyakova (#44/BA); Baimambetova (#81/BA); BA). Additionally, there is demand for better integration of labour markets. The agricultural sector in the south of Kazakhstan, as well as the construction industry, seeks Uzbek and Kyrgyz labourers, who are considered more productive. Without an active lobby promoting an open labour market, the Kazakh government has, however, tightened legislation (i/w BA; Askarov (#27/JO)).

With administrative procedures in the domestic context being one of the most significant barriers to exports (i/w BA; EN; LE), business associations appear predominantly concerned with addressing these, rather than aiming at harmonisation or integration. The costs of export, including customs procedures and transit, may treble the cost of a product, possibly rendering the product too highly priced for exports to be viable (i/w EN). This is partly an issue of scale. For instance, shipping costs per unit are relatively higher for smaller shipments (Ibid). Production at scale is a particular problem in agriculture (i/w Altaev (#17/GO)), while achieving international standards and certification affects a wider range of sectors (i/w WD; Zhunushov (#68/IF); NN). These issues both lead to foreign products being more competitive internationally (i/w LE, Zhunushov (#68/IF)).

The business association most actively engaged in trade integration is Atameken in Kazakhstan. The association has as one of its main priorities to promote Eurasian integration, and has representation at the Eurasian Commission (i/w BA). Among priorities for Atameken at the ECU level are to ensure representation on all expert committees of the Commission, and to establish a structure for Union-wide business representation (Ibid). Nevertheless, there are question marks raised over effective business interest representation in both Belarus and Russia (Ibid) with the latter said to be dominated by vested interests propping up NTBs on Kazakh imports (i/w BP).

The majority of Kazakh businesses are suggested to be mostly negatively minded towards the ECU (i/w 2xBA). Though there are supportive voices (i/w BP), it is doubtful that Kazakh entry into the ECU reflects a response to demand on part of the business community, which rather is voicing domestic concerns and, since the

ECU formation, complaints surrounding its operations. In Kyrgyzstan business associations are demanding greater clarity about the impact of joining the ECU, including by sector (i/w Tungatarov (#66/BA)). As in Kazakhstan, the Kyrgyz business community appears, at best, to be sceptical. One business association representative points to the difficulty in integrating, when the economies operate on different conditions -some being WTO members and others not- and notes that most people fear the prospect with Kazakh entrepreneurs advising their Kyrgyz colleagues against joining (Ibid). One study has pointed to overall negative effects of joining the union, though in the end it will depend on the conditions of entry and the ability of businesses to adapt to ECU standards (i/w Zhunushov (#68/IF)). In Tajikistan, scepticism towards the ECU is also marked, including among the business community (i/w Kadamshoev (#51/GO); Boymamat (#54/BA)). Particularly in the GBAO region, where the ECU is described as remote, and the prospect of Tajikistan joining unrealistic (i/w Kadamshoev (#51/GO)).

One mode of operation for some business associations is regional networks. One regional network of associations conducted a joint assessment of obstacles to regional, cross-border trade and produced a set of recommendations for the Central Asian governments (i/w BA). Other such networks stay clear of trade facilitation issues, which they consider to be of a political nature (i/w Kislyakova (#44/BA)). Overall, while businesses are indeed keen to improve conditions for regional trade, to the extent that business associations focus on lobbying for trade facilitation this is largely aimed at reducing barriers in the domestic context, such as reducing necessary export documentation.

4.1.7 Effectiveness of business lobbying

Lack of transparent governance in Central Asia makes it difficult to clearly ascertain the extent to which the lobbying efforts of the business community and others pay off (i/w NN; AC). The private sector's gross capital formation as a share of GDP may be used as an indicator of the strength of the private sector in an economy (Stevenson, 2010: 117). As table 4.1 suggests, on this measure, the private sector in most CARs does not diverge significantly from other low and middle income countries; though it appears to be in decline across the region and is particularly weak in the case of Tajikistan. This may indicate a lesser role and impact on policy making. One interlocutor suggested that while the government will never say no, few suggestions made to it are accepted as the government simply does as it pleases (i/w IA).

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Kazakhstan	21.9	20.7	18.8	20.7	23.4	25.7	24.4	21.1	22.3	19.3	16.1
Kyrgyz Republic	11.7	10.5	9.0	9.9	9.6	18.5	20.3	22.3	23.5	21.1	18.5
Tajikistan	4.0	0.9	1.5	2.3	6.0	6.0	7.0	6.0	4.0	7.0	7.0
Turkmenistan					22.7	19.3	5.1	7.0	24.1	18.1	15.5
Uzbekistan	20.3	15.3	16.5	18.9	18.7	15.4	17.7	17.2	23.0	22.6	20.2
Lower middle income	16.1	15.4	15.9	18.1	18.9	19.6	20.8	20.3	18.9	19.5	19.4

Table 4.1 – Gross fixed capital formation, private sector, per cent (World Bank, 2013)

On the other hand, a government official claimed that officials often find themselves in agreement with the demands of businesses (i/w GO). Similarly, to paraphrase a business association representative, it was suggested that 'more may sink in, than what one thinks' (i/w BA). The governments of Tajikistan, Kyrgyzstan and Kazakhstan appear willing to listen and stakeholders find that governments generally are appreciative of their concerns (The Business Year, 2012; i/w GO; Ahmetova (#70/GO); WD; BA). At higher levels, authorities are judged to be receptive of suggested changes (i/w BA). While such receptiveness may also increasingly be the case at lower levels of government, the business community regularly complain that appreciation of their concerns is less common among authorities at lower levels, including provincial authorities, leading to implementation issues (i/w BA; WD). In Tajikistan, where the international donor community is present, business associations may address this by monitoring the activities of the mid-level bureaucracy and send letters to both government and donor organisations, when experiencing implementation issues. When donors raise the issues with governments, this can be an effective approach (i/w BA). Such need for external support for the business community's dealings with government reinforces the notion of a particularly weak business community in the case of Tajikistan.

In Uzbekistan and Turkmenistan, there is little if any feedback from society to government (i/w AC; LE). As noted by Martin Spechler in the case of Uzbekistan: '*Corruption and state capture prevent … cooperation between business and gov-*

ernment' (Spechler, 2008: 34). With the private sector largely dependent on public sector support for its operations, businesses generally cannot lobby government independently (i/w AC), and there is no public debate about economic policy (i/w AD). The government in neither country is ready to be challenged (i/w LE; DI).

The methods with which the business community in other CARs engage with government vary across the region, though there are also similarities. In both Kyrgyzstan and Kazakhstan legislation which impacts on business must undergo a consultation process with registered business associations (i/w Zhunushov (#68/IF); GO); while such privileged access to policy making is said to be more exclusive in Tajikistan (i/w Kislyakova (#44/BA)), again supporting the notion of a relatively weak private sector. Another recurrent method of interaction is institutionalised meetings between high-level government officials and business associations. Atameken, for instance, meets with the president and other high-ranking officials on an annual basis (i/w BA), while a Business and Investment Council act as a quarterly platform for dialogue between government and business in Kyrgyzstan and Tajikistan (i/w Nurlanbek (#63/IF)).[46] Such channels are also created on ad hoc basis, for instance in relation to the 2050 strategy for Kazakhstan's development (i/w GO) or in the form of the Kyrgyz National Council for Sustainable Development, which supports the work of the *National Strategy for Sustainable Economic Development* (i/w Tungatarov (#66/BA), Ahmetova (#70/GO)). In Kazakhstan, Kyrgyzstan and Tajikistan business associations also seek to lobby parliamentary deputies directly as well as public opinion more widely through social and mass media (i/w NN; Shamiev (#71/LE); BA, Kislyakova (#44/BA)).

Despite the lack of public debate in Uzbekistan, there may be some degree of input to economic policy making from certain parts of society. On the one hand, nominally arms-length bodies such as the Centre for Economic Research and the Chambers of Commerce may facilitate external input to policy making through their research. Secondly, there may be feedback from society to government

[46] The secretariats for these Councils are funded by the EBRD.

through personal connections (i/w BA). Moreover, in at least one sector of the economy, the government has an institutionalised platform for dialogue with the private sector. Tourism operators meet annually with government and raise their concerns regarding the tourism industry; and there are clear indications that the government acknowledge the importance of the concerns raised. For instance, operators have previously complained about the travel time and road conditions for accessing Khiva, to which the government responded by introducing plane and train links in the tourist season. This likely reflects an acknowledgement on part of the government that the tourism industry brings jobs and income to the country (i/w Bendsen (#97/IA)). Also at the local level, there may be isolated cases of interaction between industry and government. In Khorezm, a donor-led tourism development project channels the concerns of local businesses to the Director of Tourism, and the project administrators have offered recommendations on the local tourism strategy. It is unclear, however, to what extent such inputs affect policy making (Ibid).

In Turkmenistan, the establishment of the SPPT is considered progressive and revolutionary in the domestic context as a signal that the private sector must be accommodated (i/w LE). Nevertheless, the SPPT is said to function like a ministry with right of initiative for legislation and the Chairman attending the Cabinet of Ministers. The SPPT is considered responsible for implementing the government's stated aim of increasing the private sector's share in the non-oil and gas share of the economy (i/w LE; Drakinos (#99/IF); IF; NN). Nevertheless, the Chairman, personally, and the SPPT more widely, are well-respected for their efforts to promote the private sector (i/w LE; NN).

Kyrgyzstan represents the other end of the spectrum, where business associations generally are considered to have a real, effective impact on policy making (i/w AC, Tungatarov (#66/BA); Nurlanbek (#63/IF); Zhunushov (#68/IF)). Results of their lobbying efforts are said to include a single window for customs procedures, a new law on subsoil and amendments to the tax code as well as reductions to red tape generally (i/w Uskenbaeva (#83/BA); Tungatarov (#66/BA); BA). It has also been suggested that the opposition of civil society groups, including re-export traders, to Eurasian integration has prompted a delay of Kyrgyz Customs Union entry (Marat, 2014). Particularly the IBC, which has both Kyrgyz and foreign businesses as members, is seen to be highly influential (i/w Shamiev (#71/LE)) with ministers publicly acknowledging the views of the IBC and high-level officials proactively engaging the IBC to learn of their views (i/w Tungatarov (#66/BA)). The Business and Investment Council, which in Kyrgyzstan is headed by the Prime Minister is also judged to be an effective platform for dialogue between the public and private sectors. Recommendations made by businesses in this forum are generally well-accepted (i/w Nurlanbek (#63/IF); Tungatarov (#66/BA); BA). A foreign businessman, nevertheless, cautions that while the government is always willing to listen, and sometimes takes advice on board, only recently has there been real debate about policy making, and that often, the government is more focused on sounding out support for its own policies than accept external suggestions (i/w Claytor (#74/FB)).

The corresponding Investment Council in Tajikistan is also judged to be effective (i/w BA). Business associations more widely consider themselves to be effective; as do their counterparts in government, influencing for instance the establishment of free economic zones and the creation of a one-stop-window for customs procedures (i/w BA; GO). Nevertheless, associations also feel that the government does not easily accept their recommendations but require direct evidence from businesses. For instance one association had to establish its credibility on an issue by firstly letting businesses *en masse* directly present their concerns to authorities (i/w BA), another that the state tax committee initially rejected their recommendations, only to reconsider them subsequently (i/w Kislyakova (#44/BA)). On the other hand, smaller businesses may often work around business associations. For instance, it was suggested that three to five businesses would visit the head of a *hukumat* (provincial authority) department daily with their concerns because local business associations largely are ineffective (i/w NN). Similarly, large companies across the region often engage directly with government, not through their business associations (i/w NN). One businessperson suggested that this can be more effective, though recognising that governments usually respect associations (i/w FB).

In Kazakhstan the interaction between the business community and government is led by Atameken, which can be said to function as an umbrella organisation confederating different interests (i/w GO; BA). While Atameken may not be seen as fully independent, it does get credit for lobbying on behalf of business, for instance on the tax system and advocating a simplification of licensing (i/w Madumarov (#2/AC); Khakimzhanov (#6/BP); BA). Other associations are pessimistic as regards the government's responsiveness to their concerns (i/w 2xBA). At high levels, the Kazakh government is perceived to be highly receptive to issues being raised, though the receptiveness is not necessarily translated to lower levels of government where business-government interactions typically occur (i/w Yuzo (#15/AD)). Government-business relations in Kazakhstan have been criticised particularly in relation to negotiations surrounding Kazakh entry to the ECU. For instance, it has been suggested that associations were not given opportunity to participate in the drafting of agreements, and consequently the integration scheme is seen as imposed upon business (Rakhmatulina, 2011).

A series of factors are seen to counteract lobbying efforts across the region. General conditions such as freedom of speech and an independent media through which to voice concerns are not fully present in all countries. While Kazakhstan, for instance, is perceived to have freedom of speech, this is considered to have its limits. To paraphrase a business association representative: 'if the authorities wish to imprison you, they will always find a reason for it' (i/w BA). Moreover, media freedom in Kazakhstan is perceived to be under pressure (Birjanova, 2013; Baituova, 2014). In Tajikistan, the political opposition has come under increasing pressure also, possibly directly related to the presidential election in November 2013, and the parliamentary election due February 2015 (Pannier, 2014b). Additionally there may be cultural factors inhibiting open criticism and public debate. Akiner has, for instance, suggested that '*the very idea of criticising and openly challenging established authority is* [considered] *deeply distasteful*' (Akiner, 1994: 18). While such barriers may change over time, it is likely to require a generational shift.

Skills and capacity affect not only businesses directly but also business associations (i/w Tungatarov (#66/BA)). This is an issue of being spread thin across working group attendance, participating in many consultations simultaneously combined with a low supply of qualified staff (i/w Tungatarov (#66/BA); BA). More specifically, vested interests and corruption obstruct the impact of civil society interest representation by manipulating or limiting discussions of issues or through stalling implementation (i/w Zhunushov (#68/IF); Bethom (#37/IA)).

The position of an association like the IBC stems from the clout of its members, who contribute significantly to the Kyrgyz economy through employment and tax revenue with big businesses as members; other business associations representing the many smaller businesses have less clout (i/w Tungatarov (#66/BA)). This means that even with an organised push for a lessening of trade barriers, they do not have much bargaining power. A topical example of the lack of bargaining power of entrepreneurs was calls for the Uzbek authorities to end the blockade of rail traffic to Tajikistan. Several businessmen, including of the Uzbek Society of Tajikistan, have urged president Karimov to lift the blockade to no avail (RFE/RL, 2012b). The paradox is that the only real bargaining chip they hold -the legalisation of informal trade, which could for instance significantly boost tax uptake- is difficult to wager as it would mean exposing their businesses to the authorities' scrutiny and arbitrary exercise of power. Businesses operating, in part or full, in the informal economy reduce the leverage of the business community overall but also certain constituencies, such as re-export traders, in particular (i/w AC; Baimambetova (#81/BA)). The business communities generally accept that they have limited power to push trade facilitation measures. For instance, a business association representative, involved in the drafting of recommendations on cross-border trade by a group of regional business associations, felt that their recommendations may have had limited impact, if any, because a fundamental shift in attitudes is needed among governments (i/w BA). Another suggested such networks do not touch trade integration issues because they are political questions (i/w Kislyakova (#44/BA)).

4.1.8 Summary

While many groups in society -from migrants to consumers- may benefit from regional economic integration, businesses are the only stakeholder group sufficiently organised to potentially lobby for integration policies. There is some demand among regional businesses for better opportunities to trade within Central Asia, and at least one regional network of business associations has sought to promote measures for improvement. However, the majority of businesses are not growth-oriented, either owing to a lack of free market-mentality or attempts to circumvent or avoid barriers to business growth, domestically and internationally. This is indicative of limits to the demand for market enlargement on part of businesses, which often stay small or operate informally. Moreover, Central Asian societies appear inclined towards stability, and in many cases stakeholders, thus, prefer to remain silent, or opt for exit rather than voice.

The degree of organisation and effectiveness of business associations varies significantly across the region. Kyrgyzstan has a number of strong associations that operate in a representative manner, reflecting through bottom-up processes the interests of their members. Similar associations are developing in Kazakhstan and Tajikistan; though they appear on the whole to be relatively weaker. Such business associations often consider lobbying governments for the protection and promotion of rights of their members their primary function; however, their efforts are mostly focused on domestic business environments. In Turkmenistan and Kazakhstan the voice of the private sector is dominated by top-driven, more or less state-directed associations, the SPPT and Atameken. Both are to varying degrees considered to promote private sector interests despite their links to political authorities. Generally the strength of a business association or group of businesses reflects their contribution to the national economy. Thus, for instance, the IBC is considered powerful in Kyrgyzstan. Even in Uzbekistan it appears that private sector interests representing significant contributions to national income, not least foreign currency, namely the tourism operators, can influence policy making. On the whole, however, the influence on policy making of business associations appears to be limited.

The existence of the most vibrant and best organised business community of Central Asia in Kyrgyzstan may appear to contrast with the country's relatively poor economic performance. As reflected in the Heritage Index of Economic Freedom (referenced *inter alia* in section 2.1.2), it is today widely believed that prosperity is linked to economic freedom, which might lead one to suspect that the more plural society would also be the more prosperous. However, a number of intervening factors may explain the divergence. For instance, Kyrgyzstan's lesser economic record when comparing with for instance Kazakhstan in part reflects the latter's natural resource endowment. Cultural factors such as a longer history of sedentarism and economic specialisation in Uzbekistan may have fostered stronger traditions of entrepreneurialism relative to the Kyrgyz experience. Latterly, the conflictual political environment in Kyrgyzstan, which has led to two revolutions, may have curtailed the country's growth potential.

4.2 Supply factors

Before considering the willingness of each country's leadership to offer regional integration, it is worth dwelling on the commonalities of the five regimes. All five Central Asian republics, for instance, are authoritarian states with power vested in the presidency, though the style by which the ruling elites exercise power and the degree of power diffusion differ (Cummings, 2012: 63-64). While Kyrgyzstan has formally introduced parliamentary democracy, and plurality and open debate are largely seen to be increasing in the political arena (Chotaev, 2013; Kurmanov and Kurmanov, 2013), there are also signs that the president retains wider power than what is formally granted the role.[47]

Sovereignty is a rather new phenomenon for the CARs, suggesting that leaders may be inclined towards protecting the relatively new-found independence of their states (Akiner, 2001: 200). Indeed, nation- and state-building has in all countries been characterised by attempts at differentiating oneself from neighbours (i/w AD; 2xWD; NN), and cooperation on shared challenges been seen to threaten national sovereignty (Cummings, 2012: 158). The leaderships are also comparatively inexperienced at international relations, or certainly were upon gaining independence. Not only were the international relations of the USSR handled from

[47] For instance, the plan for economic development was formulated by the presidential administration and subsequently discussed by government and parliament, not driven forward by the prime minister's office as constitutionally prescribed (i/w Ahmetova (#70/GO)).

Moscow but also inter-republican affairs were dealt with by Moscow and thus not in the republican capitals (Akiner, 2001: 188). Leaders, therefore, were unaccustomed to international cooperation, including playing for the long-term gains that cooperation can entail (CASE-Kyrgyzstan, 2005: 52-53). Moreover, the republican leaders did not have well-functioning working relationships amongst themselves on the eve of independence. The lack of experience in international relations extends to the bureaucracy, which may not acknowledge the impact certain government policies have on bilateral or multilateral relations (Akiner, 2001: 188, 200; i/w NN). The question is whether 20 years of independence have eased the tendency towards guarding sovereignty in absolute terms, and improved the experience of conducting international relations.

With their newfound sovereignty, the countries have not only sought to develop distinctive national myths but also embarked on different trajectories of economic development, which negatively impacts on the prospects of integration in different ways (i/w FB; 2xWD; BA; Khusainov (#26/AC)). The divergence in terms of macroeconomic structure, for instance, is a significant obstacle to integration because it increases the costs involved in consensus-building (Libman and Vinokurov, 2012: 125).

The potential for unleashing entrepreneurship and business growth as well as increasing tax uptake through legalising the shadow economy, is shared by all Central Asian governments. With significant cross-border trade occurring informally, trade facilitation could play a role in this. It has been argued that vested interest in existing trade barriers, are not the only impediment in this regard, but that also there is a lack of common understanding of the costs and benefits of regional integration (Trushin and Trushin, 2005: 358), which the conduct and dissemination of cost-benefit analyses could alleviate (i/w Paramonov (#96/AC)). However, the Central Asian leaders are also generally perceived as unwilling to take the risks entailed in implementing far-reaching changes. The elites keeping presidents in power have vested interest in maintaining the *status quo*, which would only be threatened by reforms in the political or economic spheres (Johnson and Auty, 2006: 121; Rumer, 2000a: 3-4, 18). Likewise, bureaucrats have no clear interest in reforms as the trade barriers and extensive procedural regimes in place allow for extensive bribe-taking (Johnson and Auty, 2006: 125). Consequently, it is to be expected that the governments of Central Asia are unlikely to provide for trade policies that involve economic or political reform – yet, both Kazakhstan and Kyrgyzstan have committed to integrating their economies through the ECU and subsequently EaEU. The following sections will consider the political dynamics behind the potential for integrationist policies in each of the CARs.

4.2.1 Kazakhstan

It has been suggested that President Nazarbayev never believed in the communist cause, despite having climbed the Kazakh Communist Party ranks, but to have had both clear intentions and strategies for liberalising the Kazakh economy following independence (i/w AC). Indeed, upon independence the Kazakh government rapidly defined a market-oriented reform plan (Nazarbayev, 2008: 10-11). Moreover, Nazarbayev has consistently expressed his belief that economic growth necessitates integration with the global economy. Already in 1994 Nazarbayev promoted the idea of Eurasian economic integration (Allison, 2001: 223), while also, as noted in chapter 2, in 1994 initiating regional cooperation with Kyrgyzstan and Uzbekistan. To some extent, then, Kazakhstan has since the early days of independence pursued both Central Asian and Eurasian regionalism.

In these early years of independence, Kazakhstan experienced negative economic growth as shown in table 4.2, which may have been a contributing factor to integrationist policies.

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
-11	-5.3	-9.2	-13	-8.2	0.5	1.7	-1.9	2.7	9.8

Table 4.2 – Annual GDP growth, 1991-2000, per cent; Kazakhstan (World Bank, 2013)

Since the early 2000s, Kazakhstan has experienced high levels of economic growth, though the global financial crisis had a marked, negative impact in 2008 and 2009.[48] Growth is projected to remain high for the foreseeable future, though at a more modest 5-6 per cent per annum. Despite the impressive growth rates, the

[48] The following tables for GDP growth in the period 2002-2012 are replicated from chapter 2.

Kazakh leadership continues to push for and engage in integration schemes, indicating that economic growth is not a sufficient explanatory variable. Nazarbayev, for instance, is said to have pushed for accelerating the formation of the ECU with Russia and Belarus (Amirov, 2010: 76), and Prime Minister Masimov to actively have promoted Kyrgyz entry (RFE/RL, 2011). The pursuit of integration with Russia may be a means of protecting Kazakhstan's sovereignty, given the significant ethnic Russian minority residing along the border with Russia. As Russia's annexation of Crimea suggests, maintaining good relations with Russia may be considered a political imperative for Kazakhstan.

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
13.5	9.8	9.3	9.6	9.7	10.7	8.9	3.3	1.2	7.3	7.5

Table 4.3 – Annual GDP growth, 2001-2011, per cent; Kazakhstan (World Bank 2013)

2012	2013	2014	2015	2016	2017	2018	2019
5.0	6.0	5.7	6.1	5.7	5.5	5.4	5.4

Table 4.4 – GDP growth projections, 2012-2019, per cent; Kazakhstan (IMF, 2014)

While there is a supposed belief on part of the President that Kazakh economic development requires integration with larger markets (i/w NN), there is wide acknowledgement that the ECU, and subsequent EaEU, is a politically, rather than economically driven project (i/w GO; BA; NN). Wiśniewska (2013: 28-29) suggests that Kazakhstan's motivation for engaging in Eurasian integration is based *inter alia* on the dependence on Russian transit routes, an aim to balance the economic influence of Russia and China, along with a wish to gain improved access to the Russian market. The political motivations behind the willing supply of integrationist policies on part of the Kazakh government, contrasting with the absence of demand from the business community, point to a shortcoming of the theoretical framework. Indeed, it appears that demand for integration policies arises from the very actor that also supplies such policies, that is, the government.

President Nazarbayev is believed to be firmly in control of factions within the ruling elite, which are said to all favour Nazarbayev's leadership owing to the uncertainty surrounding the outcome of a political transition process (i/w BA; Mambetalin (#28/OP)). Through frequent rotations among government posts of a small ruling elite, Nazarbayev maintains a balance among the elite factions (Smagulov, 2013). Moreover, Kazakhstan has sufficient resources for Nazarbayev to maintain the loyalty of the elite through patronage and should he need to resort to repression, he has demonstrated his ability to co-opt and coerce potential challengers before they become dangerous (McGlinchley, 2011: 31, 151).

The political elite is enmeshed in the natural resource industries, and engaged in associated rent extraction activity (Gleason, 2003: 57, 153-154). The Kazakh elite used the privatisation processes during the 1990s to amass the country's resources for personal benefit and thus have a vested interest in maintaining the *status quo* rather than increasing transparency and competition (Auty, 2006c: 71). Indeed, dissatisfaction with the ECU within the ruling elite *inter alia* relates to fear of Russian oligarchs capturing the Kazakh market (i/w Madumarov (#2/AC)). This fear may not be unwarranted. Allegedly, Russian interests impact directly on the power configurations within the Kazakh ruling elite. For instance Mukhtar Dzhakiev, the former head of KazAtomProm, was allegedly neutralised because he was acting against Russian interests in the nuclear industry (Ibid). Many in the elite are said to be privately arguing that Kazakhstan should not enter the EaEU because this will represent only Russian interests, and is perceived to be a means for Russia to dominate the Kazakh economy (i/w Khuasinov (#26/AC); Askarov (#27/JO); AC; NN, WD; Laruelle, 2012: 9). The elite reportedly worries that this eventually will lead to Russian domination also politically (i/w Yuzo (#15/AD)).

Critics of the ECU see WTO membership as more important for Kazakhstan, relative to the ECU, and expect membership terms to be contradictory (i/w NN; Mambetalin (#28/OP)). The preference for WTO membership may reflect that it is seen as a means for Kazakhstan to balance Russian power within the ECU (i/w WS; Voloshin, 2014b). Nevertheless, Nazarbayev has succeeded in signing Kazakhstan up to Eurasian integration despite such elite-level resistance, which has been reflected in the persistent refusal by Kazakh authorities that the EaEU involves political integration (i/w Yuzo (#15/AD); WD).[49] The elite may, however, be seen to obstruct the implementation of the ECU and the EaEU, for instance, by using government posts to not approve measures (i/w NN). Last year, Nazarbayev through Samruk-Kazyna commissioned a research project on the impact of the ECU on the Kazakh economy the results of which has not been publicised (i/w Khusainov (#26/AC)) but may be seen as an attempt to assuage internal dissent. Moreover, the suggestion made by a civil servant that Kazakhstan receives benefits from ECU membership that are not referenced in public (i/w GO), may be indicative of rent transferals to acquiesce the elite.

At the formal institutional level bureaucrats are said to be less prone to rent seeking than the business elite (Auty and de Soysa, 2006(b): 143). This might indicate a potential source of support for implementation of regional integration schemes against the interests of a *status quo*-oriented elite. Indeed, it was suggested to me that in negotiating the ECU agreement, bureaucrats may have been keen to please President Nazarbayev, thus hastily concluding negotiations (i/w Khusainov (#26/AC)). Kazakhstan is perceived to have played its cards poorly with a negotiation team, not sufficiently understanding the Kazakh economy and business interests, consequently giving away many Kazakh interests (i/w NN; Khusainov (#26/AC); Karibzhanov, 2013). With the ECU resting on political rationales, and Russia aggressively pushing through a hurried process, little detailed work was done on the economics of the project (i/w Khusainov (#26/AC)); certainly in Kazakhstan, there were no initial attempts to analyse the potential economic effect of the ECU (i/w WD; Khusainov (#26/AC); NN). This may reflect the inexperience of the Kazakh bureaucracy in handling international relations, as suggested above. Indeed, following negotiations on the EaEU, the Kazakh government has been keen to promote an image of a successful negotiating team excluding issues such as common currency and common border policy from the EaEU treaty (Kasenova, 2014).

[49] President Nazarbayev has for instance made clear that Kazakhstan is only interested in economic integration (Forbes, 2013d).

Uncertainty surrounding political transition in the country owes itself to the lack of both informal and formal institutions (i/w Madumarov (#2/AC)). The uncertainty has potentially significant implications not only for Kazakh domestic politics but also international relations. Which direction Kazakhstan turns to internationally has historically depended on the dynasty in power (i/w GO). Change in political leadership may lead to Kazakhstan pulling back from Eurasian integration (i/w Madumarov (#2/AC)). Prominent businessman Aidan Karibzhanov (2013) has, for instance, publicly argued that it may be as easy leaving the ECU as it was joining. Indeed, President Nazarbayev himself in August 2014 stated that '*Kazakhstan has the right to quit*' the EaEU (Trilling, 2014d). The recent return of ex-Premier Karim Masimov to the post of Prime Minister has been interpreted as a signal that Nazarbayev wishes to deepen economic and political links with China, perhaps as a counterbalance to Russia in the wake of events in Ukraine. Masimov is described as a China expert; having previously studied in Beijing, he speaks the language and has retained strong links (Altynov, 2014b).

The pro-integrationist policies of Kazakhstan appear in large part driven by political considerations and President Nazarbayev personally, rather than the wider ruling elite nor economic imperatives as seen through GDP growth rates. This is not to suggest that the Kazakh economy would not benefit from integrating with the Russian economy with which it trades significantly. However, as related in chapter 2, the current make-up of the ECU and CES does not appear to offer significant benefits to Kazakh businesses or the economy more widely. The foreign policy direction of Kazakhstan, including Eurasian integration, is unlikely to change under the presidency of Nazarbayev but with significant dissatisfaction in elite circles, as well as among the wider business community as seen in the previous section, it is not a given that this trajectory will continue following a political transition, which is inevitably on the horizon considering the age of the presidential incumbent.

4.2.2 Kyrgyzstan

Kyrgyzstan also experienced negative economic growth in the early 90s, which may have encouraged the political leadership to integrate economically both with its neighbouring Central Asian republics as well as opening up to the global economy.

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
5.7	-7.9	-13.9	-15.5	-20.1	-5.4	7.1	9.9	2.1	3.7	5.4

Table 4.5 – Annual GDP growth, 1990-2000, per cent; Kyrgyzstan, (World Bank, 2013)

Over the past decade, economic growth of Kyrgyzstan has been highly variable, in part most likely reflecting political instability with negative annualised growth rates in 2005 and 2010, when the country experienced changes in government. Projections suggest annualised growth rates of around 5 per cent for the next five years. However, the economy may be more fragile than such headline figures suggest. A government official noted in an interview how the Minister of Economics speaks eloquently of economic development while the economy collapses around him (i/w GO). Economic growth rates in themselves, however, do not necessarily point towards political will to integrate economically with partners.

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
5.3	0.0	7.0	7.0	-0.2	3.1	8.5	8.4	2.9	-0.5	5.7

Table 4.6 – Annual GDP growth, 2001-2011, per cent; Kyrgyzstan, (World Bank, 2013)

2012	2013	2014	2015	2016	2017	2018	2019
-0.9	10.5	4.4	4.9	5.0	5.1	5.2	5.2

Table 4.7 – GDP growth projections, 2012-2019, per cent; Kyrgyzstan (IMF, 2014)

According to economic rent theory, non-resource rich developing countries will tend towards developmental states seeking economic growth through reform of the economy (Auty, 2006b: 20-22). In fact Kyrgyzstan not only implemented liberal reforms of the economy but also signalled a desire to integrate with the world economy through WTO membership in the 1990s. In part these reforms were driven through owing to international pressure: in exchange for international financial aid, the Kyrgyz government implemented market economic reforms (i/w NN). By accepting the international community's *quid pro quo* of liberal reforms for financial assistance, Kyrgyzstan came to rely on so-called geopolitical rent, which became subject to a tug-of-war within the ruling elite. President Akayev, for instance, during the early years of independence balanced the elite clans keeping him in power through appointments to bureaucratic positions, which controlled various sources of foreign aid (McGlinchley, 2011: 94). It has been suggested that the American leasehold of the Manas airbase introduced a different type of geopolitical rent, which the Akayev family appropriated for itself, eventually leading to discontent among the wider elite and the fall of the Akayev regime; the same dynamic is said to have characterised the Bakiyev era (ibid: 12, 81; Cooley, 2012: 35-36).

While clans continue to play an important role the north-south clan division, dominant during the Bakiyev era, is now considered a simplistic narrative with the elite further factionalised (i/w AC). For instance, elite members in the south have turned against the former Mayor of Osh, Melis Myrzakmatov, with a view to increasing their own power (Mukhametrakhimova, 2013a; Abdug'ofurov, 2014). Whereas the 2005 Tulip Revolution may be described as a change only of the person in charge, the events of 2010 can be seen as a real revolution, whereby the rules of the game were changed (i/w WD). A plurality of views are being expressed in public debate and within parliament, which may be construed as a sign of democracy along with the fact that political conflicts are now resolved in the legislative chamber rather than on the street (i/w Nurlanbek (#63/IF); Chotaev 2013; Kurmanov and Kurmanov, 2013). On the other hand, this indicates a fragmented elite. Each ministry is controlled by different parties, pursuing each their interests, undermining the coherence of government and the pursuit of a shared national interest (Dyatlenko, 2013; i/w 2xGO; Ahmetova (#70/GO); Shamiev (#71/LE); Tungatarov (#66/BA)). Kyrgyz political parties do not represent ideologies but personalities and shared interests of kinship groups. The political reforms, however, mean that informal agreements between such groupings can become formalised within the *Jogorku Kenesh* (Avcu, 2013; Chotaev, 2013).

The distinct interests being pursued by various factions of the elite reflect the prevalence of corruption and vested interests (i/w IA; AC; Shamiev (#71/LE)), which lead to economically unproductive, political decisions and actions on part of the ruling elite (i/w AC; BA). With the end of American presence at the Manas airbase, and the drying up of associated geopolitical rent, the Kyrgyz political elite may be looking for new sources of income. Indeed, as suggested by Western diplomats, the ruling elite is not believed to have made financial contingency plans (i/w WD). Consequently, one government source considered Kyrgyzstan to have no choice but to formally join the ECU (i/w GO). ECU membership could position Russia as a new source of geopolitical rent as demonstrated by the credit lines extended by Russia to Kyrgyzstan in connection with the road map for Kyrgyz entry to the Eurasian integration projects (further discussed below). Indeed, there are rumours of elite members being ready to join the ECU at any price (i/w AC).

Opposition to Kyrgyz entry to the ECU at elite level, on the other hand, reflects vested interests in existing trade barriers, which if lifted could reduce the power of some groups in society (Dyatlenko, 2013). Prime Minister Ortobayev has reportedly threatened officials who do not readily implement the roadmap for Eurasian integration with dismissal (Forbes, 2014). Like the Kazakh government, Kyrgyz President Atambayev emphasises that Eurasian integration is solely economic, not political, and hence not a threat to Kyrgyz sovereignty (Rashid, 2014). At the same time, Atambayev has reportedly emphasised how Kyrgyz membership of the ECU would reduce interdependencies in Central Asia by reducing the importance of ties with Tajikistan and Uzbekistan (Toktonaliev, 2014).

The Kyrgyz government accepts that membership of the ECU may have some negative impact on the economy but expects positive effects to dominate (RFE/RL, 2014e). Official policy emphasises the need to shift the economy away from reliance on re-export trade, boosting productive capacity of the economy (i/w GO). The Kyrgyz government believes that implementation of the roadmap for Kyrgyzstan to join the ECU will cost USD 400 million; money which the Kyrgyz government does not have (RFE/RL, 2014f). Russia has allocated USD 200 million to assist Kyrgyzstan in implementing the roadmap alongside a USD 1 billion loan (Forbes, 2014).[50] Moreover, the economy's heavy reliance on remittances from migrant workers in Russia and Kazakhstan has further supported the rationale for Kyrgyz integration with the ECU (i/w Shamiev (#71/LE); Ahmetova

[50] It has later emerged that Russia will provide Kyrgyzstan with USD 500 million in financial aid to ease integration into the Eurasian community; it is unclear however, how this relates to the previous announcement of a USD 1.2 billion package (Rickleton, 2014c).

(#70/GO); GO). Russia recently tightened regulation on CIS migrant workers; regulations that do not, however, apply to ECU members (Standish, 2014). It appears that Russia has employed both stick and carrot in attracting Kyrgyzstan to join the Eurasian integration project.

The Kyrgyz trajectory towards economic integration with the EaEU, also points towards a shortcoming in the theoretical framework applied. Again, it appears that the government itself is the main source of demand for integration policies, not the supplier of policies demanded by wider society as stipulated by *The Logic of Regional Integration.*

Kyrgyzstan appears firmly on the path towards Eurasian integration, turning away from regional neighbours Uzbekistan and Tajikistan. This, in part, reflects an economic policy which seeks to reduce the economy's reliance on re-export trade, but may also indicate the need of the elite to establish a new source of geopolitical rent.

4.2.3 Tajikistan

Tajik economic growth was, as previously discussed, significantly hampered by the civil war in the 1990s. However, the country quickly resumed positive annual GDP growth following the 1997 peace agreement. Since Tajikistan has achieved impressive economic growth rates with annual GDP growth at over 7 per cent in 2011, forecast to stay at 6-7 per cent in the immediate future. The economic growth rates, thus, do not suggest a strong impetus for economic integration.

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
-0.6	-7.1	-29.0	-16.4	-21.3	-12.4	-16.7	1.7	5.3	3.7	8.3

Table 4.8 – Annual GDP growth, 1990-2000, per cent; Tajikistan, (World Bank, 2013)

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
10.2	9.1	10.2	10.6	10.5	-15.7	21.7	21.2	3.9	6.5	7.4

Table 4.9 – Annual GDP growth, 2001-2011, per cent; Tajikistan, (World Bank, 2013)

2012	2013	2014	2015	2016	2017	2018	2019
7.5	7.4	6.2	5.8	5.8	5.8	5.8	5.8

Table 4.10 – GDP growth projections, 2012-2019, per cent; Tajikistan (IMF, 2014)

Populations in the provinces Rasht and Badakhshan perceive the Dangara clan of President Rakhmon as having usurped power and the 1997-settlement an unjust peace agreement (i/w Bjorvatn (#47/IO)). Indeed it is claimed that Rakhmon has favoured his kin since 1997, thus, inflaming such impressions (Auty and de Soysa, 2006(b): 145). Scholars have claimed that Rakhmon, thus, has failed to extend his authority across Tajikistan and establish internal legitimacy of his regime. Rakhmon, it has been suggested, has so little authority outside of Dushanbe that the autonomous province of Gorno-Badakhshan in reality can be considered to be an autonomous state (Collins, 2006: 286, 290). Indeed, the ruling elite is nervous about the role played by Aga Khan in the Badakhshan region (i/w WS; Bjorvatn (#47/IO)), where successful and impactful donor projects by his foundation are boosting his popularity (i/w WS). Erica Marat (2006: 25), however, has argued that Rakhmon is in '*solid control*' established through exclusion of the opposition from government posts and parliamentary seats. Marat accepted the presence of some organised criminal groups outside of the regime's control but noted that these do not represent a threat to the regime (Ibid: 108, 114-116). The key difference in the two arguments is the interpretation of what consequences the exclusion of other elite groups from formal power structures has. Collins, Richard Auty and Indra de Soysa argued that this demonstrates lack of control; whereas Marat interpreted it as a sign of control.

Marat's argument is supported by Nargis Kassenova (2009: 6-7), who suggests that Rakhmon gradually established full control, and has marginalised the opposition to an extent that leaves it unable to challenge him. Filippo De Danieli (2011: 139-141) has argued that the international assistance to counter drug trafficking through Tajikistan has enabled President Rakhmon to strengthen the internal security apparatus and create a symbiotic relationship between the political elite and vertically integrated criminal organisations, and that this has contributed to the consolidation of the President's power. Indeed, the government is currently perceived to be fully in control across the country having strengthened its position through operations in Rasht and Badakhshan over the last five years (i/w IO; WS). The 2012 incident in Khorog reflected a conflict between Rakhmon's emissary in the region and local drug traffickers (i/w Bjorvatn (#47/IO); WS). These operations are described as clumsy and in breach of human rights commitments but are seen to have strengthened the government's own perception of control, enabling a new phase whereby the government extends its jurisdiction on a more practical level (i/w IO).[51]

The fusion of economic and executive powers in Tajikistan is said to firmly rest in the hands of the presidential family. President Rakhmon and his family are said to personify the corrupt practices of the ruling elite with the president's son running the Customs Service, a daughter acting as Deputy Foreign Minister, a son-in-law believed to control certain toll roads, another son in charge of the rail network, and another daughter running both one of the country's main banks and a nation-wide television channel. Rakhmon's most powerful relative is said to be his brother-in-law, who controls a number of major companies and strategic businesses (Sodiqov, 2011). The presidential family sits atop a pyramidal structure of corruption feeding off *inter alia* drug trafficking and the state aluminium company Talco (Marat, 2006: 7; Trilling, 2014c; i/w Bjorvatn (#47/IO)). The existence of both an official and an unofficial budget is reflected in informal economic activity such as the large scale construction projects seen in the capital Dushanbe. A Western source in the country suggested that real GDP of Tajikistan is higher than official figures convey and the ruling elite hesitant to promote or accept foreign investment fearing that foreigners will steal the '*family silver*' (i/w WS).

Political power in Tajikistan is also centred on president Rakhmon. There are two notions of government in the country – the formal and the actual. As one interlocutor related, ministers do not consider themselves to be government representatives but refer to the president as '*the government*' (Ibid). Consequently, governmental institutions are weak and informal, reliant on personal connections and networks. For instance, representatives of the international community find that ministers or civil servants enter agreements in a personal capacity; if a reshuffle introduces a new person to the post, the agreement is considered null and void (i/w IO). As such, the government is seen to often go back on promises made, and

[51] 2014 has also seen unrest in Khorog after a drug trafficking related shooting led to public protests (Asia-Plus, 2014).

stakeholders may frequently be in the dark as to whether the negotiations are only just starting or nearing a resolution, possibly reflecting internal power struggles (i/w WD). While official policies may be sound, implementation is hindered by vested interests creating a gap between reality and official documents (i/w Umarov (#45/AC); Bethom (#37/IA)). Marat suggested that heavy state control with the agricultural sector, for instance, reflects the elite's intention to maintain rents from cotton production, whereas privatisation would likely see farmers shift to other crops (Marat, 2006: 31).

International representatives detect an understanding on part of the government of the need for Tajikistan to integrate with the world community and the benefits this would bring (i/w IO; WD).[52] Tajik entry to the WTO may on the one hand reflect such appreciation of the need for integration with the world economy, and potentially, a preference for unilateral liberalisation over regional integration. Indeed, while having signed the most recent CIS FTA, Tajikistan has not yet ratified it, awaiting a proper analysis of the implications of this in the light of WTO entry (i/w Soliev (#31/GO)). However, one Western diplomat suggested that the main motivation, crudely, for Tajik WTO entry was to create barriers to ECU entry in an attempt at avoiding the latter (i/w WD). Officially, Tajikistan is seeking to fully understand the probable implications of potential ECU membership before formulating its opinion on this, being highly aware of the problems experienced in Kazakhstan (i/w WD). It has been suggested that Dushanbe considers any potential benefits, such as increased Russian investment (Qoraboyev, 2010: 219-220), from integrating with the ECU, to be outweighed by the risks of increased Russian leverage over the Tajik economy and ruling elite (Wiśniewska 2013: 31-32; Laruelle, 2012: 9). Moreover, bilateral agreements with Russia already ensure the working conditions of Tajik labour migrants in Russia (Wiśniewska 2013: 31-32). The Tajik leadership's disinclination towards allying itself with Russia relates, for

[52] Capacity to understand technical issues is a problem for the Tajik civil service (i/w WD), however, Rakhmon's economic advisers are said to have a good understanding of the economy (Ibid), though whilst acknowledging developmental problems, the leadership, it is suggeseted, does not appreciate how deep such problems run (i/w IO). Specifically, the government lacks understanding of the private sector and how to support it (i/w IA).

instance, to the thorny issue of border control. To paraphrase a Western source in the country 'he who controls the border, controls the drug trade' (i/w WS).

Ikboljon Qoraboyev (2010: 219-220) has suggested that Tajikistan is more interested in Eurasian integration than Central Asian integration because of fear of being dominated by Turkic peoples in an exclusively Central Asian grouping. Similarly, Laruelle (2012: 9) suggests that Tajikistan is adverse to what is perceived as pro-Turkic and thus Uzbek-dominated integration schemes. The above discussion, however, does not indicate an interest on part of the Tajik ruling elite to engage in any regional integration scheme, let alone one led by Russia. Indeed, one Western interlocutor pointed to hesitancy on part of the Tajik leadership in facilitating cross-border trade as a reflection of their vested interests in, *inter alia*, earnings from drug trafficking (i/w WS). However, one government official suggested that Russia does not allow Tajikistan to make independent economic decisions, holding leverage both through the presence of Tajik labour migrants in Russia but also heavy reliance of Tajikistan on Russian energy imports (i/w Soliev (#31/GO)). Consequently, while the Tajik government appears averse to any form of regional economic integration, it may in time find itself facing an offer it cannot refuse.

4.2.4 Turkmenistan

The first years of Turkmen independence offered negative economic growth, though this did not induce the government to pursue an integrationist policy as the theoretical framework would suggest.

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
35.4	-4.6	-15.0	1.5	-17.3	-7.2	6.7	-11.4	7.1	16.5	5.5

Table 4.11 – Annual GDP growth, 1990-2000, per cent; Turkmenistan, (World Bank, 2013)

Since 2005 the growth rate has exceeded 10 per cent annually, save for 2009 and 2010 following the global financial crisis. Projections suggest that the country will retain high growth rates in the immediate future. While there may be doubt about the credibility of statistics, the IMF recently praised the Turkmen government for improvement in their statistical standards (IMF, 2013), and there certainly is economic development in the country. As one Western diplomat stated, Turkmenistan does not need our money – in terms of aid or capital investment (i/w WD; Drakinos (#99/IF)); as the country earns sufficiently on natural gas exports (i/w LE). Thus, economic development does not on the surface suggest a motivation for engaging in regional integration projects.

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
4.3	0.3	3.3	5.0	13.0	11.0	11.1	14.7	6.1	9.2	14.7

Table 4.12 – Annual GDP growth, 2001-2011, per cent; Turkmenistan, (World Bank, 2013)

2012	2013	2014	2015	2016	2017	2018	2019
11.1	10.2	10.7	12.5	9.6	7.8	7.8	8.3

Table 4.13 – GDP growth projections, 2012-2019, per cent; Turkmenistan (IMF, 2014)

President Berdymukhamedov appears to be firmly in power and personally directing the policy of the government (i/w LE; DI; Badykova, 2005: 67; Fitzpatrick, 2011a).[53] Nicholas Kunysz (2010: 4-5) has suggested that this control *inter alia* has been achieved through empowerment of his clan, the Ahal-Teke. Ministers appear unable to take independent initiative, save perhaps the foreign minister who to some appears the second most powerful (i/w DI). One Western diplomat noted that ministers will request that external inputs are provided, which they can take forward, avoiding sticking their own neck out (i/w WD). Moreover, Berdymukhamedov has, in contrast to former president Niyazov, centralised control with the hydro-carbon sector and revenue streams from it (Crude Accountability, 2011: 7). According to the Law on Hydro-carbon Resources only 20 per cent of the total revenue of the agency managing hydro-carbons are transferred to the state budget; the remaining revenues are at the discretion of the agency, which is directly answerable to Berdymukhamedov (Ibid: 29-31).

While stability is prioritised over freedom, there is openness and political will on part of the president to grow the private sector as a means towards diversifying the economy (i/w Drakinos (#99/IF); LE; IF; NN; WD). Nevertheless, the policy is

[53] One Western diplomat suggested that the country is ruled by a collective rather than President Berdymukhamedov individually, as appears to have been the case under Niyazov (i/w WD). This version was firmly denied by multiple other interlocutors (i/w DI).

stymied by another stream of thought in government favouring the *status quo* (i/w WD). The state is dominant in the Turkmen economy -state-owned oil and gas related activities are estimated to make up as much as 90 per cent of the economy (i/w Drakinos (#99/IF))- enabling the ruling elite to derive rents from the country's economic activity. Such vested interests hinder the implementation of economic reforms (i/w LE). Testimony suggests that President Berdymukhamedov understands the bias towards *status quo* among the wider elite, and seeks to work around it to achieve his aims. For instance, it was suggested that Turkmenistan's hosting of the Asian Games in 2017 is being used as a means to exempt visa control from the jurisdiction of the security services (i/w LE). With state-owned oil and gas related activities estimated to make up as much as 90 per cent of the economy, the government's aim to privatise 70 per cent of non-oil and gas activities will still see the state dominant by 2020 (i/w Drakinos (#99/IF)). Having centralised the control with hydro-carbon revenue streams under the presidency itself, Berdymukhamedov is thus able to maintain his ability to buy the loyalty from the wider elite as needed.

Turkmenistan is currently considering whether to join the WTO, supported by the international community in preparing the basis for decision-making. Commenting on Turkmen considerations of joining the WTO, an official of the Ministry of Economic Development is reported to have commented that the country's '*leadership has at last begun to understand the importance and necessity of integration into the world's economic and political processes*' (Annayev, 2013). All ministers have been asked to assess the consequences of WTO entry in terms of legislative and economic impact and sectoral studies are also being considered (i/w IF; WD, NN). WTO entry is not viewed by the government as an aim in itself but as a means for diversifying the economy (i/w NN). Of particular concern to the Turkmen elite is the impact on strategic sectors of the economy, including agriculture, textiles, oil and gas, as well as the implications for the subsidy programmes (Ibid). If the government is convinced that there are no negative consequences for the economy, such as impact on the gas trade, the expectation is that decision will be for entry (i/w WD; Drakinos (#99/IF)). Potential WTO entry is believed to reflect a genuine desire to integrate with the world economy (i/w WD; Drakinos

(#99/IF)). This is driven by Berdymukhamedov, who is said to recognise that Turkmenistan is not exceptional and that the long term plans for economic development require international engagement as well as that without trust foreign investors will not come (i/w LE). To some extent, Turkmenistan has been compelled to open its economy. Disruption of gas exports to Russia induced Turkmenistan to pursue new export markets; moreover, continued gas exploration and production requires international engagement, as the country needs foreign expertise to develop offshore fields (Chatham House, 2011: 8). However, the government also recognises the limit of gas dependency in the longer term and hence the need to diversify the economy (i/w Drakinos (#99/IF)).

The government takes the Doctrine of Positive Neutrality very serious conducting its foreign relations in respect thereof (i/w WD; Anceschi, 2009: 9). While the qualifying adjective 'positive' supposedly indicates an active and cooperative approach to regional and international relations (Anceschi, 2009: 28), the policy in practice represents an emphasis on bilateral over multilateral relations, which partly explains Turkmen inactivity in the regional fora it participates in (Badykova, 2005: 80). Turkmenistan's passive conduct in the CIS framework is indicative of this, and there is no immediate prospect of the country joining a regional integration framework such as the ECU (i/w LE; IF).

4.2.5 Uzbekistan

It is suggested that Uzbekistan actively engaged in integration processes through the 1990s, for instance in CACO (i/w Tolipov (#84/AC); Soliev (#31/GO)); the negative economic growth rates experienced in the early years of independence may have motivated such policies. Correspondingly, as discussed in chapter 2, Uzbekistan was in the early years of independence implementing market-oriented economic policies.

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
1.6	-0.5	-11.2	-2.3	-5.2	-0.9	1.7	5.2	4.3	4.3	3.8

Table 4.14 – Annual GDP growth, 1990-2000, per cent; Uzbekistan, (World Bank, 2013)

However, 2005 has suggested to have been at breaking point in Uzbek international relations since when the country has taken an isolationist stance (i/w Tolipov (#84/AC)). The events in Andijon may partly explain this (Ibid), though there is a risk of overestimating the impact of these events on government policy. The colour revolutions in the preceding years may have had a greater impact in entrenching the isolationist stance of Uzbek policy (i/w WD). On the face of it, Uzbekistan has experienced impressive economic growth rates in recent years with over 8 per cent annual GDP growth in the years 2009-2012. Similarly growth projections for the coming years are high, though decreasing to 5.5 per cent by 2017, thus, not suggesting a strong impetus for opening the economy or implementing reform.

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
4.2	4.0	4.2	7.7	7.0	7.3	9.5	9.0	8.1	8.5	8.3

Table 4.15 – Annual GDP growth, 2001-2011, per cent; Uzbekistan, (World Bank, 2013)

2012	2013	2014	2015	2016	2017	2018	2019
8.2	8.0	7.0	6.5	6.0	5.5	5.5	5.5

Table 4.16 – GDP growth projections, 2012-2019, per cent; Uzbekistan (IMF, 2014)

The statistics are, however, widely considered to be unreliable (i/w 2xWD). While one Western diplomat cautioned against evaluating the economic activity by Western standards, suggesting there are some signs of growth (i/w WD); many people on the ground see no evidence in the real economy of the claimed high levels growth, nor on people's living standards. Instead, they suggest that economic development is in reverse with the decline accelerating (i/w DI; WD; Paramonov (#96/AC)). With both gas and cotton output levels decreasing, the outlook is perhaps worsening (i/w WD), and as such, one might speculate that economic reforms that could reinvigorate economic development in the country, were in the interest of the ruling elite.

The political pay-off, however, to the ruling elite is not directly linked to economic growth rates and the impact or the lack thereof on the real economy. The failure to develop strong, autonomous economic institutions has left the economy as a domain of presidential authority (Melvin, 2000: 73). Whilst '*the Uzbek Way*' suggests the subordination of politics to economics, the reality is an economic policy often dictated by a political need to avoid the accumulation of resources in the hands of forces that may threaten the current constellation of power (Ibid: 86). Pomfret (2006: 80) claims that Karimov as a trained economist takes pride in running the country's economy competently; however Karimov and his inner circle are also claimed to dread the prospect of liberalisation, not only because it endangers vested interests, but because it will halt Uzbek economic growth before the economy would be able to profit from its advantages in an open trading regime (Rumer, 2002: 23). Trushin and Trushin (2005: 370, 375) suggest that privatisation could be a means to overcome Uzbek vested interests by creating new rents. Such potential shifts in the opportunities for rent extraction may lead to political instability with clans fighting over spoils. Consequently, Karimov is likely disinclined to any economic reforms as such may endanger the *status quo* and his hold on power. As Pomfret has argued: '*The negative consequences of these policies were recognized by Uzbekistan, but once in place they were hard to change because key individuals and groups benefited from exchange controls and barriers to imports*' (Pomfret, 2011: 136). In other words, in Uzbekistan economics is politics (i/w BA; DI), and though the elite is formally, and informally (Radnitz, 2010: 6, 59), in control of the Uzbek economy, this control is not monolithic.

President Karimov builds his support on a Soviet era elite, which benefits from economic distortions (Blackmon, 2011: 9). Radnitz (2010: 28) suggested that the Samarkand clans, to which Karimov himself belongs, control the raw materials sectors, while the Tashkent and Fergana clans are in control of the trade and finance ministries; which are significant power bases in a command economy (Blackmon, 2011: 39). These clans have enriched themselves through their political privileges and are thus hostile to the idea of liberalisation as private entrepreneurs are considered a threat. Instead, the clans ensure the introduction and continuation of the trade barriers, which have allowed them to build monopolies and capture rents (Collins, 2006: 266; i/w NN; WD; Tolipov (#84/AC)). For instance, the protection of car production is a means of monopolising rents (i/w NN; DI). Thus, the wider elite may be fragmented but have shared interests in maintaining rent extraction opportunities.

While the ruling elite continues to have a strong grip on power, this is slowly, but gradually weakening (i/w NN). President Karimov's authority was challenged in 1992 by the Tashkent-clan (Luong, 2002: 90), and despite Karimov's attempts to weaken the rival clans' hold on power, he has not been successful (Collins, 2006: 270-71, 276). Nevertheless, President Karimov is reportedly in good health (i/w 2xWD); and the current intrigue embroiling the Karimov family is by local interlocutors said not to be a reflection of political instability but a personal vendetta of Rustam Iniyatov and the security services (SNB) he leads, against Gulnara Karimova (i/w DI; WD).[54] However, Collins (2006: 262, 276) has suggested that Karimov has faced increasing demands from clans as the economy flat-lined and Gulnara Karimova rose to prominence through blatant corruption. Moreover, the decline of cotton yields and foreign aid limits the availability of funds to use for patronage (McGlinchley, 2011: 140).[55] One expects the decline in the gas industry to have a similar effect. A few powerful reformers currently have limited scope to enact small-scale reform such as seeking to merge official and black market exchange rates (i/w WD). One diplomat suggested that where before Uzbekistan was '*a silent lake with no movement*', there are now '*waves'* on the lake (i/w DI). Some within the wider elite are said to have an understanding of the realities of economic decline, and the need for reform of the economy and international cooperation; for instance, one faction of the elite is said to be pro-Eurasianist, but fears speaking out (i/w NN). Setting oneself against the presidential line risks harsh punishment (i/w NN; DI; WD).

As noted above, economic policies of the Uzbek government widely are believed to derive directly from President Karimov personally, who only trusts a close circle of allies (i/w WD; NN; AC). According to Karimov (1997: 180-181) the ques-

[54] Interlocutors report that the events reflect revenge by the SNB after Karimova criticised the head of the SNB Rustam Iniyatov in front of his staff. The SNB allegedly handed president Karimov a file on Karimova, which angered the president leading him to personally sanction the ongoing events (i/w BA; WD). Arrests of senior law enforcement officers in September 2014 may however indicate that the events surrounding Karimova's troubles are developing into a wider infighting within the elite (Lillis, 2014e).

[55] McGinchley on this note appears confused as he simultaneously argues that Karimov need not worry about the elite's disloyalty as this can be dealt with through reshuffles given the size of the elite (2011: 116), while also arguing that the age of the Soviet era elite as well as the drying up of economic rents represent looming challenges to Karimov's rule (ibid: 114, 140-141).

tion is not whether Uzbekistan should participate in a global trend of integration through multilateral organisations but to ensure that such interactions comply with the interests of an independent Uzbek nation. Consequently, Karimov has denounced integration that is directed by external actors, and stressed the ability to engage in parallel processes of integration at global or regional level and with different international partners in a positive-sum spirit. Specifically Karimov is critical of the creation of supra-national institutions suggesting that intergovernmental associations do not need such powers to function effectively, and that supranational powers undermine sovereignty and independence (Ibid: 188-189). Karimov has repeated such caution in response to Putin's proposal for the Eurasian Union describing it as an attempt to revive bygone empires (Fitzpatrick, 2011c), and recently suggested that the EaEU inevitably involves political integration, possibly as a rebuke to President Nazarbayev who, as noted, insists otherwise (The Financial Express, 2014).

Karimov has described Uzbekistan as '*the core of Central Asia*' (Karimov, 1997: 138) which can lead fraternal cooperation in the region and act as the gateway to international integration of the region (Ibid). This indicates an intention to be the regional leader of Central Asia, as discussed below. Specifically, Karimov has noted that regional integration of the CARs is not a vision but '*a reality which needs only organizational, legal and political forms*' (Ibid: 192). Nevertheless, Karimov in practice appears to prioritise wider international partners such as the UN and the EU as well as bilateral relationships with the USA, European and Asian countries (Ibid: 181-187). Uzbekistan recently bound itself to reducing trade barriers within the CIS framework (RFE/RL, 2013a). This was surprising to many, given Uzbekistan's historic reluctance to practically engage with multilateral integration frameworks, particularly those propagated by Russia (Melvin, 2000: 110), but reflects a realisation in government that trade restrictions in CIS markets were causing problems for key industries (i/w NN; Paramonov (#96/AC)), which elite factions rely on for rent extraction. It is intransparent, however, whether provisions are being implemented; and while the multilateral CIS FTA involves a general agreement, everything practically happens on a bilateral basis (i/w Paramonov (#96/AC)). This may explain why Uzbekistan signed the agreement despite reluctance to take part in multilateral cooperation (i/w WD).

While the Uzbek economy appears to be in decline, there are few signs to suggest that the country under the leadership of President Karimov will enter multilateral integration schemes. With the wider elite highly fragmented and economic rents declining, there is potential for significant future political instability as well as a change of economic and foreign policy.

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As discussed in the preceding sections, internal politics in Central Asian republics diverge significantly as regards political inclinations toward economic integration policies. Kazakhstan is pursuing a strongly pro-integrationist policy, though not focused on integrating with Central Asia but rather focused on a wider Eurasian region, encompassing Russia. This agenda is driven by President Nazarbayev personally. Kyrgyzstan is preparing to join the Eurasian integration project, though less out of a basic support for the idea, than economic realities and the need for Russian financial support.

While Tajikistan is opening its economy through integration into the WTO, the country's leadership is highly reluctant towards regional economic integration, both in the Eurasian form, led by Russia, and supposedly in a Central Asian variant, as this would be dominated by Turkic nations. Nevertheless, government sources recognise the leverage held by Russia over Tajik policy, indicating that the country may eventually join the Eurasian integration project. Uzbekistan and Turkmenistan also are both politically disinclined towards multilateral economic integration. In Uzbekistan a fragile balance between factions of the elite creates an implicit pressure for unchanged economic policies that enable the maintenance of vested interests in rent extraction. On the other hand, while Turkmenistan under President Berdymukhamedov is introducing liberal reforms to economic policy, including the consideration of WTO membership, the leadership has reaffirmed its commitment to the Doctrine of Positive Neutrality, thus, rejecting multilateral alliances.

Three notions of economic integration may be said to co-exist in Central Asia: global integration through the WTO, Eurasian integration with Russia and Central Asian integration within the region itself. Only the former two are reflected in current trends, however. Moreover, the promotion of Eurasian integration by Kazakhstan and adoption of the scheme by Kyrgyzstan point towards fragmentation of the Central Asian region with the former joining a Eurasian region dominated by Russia, while Tajikistan, Uzbekistan and Turkmenistan standing aside.

4.2.6 Regional relationships and leadership

This section considers the regional relationships within Central Asia, and the impact this has on the potential for regional cohesion. As is clear from the preceding sections, both the concepts of a Eurasian and a Central Asian region are present in Central Asia. At the political level, the concept of Eurasian regionalism appears currently to have stronger resonance, thus potentially reducing the likelihood of Central Asian regionalism. The section moreover considers the notion that the presence of an undisputed regional leader increases the likelihood of an integration scheme being successful, as suggested by *The Logic of Regional Integration*. A regional leader can facilitate a cooperative spirit by offering compensation to less enthusiastic members who may, for instance, be anticipating trade diversion as a consequence of integration.

Political relations between Kyrgyzstan and Tajikistan are judged to be positive (i/w Bjorvatn (#47/IO)), despite ongoing border skirmishes relating to the outstanding border delimitation.[56] Nevertheless, no particular interest was observed at national levels in furthering cooperation, indeed as noted above, President Atambayev has emphasised how Eurasian integration will reduce the country's dependence on Tajikistan and Uzbekistan. Kyrgyzstan is perceived, across the region, not least in Uzbekistan, as a source of instability owing to its history of tumultuous change of governments but also, what many described as 'anarchic' governance (i/w LE; Boymamat (#54/BA); NN). Such sentiments disincline

[56] In August 2014 the border related conflict led to two Tajik casualties (RFE/RL, 2014h). The border skirmishes negatively impact on trade, see for instance Chorshanbiyev, 2014a.

neighbours towards cooperation with Kyrgyzstan. Moreover, it is speculated that the constitutional changes in Kyrgyzstan also have raised obstacles to engagement with neighbours who fear that ideas of open government, democracy and parliamentary rule will spread and destabilise neighbouring governments (i/w GO; Tungatarov (#66/BA); WD; Mambetalin (#28/OP)).

Reflecting an acknowledgement of ongoing informal trade and the potential for labour migration within the Fergana Valley, the Kyrgyz government claims to be very interested in developing relations, including trade relations, with Uzbekistan (i/w Ahmetova (#70/GO)). Currently the two governments are said to be discussing a simplification of border crossing procedures, though the interest on part of Uzbekistan appears to be limited (i/w Ahmetova (#70/GO); TT). At the same time, a civil servant of the Kyrgyz government suggested that trade is not a prime concern in bilateral relations from the Kyrgyz perspective, reflecting the Eurasian policy preference suggested, and that official relations are poor (i/w GO), marred by an asymmetric power relationship which sees Kyrgyzstan reliant on Uzbekistan for energy supplies (i/w TT). Uzbekistan in April 2014 halted supplies of natural gas to Kyrgyzstan, and the Kyrgyz government has consequently called on businesses and households to prepare themselves for use of coal as fuel over the 2014/15 winter in case Uzbekistan will not resume deliveries (RFE/RL, 2014g). Kyrgyzstan is potentially facing severe energy shortages the winter of 2014/1015 as Kazakhstan has curbed petrol exports, Uzbekistan is withholding gas supplies and Kyrgyzstan itself is experiencing a drought inhibiting hydro-electricity generation (Eurasianet, 2014). This poor bilateral relationship and the serious consequences for the Kyrgyz public and the economy may contribute towards the government's preference for integration in a Russian-led Eurasian framework. Paradoxically, while President Karimov has rhetorically expressed a desire to be leader of Central Asian integration, as noted above, Uzbekistan's policy appear to push its neighbour towards Russia.

Despite the mistrust and differences between national governments, cooperation is, however, taking place at a sub-national level. This may be most visible in the case of cooperation between authorities in Osh, Kyrgyzstan and GBAO, Sughd and Jirgatal *oblasts* in Tajikistan, where local authorities cooperate on issues including trade, education and science spurred on by prevalent people-to-people links driven by ethnic diasporas (i/w GO, Boymamat (#54/BA)). For instance, two ethnic Kyrgyz of Tajik nationality represent Tajikistan in different Osh (Kyrgyz) administrative bodies (i/w GO). Attempts have similarly been made for cooperation between Osh and Andijon, Uzbekistan, though less successfully. Whereas the Kyrgyz national government is seen to be open to such initiatives and actively supporting them, cooperation is less forthcoming from the Uzbek side because local authorities do not act without explicit approval from the national government, which may be slow in coming or entirely absent (i/w GO; IA). Moreover, existing agreements, for instance on bilateral trade, are reportedly hindered by verbal orders from the Uzbek government (i/w GO). Currently a proposal for a *Dostyk* (friendship) trade centre enjoys rhetorical support by both governments, but no practical agreement exists (i/w GO). This perhaps exemplifies a suggested gap between rhetoric and reality prevalent on the issue of integration in Central Asia. As a diplomat based in the region noted, all republics officially prioritise relations with their neighbours highly but the policy pursued is opposite (i/w DI); in fact the republics all prioritise relations with third parties (i/w Paramonov (#96/AC)).

Tajikistan is in a difficult position owing to its geography and legacy of Soviet infrastructural links on the one hand, and political conflict with Uzbekistan on the other. This conflict to a large extent centres on disagreement over the suggested Rogun hydro-power project, which Tajikistan is pursuing as a means to end domestic electricity shortage as well as to realising an electricity export opportunity, but Uzbekistan fiercely opposes. Uzbekistan is widely perceived as behaving unconstructively *inter alia* by making overstated claims about the impact of Rogun as well as taking drastic measures disruptive for Tajikistan (i/w 3xWD; AD). For instance, when shutting off electricity supply in 2009, the Uzbeks are said to have physically cut the cable. Similarly, a rail track was dismantled rather than rebuilt following an alleged terror attack; and only two border crossings are now open (i/w WS; WD). Thus, neither in the case of Uzbek-Tajik relations do Uzbekistan's policies in practice appear to promote a role of regional leadership as 'the core' of Central Asia.

The conflict between the countries is reflective of particularly poor relations between the countries' presidents. President Karimov is said to have supported Rakhmon during the Tajik civil war but have turned against him, when Rakhmon did not subsequently pay the expected deference to Uzbekistan nor Karimov personally (i/w 3xWD). Both presidents are said to have dug in their heels in on the issue of Rogun and a change in leadership is thus believed to be a necessary, though possibly not sufficient, precondition for improving bilateral relationships (i/w WD; WS). The concern for Karimov and Uzbekistan is that the construction of the Rogun dam would enable Tajikistan to shut off the water supply to Uzbekistan, on which it is heavily reliant for its cotton production, effectively changing the bilateral power dynamics (i/w Bjorvatn (#47/IO); AD). In a climate of distrust such a concern does, however, make the conflict look intractable regardless of the personalities in charge. Uzbekistan, furthermore, has security concerns over the control of the Afghan-Tajik border (i/w WD). It has, however, been suggested that a small thaw in relations may be forthcoming as President Karimov seeks to balance his criticism of Russian actions in Ukraine with more conciliatory policy towards Tajikistan (Mukhametrakhimova and Faskhutdinov, 2014).[57] With Uzbek opposition to Rogun unchanged, it is likely to have limited impact on relations (Hashimova, 2014c).

World Bank studies have recently confirmed the feasibility of the Rogun hydropower project as well as Kambarata-1 in Kyrgyzstan leaving finance as the main outstanding issue – alongside Uzbek objections (Hashimova, 2014b). The worsening of relations between Tajikistan and Uzbekistan, and the effective blockade this imposes on northward trade for Tajikistan, is pushing the country towards developing alternative infrastructure links, including a rail link via Afghanistan to Turkmenistan. Indeed, it may be speculated that over time, the protectionist policies of the Uzbek government can also drive the Tajik government towards Eura-

[57] At the September 2014 SCO summit President Karimov surprised observers by suggesting that Russia had legitimate interests in Ukraine (Lillis, 2014c). The pronouncement came as a surprise as Karimov has otherwise been highly critical of Russia's role in Ukraine without, however, lambasting the Kremlin directly (Lillis, 2014d).

sian integration, though Tajik policy currently is aimed at avoiding this as discussed above.

Turkmen relations with Tajikistan are friendly and potentially deepening with considerations of a railroad linking the two countries via Afghanistan, which would ease Tajik dependence on Uzbekistan for export routes (Chorshanbiyev, 2014b). While the Turkmen willingness to engage with the Tajiks is said to cause some consternation in Uzbekistan (i/w LE), the country generally uses its policy of positive neutrality to maintain good relations with all countries in the region (i/w LE; NN; Drakinos (#99/IF)). For instance, Karimov is suggested to personally approve of Berdymukhamedov because the latter does not have ambitions for regional leadership (i/w DI). The leadership change in Turkmenistan, thus, facilitated improved bilateral relations between Turkmenistan and Uzbekistan (Sadykov, 2013c). In line with Turkmenistan's policy of opening up, the country has recently announced intentions to deepen diplomatic ties within Central Asia by establishing an embassy in the Kyrgyz Republic (RFE/RL, 2014i). Similarly Turkmenistan has intensified relations with Kazakhstan in recent years. Reflecting the parallels between the countries' strategic interests, President Berdymukhamedov noted during a 2013 state visit to Kazakhstan that *'The positions of Turkmenistan and Kazakhstan practically always coincide'* (Weitz, 2013b). Particularly cooperation on export pipelines has strengthened the neighbours' interdependence, while reducing their reliance on Russia (Ibid). Strengthening of relations is now centred on the construction of a railway giving Kazakhstan and Turkmenistan access to the Persian Gulf via Iran (Delovoy Kazakhstan, 2014). Despite such improved relations and budding interdependencies between Turkmenistan and its Central Asian neighbours, the Doctrine of Positive Neutrality suggests that these relationships will continue to grow on a bilateral basis.

Kazakhstan and Uzbekistan have long been perceived as rivals for the position of regional leader in Central Asia (i/w 3xWD; DI; Soliev (#31/GO)). In the 1990s, Uzbekistan was seen to be on a more prosperous economic path than Kazakhstan but the latter is now considered the economic powerhouse of the region (i/w Madumarov (#2/AC); DI; WD; Soliev (#31/GO)). This imbalance is suggested to discourage Uzbekistan from regional integration as it does not wish to subordinate itself to Kazakhstan (i/w Madumarov (#2/AC)), but, conversely, is keen to contest Kazakh leadership of the region (i/w DI). This rivalry affects also individual business ventures thus reducing the potential for regionalisation between Uzbekistan and Kazakhstan, where it is suggested that Kazakh investors in Uzbekistan are more likely victims of racketeering as Uzbek authorities do not appreciate Kazakhs succeeding (i/w Khakimzhanov (#6/BP)).

Uzbekistan is the only state which borders all other CARs as well as Afghanistan. Reflecting the Uzbek centrality to Central Asian integration schemes, a World Bank working paper assessed the Uzbek application to join EurAsEC, which led to the merger of CACO with the former, as improving the likelihood of Central Asian integration (Byrd and Raiser, 2006: 8) – though in effect it promoted the trend towards Eurasian regionalism at the expense of Central Asian regionalism. A Tajik civil servant portrayed it as an example of Uzbekistan acting like a spoiler and wrecking the integration processes of EurAsEC (i/w Soliev (#31/GO)). Indeed, Uzbekistan subsequently suspended its membership; and is widely believed to be the main obstacle to integration of Central Asia (i/w DI). Trushin and Trushin (2005: 358) have, for instance, argued that the Uzbek import substitution strategy is the main reason for regional disunity, while Stine Torjesen (2007: 315) finds Uzbekistan to have been '*a particularly unconstructive partner in cooperation efforts*'.[58] The protectionist policies of Uzbekistan mean that neighbouring countries are erecting infrastructural links around Uzbekistan, as described above (i/w Soliev (#31/GO); DI), which may over time reduce the informal regionalisation between Uzbekistan and its Central Asian neighbours as it improves linkages circumventing the country and thereby lose Uzbekistan some of its strategic advantage derived from the central location in the region. As suggested above Uzbekistan may also, at a political level, be undermining the potential for regional cohesion in Central Asia as Kyrgyzstan seeks to join the Eurasian Customs Union and relations with Tajikistan worsen.

[58] For a similar argument see also Gleason, 2001: 1087.

Some suggest that the Uzbek disinclination towards cooperation stems from Karimov himself, not only with regards to Tajikistan but also in the case of Kyrgyzstan, where Karimov is said to lack belief in President Atambayev and consequently have effectively ended bilateral relations (i/w DI). Despite the rivalry with Kazakhstan, the two countries are said to have respectful working relations (i/w 2xWD), though a Kazakh government official suggested that the relationship exhibits a strong element of façade (i/w GO). Indeed, Kazakhstan for its part is said to also be wary of integrating with Uzbekistan, fearing cultural assimilation given the small size of its population relative to that of Uzbekistan (i/w Madumarov (#2/AC)) as well as of entrepreneurial Uzbeks outcompeting them (i/w BA). Whereas Uzbekistan prefers bilateral measures, Kazakhstan is willing to engage in and seeks multilateral cooperation (i/w WD; Paramonov (#96/AC)). Multilateralism is the instrument by which Kazakhstan can present itself as a bridge between the east and the west, the south and the north; establishing itself as the archetype of a Eurasian state (Schmitz, 2009: 17). Such argumentation points to the Kazakh leadership defining Kazakhstan as part of a Eurasian, not an exclusive Central Asian region.

Kazakhstan acknowledges that its prosperity is dependent upon the prosperity of its neighbours (Weitz, 2008: 13) though the search for regional leadership is based not only on economic interests but also on the aim of achieving political stabilisation across the region (Schmitz, 2009: 5). This suggests a contrast with the policies of Uzbekistan, which seeks to isolate itself from the neighbours, Kyrgyzstan and Tajikistan, which it considers unstable. As such, Kazakhstan may be more likely to emerge as the regional leader of any Central Asian integration efforts (i/w WD). In order to project a self-image of a regional power, Kazakhstan seeks to position itself as a leader in regional cooperation, and has for instance encouraged its closest partner in Central Asia, Kyrgyzstan, to join the ECU (Ibid). The putative basis for such regional leadership is to be found in Kazakhstan's image of itself as the regional source of stability and economic growth (Jafar, 2004: 201). Indeed, Kazakhstan is seen to be leading the region in terms of soft power, attracting labour migrants (Vinokurov and Libman, 2011: 56; i/w WD) -in 2013 Kazakhstan eased registration procedures for migrant workers employed by households or microbusinesses (Weitz, 2014b)- and investing across the region, for instance in mineral extraction and financial services in Kyrgyzstan and Tajikistan (i/w GO; Madumarov (#2/AC); NN; Norling, 2012; Weitz, 2013c). Kazakhstan is willing not only to invest in the Kyrgyz hydro-power project Karamba-ata but believes it can contribute to controlling tensions between other Central Asian states by doing so (i/w WD). Moreover, Kazakhstan has introduced a development aid vehicle mostly focused on Kyrgyzstan (i/w WD; BA). Similarly, Kazakhstan is seeking to establish itself as a credible partner of Tajikistan, where it has few economic interests (i/w WD), possibly more security related concerns (i/w WS). President Nazarbayev recently announced that Kazakhstan has become an important trade and investment partner for Tajikistan with Kazakh investment in Tajikistan exceeding USD 125 million. Nazarbayev emphasised the intention to further increase ties with a particular emphasis on agricultural and food production as well as construction materials (KazInform, 2014).

Nevertheless, while Kazakhstan sees itself as the leading state in Central Asia, it does not exclusively consider itself as a part of a Central Asian region but rather as an essential player in a wider Eurasian region including Russia (Bohr, 2004: 493).This is evident from the active participation in the Russian-led Eurasian integration schemes. Considering the above-discussed reluctance of both Tajikistan and Uzbekistan, not to mention Turkmenistan, to engage in Russian-led multilateral fora, the Kazakh orientation may contribute to the disintegration of Central Asia as a region, and undermine Kazakhstan’s potential to emerge as a regional leader. By participating in and promoting the Russian-led Eurasian integration scheme, Kazakhstan is putting itself in a position of regional leadership inferior to that of Russia. As discussed above, political transition in Kazakhstan may result in a change of direction of foreign economic policy. In the meantime, however, there are also signs that the isolation of Russia following events in Ukraine is leading the Kazakh government to refocus attention towards Central Asia. Kazakh Foreign Minister Idrisov in April 2014 spoke of the need to promote Central Asian integration, interpreted by local analysts as a response to the threat of sanctions against the Russian economy (Kapital, 2014). For now, however, both Kazakhstan and Uzbekistan appear to be contributing to the fragmentation of Central Asian regional cohesion; Kazakhstan through the promotion of the competing Eurasian project, which alienates Tajikistan and Uzbekistan; Uzbekistan through protectionist and isolationist policies that may be pushing at least Kyrgyzstan towards Eurasian integration.

4.2.7 Other areas of cooperation

While obstacles to integration may vary little from policy area to policy area, some suggest that there is more interest in cooperating on security matters. However, self-contradictorily, security is defined as self-reliance (i/w AC). The emphasis on self-sufficiency corresponds to a short-termist approach that inhibits the development of cooperative behaviour (Paramonov, 2006b: 57). Access to and use of the region's water resources is a critical case in point. While many believe that agreement on the sharing of the region's water would benefit all, potentially changing the political landscape of the region, cooperation on the issue appears unattainable despite attempts at mediation from external actors (i/w WD; AC; FB). To be sure, some suggest that control over resources, such as water, lie at the heart of the intraregional differences (i/w IO); and, as suggested by the International Crisis Group (ICG) the issue has become securitised to the extent that use of force is considered a real possibility (ICG, 2002: ii; i/w Bjorvatn (#47/IO)). Indeed, one interlocutor in the region suggested that the international community in Tajikistan was more concerned with reactions from Uzbekistan regarding the Rogun dam, than the impact of potential instability in Afghanistan post-2014 (i/w Bjorvatn (#47/IO)).

The tendency towards self-sufficiency is not only explained by the emphasis put on protecting national sovereignty but also in a widespread feeling of mistrust between the states. For instance, the Uzbeks doubt the ability of the Kyrgyz and, particularly, the Tajik governments to control radical elements of society, which to some degree explains the harsh border controls imposed by the Uzbek regime (i/w WD; Bendsen (#97/IA)). As such promoting cooperation on issues of security is, at best, equally challenging.

4.2.8 The prominent role of the state

Following *The Logic of Regional Integration*, the theoretical framework applied to the analysis, bottom-up demand for regional coordination is a "critical" ingredient and requisite condition for economic integration (Mattli, 1999: 190). The framework also emphasises the need for demand forces to be complemented by supply conditions -that is willing governments, regional leadership and commitment institutions- for integration to be successful (Ibid). The preceding analysis, however, questions whether these parameters accurately capture the dynamics behind the development of integration frameworks in the case under study.

In Kazakhstan, for instance, there appears to be a high level of scepticism and opposition among businesses towards the integration scheme pursued by the government, suggesting that bottom-up driven demand is absent or weak and that the driver behind integration therefore is state demand. Similarly, in Kyrgyzstan, where the business community is comparatively strong and vibrant, the government preference for Eurasian integration does not reflect bottom-up driven demand for this. Thus, again, it appears that the state is the main or sole driver behind integration policy.

That top-down preferences dominate over bottom-up demands as regards the formulation of integration policy may reflect that it is considered an issue of foreign policy, not merely commercial policy, and thus a subject area off limits for business lobbies. Doubtless, the marginalisation of the business voice stems from its weakness. Generally business communities across Central Asia are weakly organised, in some countries business sector advocacy is even dominated by state-sponsored organisations, particularly in Kazakhstan and Turkmenistan through Atameken and the SPPT, respectively. Thus, on the surface it may appear that the business community in Kazakhstan supports the official policy with Atameken directly involved in the process – but as discussed in section 4.1, dissenting or sceptical voices dominate the business community beyond Atameken.

While the governments of Uzbekistan, Tajikistan and Turkmenistan may not be pursuing regional integration policies, the analysis here is similar. Particularly in Uzbekistan, there is arguably an unarticulated demand for better conditions for regional trade, if not directly regional integration; yet the government pursues a policy of economic isolation. This discrepancy may in part be explained by the unarticulated nature of businesses preference for international trade but additionally reflects the privileged position of the state in society.

The prominence of the state implies that economic integration is unlikely to function as a trust-building mechanism that would enable integration in Central Asia to spill over into other areas of cooperation as has been the case in Europe and Southeast Asia.

4.2.9 Summary

As suggested in the introduction to the section, the nature of political regimes in Central Asia would suggest that elites in power will impede political or economic reforms, seeking to maintain vested interests. Indeed, the analyses of each CAR confirmed such tendencies among the national economic and political elites. However, the dynamics were tempered by other mediating factors enabling the governments in some countries to pursue policies, which parts of the elite find detrimental to their interests. Kazakhstan is the prime example of this, where President Nazarbayev is pursuing a policy of regional economic integration with Russia, which many within the elite find unpalatable and a risk to their vested interests. Conversely, the Uzbek leadership appears to be tied into its economic policy because disruption to current rent appropriating patterns may upset the political balance. In Kyrgyzstan opposition to Eurasian integration exist within a fragmented elite but with the need for international financial aid, the Kyrgyz government appears to consider itself without other choice than to integrate with its northern neighbours. Tajikistan is similarly vulnerable to Russian leverage, though for now, the political elite resists the idea of joining the ECU with political and economic power effectively centred on the presidency. Latterly, the Turkmen government is continuing its policy of neutrality, though at the same time seeking to extend international political and economic relations on a bilateral basis.

In the light of such internal political situations, it appears unlikely that one of the underlying factors working against regional integration in Central Asia is the lack of knowledge and shared understanding among the leaderships of the cost and benefits involved, as some have suggested (above). Indeed, there appears in several cases to be a full understanding of the potential disruption reforms would bring to the *status quo* and vested interests that are holding back change. However, other factors suggested -such as the importance attached to sovereignty- may indeed continue to play a role. The absence of border delimitation between several Central Asian states continues to affect both bilateral relations at national levels but also disrupt cross-border trade patterns. Even in Kazakhstan, arguably the country whose government is most comfortable with regional integration, the leadership is jealously guarding its political sovereignty while accepting pooling of economic policy-making powers. Twenty years of independence has naturally improved the experience of leaders and bureaucracies as regards conducting international relations, though at the political level, some bilateral relationships continue to suffer from personal animosities. At the bureaucratic level evidence is mixed. It is clear, for instance, that in the case of Kazakhstan's negotiations with Russia and Belarus on Eurasian integration, the negotiating team has been heavily criticised for a lack of appreciation of Kazakh interests. However, more recently in negotiations around the EaEU, the Kazakh negotiators have claimed a series of successes.

Kazakhstan is emerging as a regional leader in Central Asia through both the soft power of attraction and active investments in neighbouring countries. However, by pursuing Eurasian integration, Kazakhstan may be undermining its potential for regional leadership in Central Asia, as it subordinates itself to Russia in this framework. Moreover, while Kyrgyzstan is assuming an adoptive pose vis-à-vis Eurasian integration, the project is alienating Tajikistan, Uzbekistan and Turkmenistan, suggesting that Eurasian regionalism may be driving disintegration of Central Asia as a region. In this context, the role of WTO membership is also interesting. In Kazakhstan, opposition to the ECU and EaEU see the WTO as a means of balancing Russian influence on the Kazakh economy. Similarly, it was suggested that Tajikistan entered the WTO with a view to fending off Russian attempts to attract Tajikistan to the ECU. Latterly, Turkmenistan -averse to any regional integration scheme- is also considering integration in the global economy via the WTO. Thus, three competing notions of economic integration may be considered at play in Central Asia: Central Asian, Eurasian and global; the former enjoying the least support among the political elites.

4.3 Summary

The analysis of present chapter has explored the demand for and supply of regional integration policies in Central Asia in the sphere of economic policy. While many groups in society -from migrants to consumers- may benefit from regional economic integration, businesses are the only stakeholder group sufficiently organised to potentially demand market integration. There is some demand among regional businesses for better opportunities to trade within Central Asia, and at least one regional network of business associations has sought to promote measures for improvement. However, the majority of businesses are not growth-oriented, either owing to a lack of free market-mentality or attempts to circumvent or avoid barriers to business growth, domestically and internationally. This is indicative of limits to the demand for market enlargement on part of businesses, which often stay small or operate informally. Moreover, Central Asian societies appear inclined towards stability, and in many cases stakeholders, thus, prefer to remain silent, or opt for exit rather than voice.

The degree of organisation and effectiveness of business associations varies significantly across the region. Kyrgyzstan has a number of strong associations that operate in a representative manner, reflecting through bottom-up processes the interests of their members. Similar associations are developing in Kazakhstan and Tajikistan; though they appear on the whole to be relatively weaker. Such business associations often consider lobbying governments for the protection and promotion of rights of their members their primary function; however, their efforts are mostly focused on domestic business environments. In Turkmenistan and Kazakhstan the voice of the private sector is dominated by top-driven, more or less state-directed associations, Atameken and the SPPT. Both are to varying degrees, considered to promote private sector interests despite their links to political authorities. Generally the strength of a business association or group of businesses reflects their contribution to the national economy. Thus, for instance, the IBC is considered powerful in Kyrgyzstan and in Uzbekistan it appears that private sector interests significantly contributing to national income, namely the tourism operators, can influence policy making. On the whole, however, the influence on policy making of business associations appears to be limited.

The supply of economic integration policies in Central Asia varies significantly. All Central Asian republics are characterised by a fusion of economic and political power, but the interests of and constellation of the domestic elites lead to diverging policies. In Turkmenistan, President Berdymukhamedov is firmly in power and controls the country's hydro-carbon resources, enabling him to dictate policy, while maintaining the wider elite in check. While gradually opening the country's economy, the government maintains the Doctrine of Positive Neutrality, thus, restricting potential for any form of regional integration. President Rakhmon is believed to be firmly in control of Tajikistan, and the country's economic and political resources. The leadership appears keen to limit Russian influence in the country, and is thus seeking to avert membership of Eurasian integration institutions. Kyrgyzstan, on the other hand, appears resigned to having no choice but to join the Russian-led ECU; needing external financial resources to sustain the country's economy but also seeking to reduce dependencies on regional neighbours Tajikistan and Uzbekistan.

In Uzbekistan, President Karimov's hold on power appears to be less firm. Consequently, the government is maintaining current economic policy, ensuring that the fragile balance between elite factions is maintained through safeguarding of vested interests in rent seeking. This restricts any notion of economic integration with neighbouring countries. Furthermore, Uzbekistan's protectionist policies may be contributing to fragmentation of Central Asia at a political level, for instance adding impetus to Kyrgyzstan's Eurasian integration path. Kazakhstan is pursuing the most pro-integrationist policy in the region, actively driving forward the Eurasian integration project, including encouraging Kyrgyz membership. Kazakhstan is keen to be seen as the regional leader in Central Asia, though perceiving itself as a member not of an exclusive Central Asian region but a wider Eurasian community. The Kazakh promotion of Eurasian regionalism may undermine its contention for regional leadership. Firstly, Eurasian integration, not only overlaps geographically with the notion of Central Asian regionalism but appears to be driving a wedge between Central Asian states with Uzbekistan, Tajikistan and Turkmenistan unwilling to engage. Secondly, Kazakhstan inevitably plays a secondary role to Russia in the ECU and EaEU. At the same time, however, the sustainability of Kazakhstan's pro-Eurasian integration path is uncertain. With significant uneasiness in the Kazakh elite surrounding increasing Russian influence in the country, it is unclear that a post-Nazarbayev Kazakhstan will continue along the same path. Moreover, the economic isolation of Russia following annexation of Crimea may be inducing Kazakhstan to shift priorities towards Central Asia.

The analysis questions the basic framework applied by revealing the governments of Central Asia as the sources of demand for integration – to the extent that demand is present. With demand for integration in both Kazakhstan and Kyrgyzstan -the only CARs pursuing regional integration- led by the countries' governments, the analysis suggests a shortcoming of the theoretical framework, according to which governments are (potential) suppliers of policies demanded by wider society, business communities in particular. The privileged position of the state in Central Asia, and the tendency for most governments to block Central Asian economic integration, also questions the notion that trade facilitation and economic integration may act as trust-building mechanisms that could aid cooperation in other areas.

Current dynamics in terms of demand for and supply of regionalism as well as the constellation of regional leadership dynamics do not favour Central Asian regionalism. Rather the competing notion of Eurasian integration is gaining ground, though also challenged by aspirations for wider global economic integration via the WTO. Nevertheless, the subsequent chapter will consider the primary research question posed. That is, whether external actors may facilitate regional integration in Central Asia.

Chapter 5 Central Asian regionalism through interregionalism?

A number of external actors are currently engaging Central Asian republics through regional approaches. For instance, Japan through the Central Asia plus Japan Forum, Korea through the Korea-Central Asia Cooperation Forum, and the EU through its Central Asia strategy. Moreover, China and Russia are engaging the CARs through the SCO, a regional organisation, while Russia is also leading other regional outfits, including some or all CARs such as the CIS and the ECU. The previous chapters have explored whether the underlying dynamics enabling region-building are present for such wider or inter-regional frameworks to build on in the area of trade as well as the trade patterns of the CARs and the potential impact on such of regional economic integration. Following on from this, this, last, chapter explores the potential for external actors to promote regional trade facilitation and integration in Central Asia.

An external actor may imbue enforcement capacity and credibility to regional reform attempts, as suggested by the literature on developed-developing country integration. As such, this would be a function akin to commitment institutions which, according to *The Logic of Regional Integration*, are a critical feature of successful regional integration schemes, which ensure that all participants act according to agreed rules. Interlocutors in the region are cognisant of this very dynamic. Entering international obligations give domestic stakeholders, such as business associations, an anchor by which to hold governments to account. Putting pressure on government to comply with international obligations made can be an effective means of affecting policy and ensuring implementation (i/w Uskenbaeva (#83/BA)). Similarly, foreign investment can be the trigger of political change as it gives external actors a stake in the economic development of a country, or indeed, region (i/w AC). As suggested in the previous chapter also integration with GVCs may contribute to economic development by raising compliance with international quality standards and may protect businesses from government interference, as governments acknowledge the risk of disrupting such international business links.

The preceding analysis of trade relations of the Central Asian republics suggested, on the one hand, that increasing intra-regional trade requires active trade facilitation. The CARs continue to over-trade amongst themselves, and would thus benefit from taking cooperative measures aimed at regional trade facilitation. From the perspective of Central Asia, the findings suggest that intra-regional integration would be beneficial on two accounts. Firstly, it could, if designed accordingly, increase the scope for intra-regional trade, and, secondly, could increase the shared scope for external trade of the Central Asian republics. The analysis, furthermore, indicated that the CARs may benefit from negotiating and entering external trade agreements collectively. The countries' patterns of over-trading and having unexploited trade potential beyond the region are very similar. The republics' have a shared interest in pursuing trade facilitation measures with former Soviet partners, Europe and China and to some extent Japan and Korea. Meanwhile, Southeast and South Asia generally offers unexploited potential to be tapped into without necessarily taking policy measures. The analysis indicated that the proposed integration scenarios would not significantly alter the pattern of extra-regional trade. Latterly, the analysis suggested that an extension of the ECU to include Kyrgyzstan and Tajikistan could have trade diverting effects and could reduce the total external trade of its members, while indicating that Central Asian integration may boost external trade levels. Meanwhile, integration between Kazakhstan, Kyrgyzstan and Tajikistan, it was suggested, could lead to trade creation.

The analysis of Central Asian demand for and supply of regionalism policies found that demand for market enlargement and regional integration is limited and that, to the extent that it has voice, it is generally ineffective in swaying government policies. While Kazakhstan and Kyrgyzstan are both pursuing economic integration policies aimed at Eurasian integration with Russia, this does not directly reflect demand of business communities, and may be driven more by political calculations than business demand. Vested interests in the *status quo* are significant obstacles to opening trade regimes across the region, particularly in Uzbekistan and Turkmenistan. The analysis, thus, suggests that for regional integration to develop organically in Central Asia, deficiencies on both the demand and supply side must be addressed. Vested interests hinder governments from pursuing economic reform, including trade facilitation or indeed integration measures; and the same vested interests, manifest in weak business environments, inhibit growth-oriented business models. While the economic analysis indicated that the CARs could benefit from collectively pursuing trade agreements with external actors, the analysis of demand and supply of regional integration policies, thus, question the likelihood of such course of action. Indeed, the primary obstacle to economic reforms, including trade facilitation measures, appears to be vested interests in the *status quo*. With regional dynamics working against Central Asian regionalism and region-building are efforts by external actors aimed at improving coordination within the region premature?

Below the European, Japanese and Korean as well as Russian and Chinese initiatives aimed at fostering regional cooperation in or beyond Central Asia will be reviewed in the light of these findings. This will be informed by the theory of interregionalism, particularly, the functions of balancing, institution-building and collective identity formation. The former suggest that interregional frameworks can be used *inter alia* as a tool for balancing the influence of other actors, while collective identity formation suggest that an interregional dialogue can build or strengthen the regional identity of one or both actors. This may happen as 'regionalism through interregionalism', whereby the interregional cooperation forces coordination on the weaker of the two engaging regions, as well as individual states pursuing a regionalist agenda through the interregional fora. Collective identity formation, alternatively, may occur through external cogency arising either from expected benefits from integration or a common external threat. The analysis of the frameworks are summarised in table 5.1 according to the functions of interregionalism as discussed in chapter 1.

5.1 Central Asia plus Japan

The Central Asia plus Japan dialogue celebrated its tenth anniversary this year with a reaffirmation of the commitment to strengthen regional cooperation in Central Asia from all Central Asian Foreign Ministers at the dialogue's biannual summit (Central Asia plus Japan, 2014). While a Japanese diplomat describes the

Central Asia plus Japan Forum as effective, he also cautions that success requires much more facilitation (i/w Yuzo (#15/AD)), and there is no direct evidence to suggest that ten years of dialogue through the forum has contributed to collective identity or institution-building at the regional level. As discussed in section 2.3.4, the limited impact of the dialogue may be due to the wide variety of issues covered and the lack of mutual understanding. Moreover, as uncovered in the previous chapter, a primary obstacle to regionalism in Central Asia is the vested interests in the *status quo*. While Japan does support democratic reforms, it does not apply conditionality on aid and investment, as discussed in section 2.3.4; the forum, therefore, maybe ill-equipped to promote regionalism.

Japan does not seek to compete with other external actors for influence. However, as discussed in section 2.3.4 the shift in emphasis from Eurasia to Central Asian regionalism does suggest the deliberate exclusion of Russia. Moreover, the forum serves the purpose of balancing the influence of Russia and China from the perspective of the Central Asian republics (i/w 2xWD).

Central Asian republics are mostly interested in imports from Japan, particularly of investment and technology (i/w TT; AC). As a Central Asian civil servant explained: if you want to change the structure of your economy, the Asia-Pacific is one region to look to (i/w GO). While Japan has unexploited trade potential to some Central Asian republics, notably Kazakhstan, there is no collective need for trade facilitation measures from the perspective of the CARs. It is, therefore, unclear that there is mutual interest in pursuing a common platform for trade and investment facilitation, which might provide positive external cogency for Central Asian regionalism. However, a recent decision by Toyota to locate knock-down production facilities in Kazakhstan, possibly spurred on by Kazakhstan's integration with Russia through the ECU (i/w Yuzo (#15/AD)), suggests some potential for integration into Japanese-led RVCs.

Though the dialogue forum has not encouraged regionalism in Central Asia, the joint statements from biannual summits indicate that the forum performs other functions typical to interregional frameworks. Particularly, rationalising and agenda-setting in relation to other multilateral fora with, for instance, repeated emphasis on the need for reform of the UN system (Central Asia plus Japan, 2012; Central Asia plus Japan, 2014).

Overall, the Central Asia plus Japan Forum offers little potential for facilitating regional cohesiveness in Central Asia through collective identity formation or institution-building. There is not a clear picture of shared interest in pursuing trade facilitation, which could provide positive external cogency.

5.2 Korea-Central Asia Cooperation Forum

The Korea-Central Asia Cooperation Forum, launched in 2007, has a more distinct economic focus with discussions including economic zones, trade, investment, energy and tourism in addition to ecology and cultural exchanges (i/w NN; AD). Generally, the CARs are considered to take an active interest in the forum, not engaging as passive participants but giving input and bringing initiatives to the fore (Ibid). The forum serves the purpose of balancing the influence of Russia and China from the perspective of the Central Asian republics (i/w 2xWD). Korea itself does not seek to compete with or replace Russian and Chinese influence in the region but aims to develop trade links (i/w NN).

As both Kazakhstan and Uzbekistan have reached their export potential to Korea, they may enjoy a shared interest in pursuing a common trade facilitation framework. Korea, similarly, may see an interest in this having exceeded its export potential to Uzbekistan, notably, but also reached its potential for exports to other CARs. However, while Korean businesses do consider Central Asia a regional market, it is mostly SMEs that are active, which perhaps are less likely to push for a Korean common trade facilitation framework (i/w NN; AD). Korean businesses are particularly interested in the agribusiness, textile, mining and health sectors in Central Asia (i/w NN; AC). This is reflected in sub-forums on cooperation within for instance textiles. This group originally included only Kazakhstan, Turkmenistan and Uzbekistan but Kyrgyzstan is now looking to join (i/w NN). Thus, the Forum appears to foster functional cooperation among the Central Asian republics. The active participation of Uzbekistan is taken as a sign of this, as the country is usually considered relatively less cooperative (Ibid). The CARs are mostly interested in imports and investment from Korea (i/w TT); as one civil servant noted Asia-Pacific is a region to look to, if you want to change the structure of your economy (i/w GO). The annual meetings of the Forum provide a platform on which the CARs in turn provide presentations on their economies and investment opportunities for a Korean audience (i/w NN). These presentations are seen to increase the interest of Korean business in the Central Asian markets and widen this interest beyond Kazakhstan and Uzbekistan (Ibid).

Despite the active interest and participation in the forum, there is no direct evidence that it has contributed to collective identity formation in Central Asia. Korea has sought to institutionalise the Cooperation Forum suggesting in 2013 to establish an organisational framework to support the Forum. The Central Asians have not formally agreed to this and no concrete measures have yet been taken. The CARs are described as having neither approved, nor disapproved of the suggestion for institutional development (i/w NN), thus it is too early to say if Korea will be successful in this endeavour; indeed Korea expects that this at best will evolve over the long term (ibid).

There may be potential for shared economic benefits through cooperation on trade facilitation, and some functional cooperation occurs in certain economic areas. Indeed, the areas of interest of Korean businesses in Central Asia, to a certain extent, overlap with the potential comparative advantages discussed in chapter 2. However, the Korea-Central Asia Cooperation Forum has not yet contributed to regional cohesiveness in Central Asia through either identity formation or institution-building.

5.3 EU and Central Asia – a new interregional partnership?

'The European Union and Central Asia: Strategy for a New Partnership' maintained an intention for the EU to facilitate dialogue and cooperation in Central Asia, as discussed in section 2.3.4. This does not suggest that the CARs are seen as being similar but reflects recognition of the transboundary nature of many challenges facing the region (i/w WD). The EU's advantage in approaching issues on a regional basis lies in its understanding and experience of multilateralism (i/w

AC). Nevertheless, as suggested above, the EU's approach to Central Asia is pragmatic. Transboundary challenges are considered difficult to handle at the regional level, and in practice are approached bilaterally (i/w WD); to the extent that some would suggest the strategy is not reflective of reality (i/w NN). For instance, technical assistance on border delimitation in the Fergana Valley was offered on bilateral basis in the form of equipment and training; yet Uzbekistan still opted not to engage (i/w WD). Moreover, as was discussed in section 2.3.4, the EU's engagement on border and security-related challenges may be counter-productive, contributing to the securitisation of borders. Also, De Danieli's assertion that the strengthening of security apparatuses through anti-drug trafficking programmes has enabled the entrenchment of the ruling elite's hold on power in Tajikistan, suggests that such initiatives are counter-productive to trade facilitation because of the elite's vested interests in the *status quo*.

Former EU Special Representative for Central Asia Patricia Flor herself appeared sceptical as to whether the EU could play a mediating or facilitating role in intra-regional relations, suggesting that the EU's role is to offer advice and examples from its own experience on how to improve cooperation (Flor, 2013: 5). Moreover, Flor has stressed that external partners must have patience with Central Asian republics, who take a long term, or slow-pace, approach to reform (Muckenhuber, 2013). The ambitions of the EU in terms of contributing to region-building, or collective identity-formation, in Central Asia are thus limited.

The EU's leverage rests on the attractiveness of European modernity. As one diplomat notes, if one aspires to modernity in the form of the rule of law and security of investment, one does not turn to China (i/w WD). This sentiment was echoed by a Central Asian civil servant suggesting that Europe was a region to look to if one aspired to reform a country's economic structure (i/w GO). The EU is seen to have much to offer in terms of technical assistance to lift product standards, improve transit times as well as on softer issues of marketing, including product placement and branding (i/w WD). Indeed, Central Asian states are perceived to aspire to the EU's rule of law norms and educational and technological standard (i/w WD); the power of attraction of European norms are seen for instance in Kazakhstan's 2050 Strategy, where the word '*European'* is typically followed by '*standards'* (i/w WD). However, there are limits to attractive power with Central Asian states reacting negatively to the European attempts of human rights promotion (i/w WD). Indeed by pushing the Central Asian states on human rights norms, the EU is seen to park itself on the side-lines (i/w WD). This suggests that there are limits to the potential for an external actor to promote regionalism in Central Asia. Issues of human rights, the rule of law and democracy can be considered key to breaking the vested interests behind the *status quo*. If an external actor, such as the EU, cannot realistically influence the Central Asian republics in this regard, it is unlikely that it will be able to further regional cohesiveness through facilitation of cooperation or integration. Moreover, as Laruelle and Peyrouse (2013: 59) have suggested, the exclusion of Central Asia from the Eastern Partnership programme removed the potential for positive external cogency through the partnership by limiting the carrots available to the CARs. Indeed, the EU is not perceived as a big player in the region, for instance, in Tajikistan, where the EU -by its own standards- are spending significant sums, it is not perceived as such by Tajiks (i/w 2xWD).

The EU also is a difficult entity for CARs to engage with. On the one hand, there may be a preference to deal with member states rather than the Brussels bureaucracy (i/w WD; WS) but more fundamentally Central Asian governments are said not to fully appreciate the difference between bilateral and multilateral relations (i/w 2xWD), and in extreme cases perceive of the EU as a separate European state (i/w WD). Meanwhile, rivalry between Russia and China in the region is seen to serve EU interests (i/w WD) creating a space for manoeuvre in which the EU's relative distance to the region also plays to its advantage (i/w WD; NN). Indeed, the CARs are keen to use relations with the EU to balance the influence of Russia and China (i/w 2xWD). For Kazakhstan, the EU is its largest trade and investment partner, and key to balancing the economic influence of Russia and China (i/w WS). Consequently, Kazakhstan is not pushing to shift its dialogue with the EU to the ECU level (i/w NN), where Russia would influence the negotiations. From the perspective of the EU Kazakh ECU membership is, however, problematic. While the EU, being a customs union itself, values the economic principles thereof, the

ECU is perceived as a political project hindering members' relations with third parties (i/w WD).

The EU instead has agreed an enhanced partnership agreement with Kazakhstan, said to be largely identical to the agreements reached with Moldova and other Eastern Partnership countries (i/w WD). The preceding analysis of trade relationships suggest that similar trade facilitation measures are warranted with regards to each Central Asian republic, and thus proposing a collective framework for trade facilitation between the EU and the CARs may be a means by which the EU could provide positive external cogency for Central Asian region-building. There is some European interest in agribusiness and in the production and sales of textiles in Central Asian agribusiness in Central Asia (i/w AC; WD; EN; DI), again corresponding to the discussed potential for creating new comparative advantages. It will, however, require significant investment in Central Asia to enable production at quality standards required for export to the EU (i/w BA) limiting the impact of such potential positive cogency. Nevertheless, there may be potential for location of assembly or production of equipment, machinery and vehicles for sale in the region, as does already happen to a limited extent (i/w 2xNN; DI). One interlocutor cautioned, however, that currently some assembly production has only been located in the region to appease the local government, not because it is a profitable investment (i/w NN).

Despite the proclamations, the implementation of the EU strategy in Central Asia does not practically aim for either collective identity formation or regional institution-building. On the one hand, this reflects pragmatism about what may be achieved; on the other, it reflects limited interest on part of the EU. While the EU would like to cast itself as a world player, and therefore is active across the globe; economically, the EU has only one interest in Central Asia: Kazakhstan (i/w WD). Moreover, initiatives in the sphere of security may be undermining initiatives aimed at trade facilitation.

5.4 Russia and Eurasian integration

Russia's relationship with Central Asia does not sit comfortably under the notion of interregionalism. To the extent that Russian policy towards Central Asia aims at framing collective identity this is aimed at a shared Eurasian orientation with Russia at the core. For instance, in a Q&A session, live broadcast in August 2014, Putin reminded viewers that the Eurasian integration project is based on the philosophy of Eurasianism, which has Russia at its heart, and is something the Kazakhs have decided to join (Putin, 2014). Eurasian integration, perhaps more importantly, serves to promote certain tangible Russian interests (i/w NN) such as creating an Eastern buffer zone towards China (i/w Khusainov (#26/AC)). As such it has a balancing function of reducing the influence of China in Central Asia, and arguably is intended to serve a similar purpose in relation to the EU's impact in Eastern Europe and the Transcaucasus. Other direct Russian interests include opening neighbouring markets to Russian business and establishing control over these economies (i/w Askarov (#27/JO); Shamiev (#71/LE); WD). Central Asian manufacturers struggle to compete in the Russian market but there is demand for Central Asian agricultural and food produce (i/w Altaev (#17/GO)); even more so since Russia embargoed Western food imports (Rickleton, 2014a). As discussed, Central Asia could build comparative advantage in agribusiness, and having access to a large market in Russia may facilitate this.

Russian policy does not provide external cogency for Central Asia as a whole; in fact, Russian policy appears to have almost a directly opposite effect driving a wedge, in the form of the Eurasian integration project, between Central Asian republics. Kazakhstan pursues the Eurasian integration path based on an expectation to benefit from it, and has itself been a driving force of such integration. The Kyrgyz response is also adoptive as the country seeks to join the ECU. Tajikistan, on the other hand, is -for now- taking a reactive stance against Eurasian integration – as are Uzbekistan and Turkmenistan. As discussed above, Tajik WTO entry may be seen as a means by which to complicate a Eurasian integration path. Thus, Russian foreign policy through the pursuit of Eurasian integration is inhibiting the cohesion of a Central Asian region. Russia has significant leverage in its relations with Tajikistan (as well as Kyrgyzstan) as both are highly reliant on Russia for labour migrant remittances as well as energy and fuel deliveries (i/w Khusainov (#26/AC); Soliev (#31/GO); WS; 2xWD; Ahmetova (#70/GO); Shamiev (#71/LE)). To paraphrase one Tajik official: 'Russia does not allow Tajikistan to make independent economic decisions' (i/w Soliev (#31/GO)), which suggests that the Tajik government's stance on Eurasian integration may change over time. Nevertheless, paradoxically, Russia appears, at the same time, to contribute to Turkmenistan's rapprochement with other Central Asian republics. As discussed in the previous chapter, Kazakhstan and Turkmenistan are increasingly cooperating on infrastructural projects, which reduce their dependence on Russia for transit, thereby increasing their interdependence.

Russia's current policy with regards to separatist forces in Ukraine is unsettling Central Asian governments, and may to some extent be causing a degree of regional re-alignment within Central Asia. Uzbekistan has refrained from backing Russia in this regard, which may paradoxically lead to improved relations with Tajikistan. It has been suggested that to balance its implicit critique of Russia's role in Ukraine, the Uzbek government is becoming more forthcoming towards Tajikistan, *inter alia*, enabling increasing food exports from Tajikistan to Russia (Mukhametrakhimova and Faskhutdinov, 2014). More widely, however, the general impact of Russia's policies towards Ukraine is likely to deepen Uzbekistan's orientation towards East Asian and Western partners (Lillis, 2014d). Erlan Karin suspects that the situation in Ukraine is entrenching Kazakh reluctance to deepen integration with Russia (Central Asia Program, 2014: 3). Indeed as Annette Bohr (2014) has emphasised, the concerns are particularly pertinent for Kazakhstan, which has a long land border with Russia and the second largest ethnic Russian population outside of Russia. This proposition is further emphasised by Russia's announcement primo September 2014 to hold military exercises near the border to Kazakhstan (Lillis, 2014b). As suggested above, there are signs that the economic isolation of Russia following events in Ukraine is leading the Kazakh government to refocus attention towards Central Asia. Kazakh Foreign Minister Idrisov in April 2014, thus, spoke of the need to promote Central Asian integration, interpreted by local analysts as a response to the threat of sanctions against the Russian economy (Kapital, 2014). Russia also is seen to be holding up Kazakh WTO membership (i/w WD) out of concern that the Kazakh market should become more competitive than Russia; the latter not seen to be implementing its WTO commitments (i/w WD). As elite opposition to Eurasian integration favours Kazakh WTO membership, such policy may also be entrenching opposition to the EaEU in the Kazakh elite, just as Russia's Ukraine policy is driving anti-Eurasian sentiment in the wider public, as discussed in the previous chapter.

Russian policy appears to have a mostly divisive impact on Central Asia. Through the promotion of Eurasian regionalism, the potential for Central Asian regionalism is undermined, while the prospect of the collective inclusion of all five Central Asian states in the Eurasian project appears remote. The question remains, however, whether the ongoing conflict in Ukraine and Russia's role in this may be tempering this trend

5.5 China and the Shanghai Cooperation Organization

Russia has traditionally been the dominant external power in Central Asia, but is increasingly challenged by China's economic influence. China is now seen as one of two main strategic partners for the CARs (i/w 2xGO; 2xNN). One interlocutor described China as '*the silent merchant*' and Russia as '*the reluctant soldier*' (i/w NN), neatly indicating the dominance of China in economic affairs, where Russia is seen to be relatively less active (i/w Umarov (#45/AC)) despite its efforts towards integrating the Central Asian economies into the ECU. Such images reinforce a suspicion that Eurasian integration is not driven by economic but political objectives.

While much of China's activity in Central Asia is conducted under the SCO umbrella, the approach is largely bilateral (Kaukenov, 2013). The regional element of the SCO is perceived as part of China's effort to raise its political credibility by raising its profile and legitimacy through technical assistance. This is pursued for instance through the idea of an SCO development bank, which has hitherto been blocked by Russia (i/w AC). The SCO is increasingly active in the economic field, the 2013 summit, for instance, leading to agreements on economic cooperation on the creation of a land bridge, railway construction, technical aid and a gas pipeline (i/w AD). China is supported within the SCO for this economic refocusing of the agenda by Kazakhstan and Uzbekistan (i/w Agan (#80/DI)) perhaps indicative of the Central Asian republics use of the SCO to balance Chinese and Russian influence. At the same time, the Central Asian republics are wary of economic domination by China, which has been suggested to explain the CARs reluctance towards creating a free trade area among SCO members (Laruelle and Peyrouse, 2013: 5, 33).

As discussed in section 2.3.2, China recognises that regional disagreements and barriers are contrary to Chinese interests, thus, seeking to resolve the issues. However, there are limits to Chinese engagement, which suggest that China does not generally seek to promote Central Asian regional cohesion but only engage as and when it sees a direct interest in doing so. For instance, Laruelle and Peyrouse (2013: 34) point to China's refusal to mediate in the conflict over water usage in Central Asia. In fact, the impact of Chinese engagement may be to increase the independence of Central Asian republics, thereby not (in the short term) increasing regional cohesiveness. For instance, Chinese engagement is perceived to aid Tajikistan's and Kyrgyzstan's abilities to act independently while kerbing arrogance on part of Uzbekistan (i/w NN; Bjorvatn (#47/IO)). At the same time, the many infrastructural projects linking Central Asian countries not only with China but also each other may over time increase regional interdependencies, and through this regional cohesion. The lack of conditionality applied to Chinese investments and loans also reduce the potential for China to provide positive external cogency. Central Asian leaders are strongly interested in Chinese investments exactly because they are considered to be 'no strings', as the Chinese generally do not push the Central Asians on issues which are sensitive for the governments (i/w BP; 2xWD). One Tajik official described Chinese loans and investments as '*money for free*' or mostly credit at low rates (i/w Soliev (#31/GO)). Conversely, the typical example of positive external cogency, the Marshall Plan, came with conditionalities that encouraged economic integration with the donor, the USA.

As a strong country neighbouring the region, China may alternatively provide negative external cogency for Central Asia to the extent that the country is considered a common threat to the CARs. While Central Asian governments for now appear content to accept Chinese loans and investment, there is also concern, even fear, about the long term impact and whose interests are really served (i/w 2xWD). Particularly in Tajikistan where it is suggested that China is Tajikistan's biggest lender with up to 50 per cent of Tajik debts, unofficially, owed to China; and significant bilateral transactions are conducted intransparently without official agreements (i/w 2xWD; Umarov (#45/AC)). In Kyrgyzstan critique of Chinese investments in transit roads centre on the claim that these do not match the infra-structural needs of Kyrgyzstan itself (i/w FB; AC). Moreover, citizens across Ka-zakhstan, Kyrgyzstan, and to a lesser extent Tajikistan, are hostile towards Chi-nese migrants (i/w Madumarov (#2/AC); Askarov (#27/JO); Umarov (#45/AC); NN; WD). Indeed, Kazakhstan's enthusiasm for economic partnership with Rus-sia may be assessed as an expression of balancing Chinese economic power (i/w WD). China represents a huge market – but a strongly competitive economy per-haps more likely to export its goods to Central Asia than to increase its imports, and thus potentially a threat (i/w 2xNN). Similarly, it is suggested that Kyrgyz intentions to join the ECU reflect distrust of China and its influence (i/w Claytor (#74/FB)). Officials suggested that ECU membership will be a way of reshaping economic relations between Kyrgyzstan and China by attracting Chinese invest-ments in production facilities and no longer acting as a mere conduit for trade (i/w 2xGO). To the extent that China, thus, does provide negative external cogency, it appears to some extent to lead to Eurasian rather than Central Asian regionalism.

The 2014 SCO summit readied the organisation for future expansion with India or Pakistan the most likely countries to become full members (Lillis, 2014c). Such expansion is likely to reduce the efficacy of the organisation further to the extent that it is intended to work on a multilateral basis. The leaders at the summit signed a joint declaration on restoration of peace in Ukraine. However, this may be inter-preted as a hollow victory for Russia since the summit also reflected the concerns of other member states over Russia's role in the conflict (Ibid). Indeed this exem-plifies the limits to using the SCO for rationalising and agenda-setting at the in-ternational level, which is most strongly seen in the emphasis on non-interference of foreign states in domestic affairs of members. A principle undermined by Rus-sian actions in Ukraine.

	Balancing	Institution-building	Rationalising and agenda-set	Collective identity formation
Central Asia plus Japan	For Central Asia balances the influence of Russia and China	None	Yes, e.g. on UN reform	No evidence, though some potential for positive external cogency through trade and investment facilitation
Korea-Central Asia Cooperative Forum	For Central Asia balances the influence of Russia and China	Suggested but no agreement	No evidence	No evidence, though some potential for positive external cogency through trade and investment facilitation
EU Central Asia strategy	For Central Asia balances the influence of Russia and China	None	No evidence	No evidence, though potential for positive external cogency through trade and investment facilitation
Russia, Eurasian integration	For Central Asia balances the influence of China	Yes between Russia, Kazakhstan and possibly in future Kyrgyzstan	No. The ECU has not achieved coordinated policy between Kazakhstan and Russia on international trade e.g.	Divisive impact driving some CARs towards Eurasianism
China, the SCO	For Central Asia balances the influence of Russia and China	Some SCO institution-building in security space e.g.	Yes, e.g. on non-interference in domestic affairs	Simultaneous potential for positive and negative external cogency

Table 5.1 – Functions of interregionalism and regionalism in Central Asia

China may be argued to offer the potential for positive as well as negative external cogency for Central Asia. China is a source of significant investments and also contributes to increased interdependency in Central Asia through infrastructure projects. At the same time, as a large economy bordering the region China is to some extent considered a threat. However, rather than unite internally, the CARs use Russian membership of the SCO, and in some cases the prospect of Eurasian integration, as a means by which to balance the influence of China. At the same time, China is used to balance against Russia's influence in the region.

5.6 Discussion

Table 5.1 above summarises the functions of the five frameworks and external actors discussed. A critical condition of Central Asian openness to cooperation or integration frameworks with external actors appears to be an understanding that the external actor is a facilitator and not pushing its own agenda (i/w Yuzo (#15/AD)). There is a sense that the Soviet experience is remembered as a negative experience of integration; an imposition by an external actor, one which did not sufficiently value the contributions of Central Asia to the Union with, for instance, natural resources being under-priced (i/w WD). This is reflected in the regional concerns that both Russia and China are pursuing agendas that narrowly promote their own interests and as the use of Japan, Korea and the EU to balance against such influences.

Stakeholders in these processes suggest that there is a genuine interest on part of Central Asian governments for externally facilitated dialogue (i/w Yuzo (#15/AD); NN; AD; GO); though also acknowledging that the interest is less keen in the cases of Uzbekistan and Turkmenistan, both described as difficult to cooperate with and reluctant participants (i/w 2xWD; Yuzo (#15/AD)). There is a sense that the pendulum has shifted away from a regional approach to Central Asia over the past decade with international actors increasingly engaging CARs on a bilateral basis (i/w IO), as evidenced by the EU's more pragmatic approach. Often the regional approaches involve bilateral meetings seeking to enable both bilateral and regional dialogue (i/w WD; NN); even in the case of the SCO, which has organisational structures behind it, much appears to happen through bilateral channels. On the one hand, this trend may reflect a need to maintain progress in bilateral relations (i/w NN) but it may also reflect recognition that a regional approach is not fruitful in practice. While many challenges are transnational, attempts to address them in a regional context are often perceived as futile (i/w IO; DI). For instance, an attempt to bring Uzbekistan on board with investments in hydro-power plants in Kyrgyzstan, by offering Uzbekistan some decision-making rights in control of the operations, floundered due to principled political objection to the project within the Uzbek government (i/w DI).

Progress in Central Asian regional relations ultimately hinges on domestic dynamics, which as the preceding analysis suggested are not conducive to regionalism. Central Asian leaders have failed to recognise that their neighbourhood must be prosperous for each of the states to grow or at least to take ownership of making necessary changes (i/w WD). The preceding analysis indicated that the CARs have similar trade patterns and may benefit from collectively pursuing trade facilitation measures with key global trade partners. Following the theoretical notion of integration with developed economies being preferable, the CARs should focus their attention on entering into such trade facilitation agreements with the EU, Japan, Korea, as well as, China, which relative to Central Asia has a higher stock of technology from which the CARs could benefit. Russia on the other hand is less likely to be a source of knowledge transfer and, more widely, does arguably not represent an economic model to emulate (RFE/RL, 2013b).

EU-Central Asia trade is dominated by natural resource exports and exports of consumer goods to Europe would require production to high quality standards. Moreover, European consumer goods and technology is more expensive relative to what Asian markets may offer. Such factors may limit the relative attractiveness of partnering with the EU. The mutual interests in pursuing shared trade facilitation frameworks with Japan and Korea is less clear, given that some bilateral pairs are characterised by unexploited trade potentials. As discussed above, economic sanctions against Russia in the wake of the annexation of Crimea may lead to adjustments in policy within Central Asia. It also may affect the geopolitical landscape. For instance, German Chancellor Merkel has suggested that the EU may reconsider its energy partnership with Russia (RFE/RL, 2014k). This could create an impetus behind the so-called Southern Gas Corridor, which has been envisioned to bring gas from the Caspian region to the EU. However, while such a development may increase European engagement with Central Asian energy rich countries, this may not impact regional cohesion in Central Asia, though it may strengthen the alignment of Kazakh and Turkmen interests. Moreover, an energy partnership may not foster the long term economic development through diversification that a wider trade partnership with external economies could, as it does not foster integration in GVCs for instance.

Thus, China may be the preferable trade partner. The country has the capacity to supply Central Asia with consumer products at low prices (Laruelle and Peyrouse, 2013: 37), while at the same time offering technology that is relatively cheap and considered of superior quality to Russian technology, which in Central Asia is perceived to be in decline (i/w Askarov (#27/JO); BA; Paramonov (#96/AC)). Considering the regional concern regarding China's rising economic power in the region, it is a relationship that certainly would require stronger regional cohesion to strengthen collective bargaining power vis-à-vis a larger neighbour.

5.7 Summary

The theoretical chapter suggested that an external actor may imbue enforcement capacity and credibility to regional reform attempts, to some degree replicating the functions of commitment institutions which improve the likelihood of success of regional integration. The lack of demand for and supply of Central Asian regionalism, particularly the strength of vested interests in the *status quo*, however, suggests limited scope for such mechanisms in the region. Indeed, the above discussion suggests that external actors such as Japan, Korea and the EU do not have an impact on the regional cohesion in Central Asia in the form of collective identity formation or institution-building. While there may be potential for positive externalities through joint trade facilitation between Central Asia and these external actors, the prospect of this appears distant. Russian policy towards Central Asia on the other hand is primarily fostering regional divisiveness. The Eurasian integration project is eliciting diverging responses from the Central Asian republics with Kazakhstan engaging in and even promoting the project, and Kyrgyzstan seeking to join, while Tajikistan, Turkmenistan and Uzbekistan show no interest. Consequently, Eurasian regionalism is reducing the prospects for Central Asian regionalism in the immediate future.

China, on the other hand, to some extent may foster regional cohesion through increased interdependencies shaped by infrastructure projects criss-crossing Central Asia. The lack of conditionality on Chinese investments in the region, however, reduces the potential for positive external cogency. Moreover, while China may represent a potential market and source of investment and technology for economic development in Central Asia, China at the same time may be considered a potential force for negative external cogency to the extent that the country is seen as a common threat. Paradoxically, however, the Central Asian republics appear to rely more on Russia than each other to counter-balance this perceived threat from China, thus further reinforcing the dynamic of disintegration in the region.

Conclusion

Over the past ten years states external to post-Soviet Central Asia have sought to facilitate regional, economic cooperation between the Central Asian republics through interregional frameworks, including Central Asia plus Japan, the Korea-Central Asia Cooperation Forum and the EU strategy for engagement with Central Asia. Others, notably neighbouring Russia and China, have sought to integrate with Central Asia through wider regional frameworks including the CIS, and currently the Eurasian Customs and Economic Union, as well as the Shanghai Cooperation Organization. Meanwhile attempts at regional integration amongst the CARs alone have failed. The Central Asia Cooperation Organization, for instance, was eventually submerged into the Eurasian Economic Community. Nevertheless, scholarly literature has given little consideration to the prerequisites for economic integration in the post-Soviet space. Consequently, this thesis has explored such underlying dynamics for regional economic integration in Central Asia.

Firstly, it was asked whether economic integration may impart economic benefits to the Central Asian republics. Given limitations on statistical data, this question was explored through an analysis of trade patterns and potential for increasing intra- and extra-regional trade, including through economic integration.

Secondly, the thesis has explored whether there is demand for regional integration policies within the region, and whether there is potential supply of integration policies on part of Central Asian governments. Demand is expected to arise from economic actors, who would gain from the further opportunities for market exchange offered by integration. Such demand may be counteracted by vested interest in the *status quo*, such as from import-competing industries. Supply for integration policies is likely to arise where economic performance is poor, and the political leadership expects political pay-off from economic integration through higher economic growth. Supply of integration policy may also be counteracted by strong interests against; for instance, vested interests in the *status quo* which do not directly relate to growth of the wider economy. Latterly, it was explored whether there is regional leadership to drive a process of regional integration.

In the light of the analysis, the thesis then discussed the role of external actors in facilitating regional integration in Central Asia and whether such actors may substitute for commitment institutions, which are theoretically expected to be critical to the success of regional integration schemes.

Statement of originality

The thesis contributes to existing literature as it explores the presence or absence of requisite factors for integration to occur in Central Asia. Previously, the focus of academic literature on Central Asian regionalism has been on specific regional structures, explaining their success or failure. Obydenkova has similarly explored requisite factors for integration in the post-Soviet space but focusing on the CIS.

The primary contribution to literature may, however, be in the analysis of Central Asian business communities based on an extensive series of interviews in all five post-Soviet Central Asian states. Existing literature on the business community in Central Asia is very limited, including for instance Özcan's study of the bazar economy in Kazakhstan, Kyrgyzstan and Uzbekistan.

Another contribution is in the methodology applied in the quantitative study of trade relationships, where alternative gravity models were estimated to simulate the effect of hypothetical integration schemes. Usually *ex ante* studies of economic integration employ CGE models but the lack of necessary detailed data forced the application of innovative methodology.

Region-building and economic development

Region-building can occur through two complementary processes: regionalisation and regionalism. The former denotes bottom-up processes of interaction between economic actors, whilst regionalism denotes a top-down process of intentional policies designed to manage the process of regionalisation. The main focus of this thesis has been on regionalism. Regional economic integration involves market enlargement, which can boost competition, enable economies of scale and increase consumer choice. The driving forces behind regional integration include obtaining access to larger markets and markets protected by high trade barriers, creating a focal point or credibility behind domestic reforms, and political objectives, such as shared use of resources.

Unilateral liberalisation may, however, be a more effective means of improving economic performance; therefore, supply of integration policy is likely to require demonstrable economic benefits over and above those of unilateral economic reforms. On the other hand, regional integration may offer additional benefits such as raising the credibility of economic reforms and tying such into an international framework, or non-economic benefits such as building trust or sharing resources.

For transition economies, problems of economic development include low domestic demand, barriers to export markets, supply limitations and the need to build supply ahead of demand. Enlarging markets may alleviate some of these concerns by increasing potential demand and gaining access to foreign technology. Access to technology and investment is more likely to arise when developing economies integrate with larger, developed economies. Such knowledge transfers are more likely to lead to productivity gains for the developing economy, and thereby growth. An added benefit of integrating with a developed economy may be that this adds credibility to the commitments and any related economic reforms. Accessing FDI requires a strong institutional and credible environment. Where reforms are not seen to be credible, economic actors are unlikely to respond. Thus, theory would suggest that for the Central Asian economies, there may be merit in pursuing trade integration with a developed economy external to the region, which could both provide technology and investment, and enforce commitments to reform or, indeed, integrate.

Economic benefits from integration

Diverging economic transition paths since gaining independence have led to deviating economic environments in Central Asia. Kazakhstan and Kyrgyzstan both followed so-called shock therapy transition paths introducing liberal reform policies quickly upon independence. Uzbekistan and Turkmenistan on the other hand followed more gradualist approaches to economic transition. Tajikistan's transition was delayed by the country's civil war but since 1997, the country has pursued a liberalising economic policy. Despite such variation, the Central Asian republics still face similar challenges in terms of institutional reforms, all suffering from poor corruption standards, weak governance and absence of enterprise restructuring. The capture of economic rents by elites have also contributed to a delay of economic diversification and sustainable economic growth; and in all five republics substantial economic activity is pushed into the informal economy depriving governments of budget income.

In the formal economy, trade integration within Central Asia is limited and asymmetrical. Kyrgyzstan and Uzbekistan export significant amounts to neighbours, Kazakhstan in particular, which also represents noteworthy import shares in Uzbekistan, Kyrgyzstan and Tajikistan. Trade integration (regionalisation) in Central Asia is, however, driven by the informal sector. The shadow economy deprives all Central Asian governments of budget revenues, which illustrates how they could benefit from bringing informal businesses into the formal economy. Enterprises are not only driven into the shadows by weak governance and corruption but also by the diverging trade and border restrictions. Formalising it and improving business opportunities for growth, would benefit the general public as well as state coffers. Indeed, the analysis has suggested that domestic business environments as well as the obstacles to cross-border trade are hindrances to a growth-oriented business model, thus inhibiting economic development.

The analysis conducted in this thesis suggests that the Central Asian republics over-trade between themselves. Using a gravity model approach the study suggests that Central Asian republics trade more between themselves than the model predicts, according to theoretical expectations following from their bilateral economic relationships. The corollary of this is that should the Central Asian republics seek to increase intra-regional trade, policy actions aimed at this must be implemented. Such actions could be in the form of economic integration.

The study, thus, considered the potential impact on trade of economic integration in Central Asia. Given limited access to relevant statistical data it has not been possible to examine the impact on intra-regional trade under conditions of economic integration. Instead, the gravity model was employed to explore the potential impact on extra-regional trade of Central Asian and Eurasian integration. The key measures for evaluating the benefits of economic integration revolve around the notions of trade creation and trade diversion. Trade diversion indicates that trade is shifted from more to less efficient producers, while trade creation reflects improved resource allocation through new trade or shifts in trade to more efficient producers. The results suggest that current political discussions on extending the ECU to include Kyrgyzstan and Tajikistan may not be beneficial for the two potential entrants themselves. Indeed, the results suggest that the ECU may have trade diverting effects, and could reduce the total external trade levels of its members. By contrast, economic integration within Central Asia may be more beneficial. Comparing the two scenarios for integration within Central Asia, a scheme involving all five republics may increase their shared level of predicted external trade, as well as positively impact their trade balances. On balance, however, this scenario may also involve trade diverting effects, though in the last year of the sample studied, the effect is suggested to involve trade creation. For Kazakhstan, Kyrgyzstan and Tajikistan there could be merits also in the smaller scheme involving only these three republics. The trend over the period examined is towards trade creation; though the predicted expansion in total trade levels tend towards also slightly worsening their net trade positions.

From the perspective of Central Asia, the findings suggest that intra-regional integration would be beneficial on two accounts. Firstly, it could, if designed accordingly, increase the scope for intra-regional trade, and, secondly, increase the shared scope for external trade of the Central Asian republics. Consequently, since the CARs generally have similar patterns of over-trading and unexploited trade potentials, they may benefit from pursuing trade facilitation measures with external partners, notably China, and the EU, collectively.

Supply of and demand for economic integration

The analysis of supply of, and demand for, integration policies highlighted a dearth of growth-oriented businesses in Central Asia and the weakness of organised business voices. On the one hand this reflects a gradual conversion to market economic principles on the part of businesses and entrepreneurs, who may take a short-termist approach or lack business skills, but it is also a consequence of the domestic business environments, which encourage businesses to stay small or operate informally so as to avoid attention from authorities, which may either involve bureaucratic hindrances, bribes or racketeering and raiding. This business environment, on the other hand, is a reflection of the fusion of economic and political power, which has created vested interests in the *status quo* among the political elites. Consequently, demand for integration does not widely exist in an organised and articulated form, despite Central Asian businesses and entrepreneurs being interested in opportunities for intra-regional trade.

All Central Asian countries have businesses organised in interest organisations. However, the nature of such business associations varies markedly. In Uzbekistan, all groups are considered to be controlled by state authorities, and not reflecting the interests of the private sector. In Turkmenistan the SPPT similarly is believed to be an extension of the state apparatus, though at the same time given credit for actively promoting private sector interest; while in Kazakhstan Atameken is considered at best quasi-governmental, despite to some extent working positively for private sector interests. Kyrgyzstan has the most developed sector of business associations driven by interests of its constituent members. Such independent associations are also developing in Tajikistan and Kazakhstan, though they are not yet as strong.

Business associations generally focus the main part of their lobbying activity on promoting and protecting business interests in the domestic environment. Consequently, while trade facilitation measures may be pursued, this is primarily in the domestic context, such as easing of export licensing requirements. The business association most actively engaged in promotion of trade integration is Atameken in Kazakhstan, which works at the level of the Eurasian Customs Union. Some business associations cooperate in regional networks. These are primarily focused on information sharing, though one network assessed jointly the obstacles to regional trade and put forward recommendations to governments. Such lobbying attempts have, however, not proved effective, and there is a sense that trade policy is so political that business associations prefer to not raise obstacles to cross-border trading. In the face of obstacles to regional trading, businesses, thus, turn to alternative strategies, including corruption, operating and trading informally, and keeping their business small, which is detrimental to the countries' economic development.

The governments of Central Asian republics are pursuing different foreign policies. Kazakhstan and Kyrgyzstan are both open to integrating with the global economy through, on the one hand, unilateral measures such as WTO membership but also regional integration. As regards the latter, both countries are currently focused on Eurasian integration. Kyrgyzstan appears resigned to having no choice but to join the Russian-led ECU; needing external financial resources to sustain the country's economy. Kazakhstan, on the other hand, is pursuing the most pro-integrationist policy in the region, actively driving forward the Eurasian integration project, including encouraging Kyrgyz membership. Kazakhstan is keen to be seen as the regional leader in Central Asia, though prioritising Eurasian regionalism over Central Asian regional cohesiveness. Indeed, Kazakhstan is emerging as an integration core in its own right, that is, independent of Russia, through investment in Kyrgyzstan and Tajikistan and attraction of labour migrants. It is unlikely however, that Kazakhstan can establish itself as a driver of integration within Central Asia. Kazakhstan's prioritisation of Eurasian integration is alienating other Central Asian republics, notably Uzbekistan, Tajikistan and Turkmenistan, which are more wary of Russian influence. Thus, by promoting Eurasian regionalism, Kazakhstan is, perhaps inadvertently, contributing to fragmentation in Central Asia. The erection of trade barriers in Central Asia through ECU membership also has reduced the scope for regionalisation in Central Asia.

The current Uzbek leadership shows little inclination towards international economic integration. President Karimov's hold on power appears to be relatively weak. Consequently, the government is maintaining current economic policy, ensuring that the fragile balance between elite factions is maintained through safeguarding of vested interests in rent seeking. Moreover, the protectionist policies of Uzbekistan are also contributing to fragmentation of Central Asia at the political level as well as reducing the scope for informal regionalisation. While Tajikistan has become a WTO member, it is unclear whether integration with the world economy is a dedicated aim of the government, or if WTO membership was seen as a means by which to prevent or delay participation in Eurasian integration, as Russia is perceived to be pressurising the country's leadership in this direction. President Berdymukhamedov maintains the Turkmen Doctrine of Positive Neutrality, thus, restricting potential for any form of regional integration. The country's leadership appears committed, however, to undertaking economic reform and potentially joining the WTO as an instrument towards that.

The conclusion that governments rather than business communities are the drivers of regional integration in Central Asia points towards inadequacies of the theoretical framework applied, which considers both bottom-up driven demand and government supply of policy requisite factors for integration to occur. The weakness of organised business voice, in part, accounts for the discrepancy between observations and theory but also points to the need for further work on theoretical frameworks that can better account for integration dynamics in states with relatively weak civil societies.

Three notions of economic integration appear present in Central Asia: global integration through the WTO, Eurasian integration with Russia, and Central Asian regionalism. The latter, however, does not currently have traction among political elites. A shortage of growth-oriented businesses seeking market enlargement across Central Asia and vested interests in the *status quo* among the Central Asian elites combine to weaken the potential for Central Asian regionalism. This trend is further entrenched by the promotion of Eurasian regionalism, which is contributing to fragmentation in Central Asia both at the political level but also among businesses wishing to trade across borders.

Regionalism through interregionalism

The geographic isolation of Central Asia makes the republics dependent on transit countries which can enable or inhibit trade beyond the immediate neighbourhood. This demonstrates a need for cooperation not only within the region but beyond it.

Diverging trade policies and complicated customs procedures increase transportation costs as does the poor density and quality of transport infrastructure. Transit opportunities, in turn, affect the competitiveness of local production. The fact that the global economy is increasingly dominated by supply chain trade entrenches the disadvantage of isolation and landlockedness. Integrating with regional or global chains necessitates a comprehensive approach to trade facilitation which addresses tariffs as well as non-tariff barriers, quality standards and infrastructure. As such, policy integration aimed at reducing market segmentation arising from regulatory regimes is increasingly important.

Commitment institutions are considered critical to locking in policies of integration, thus increasing the likelihood of success. An alternative to commitment institutions may be integrating with a developed economy, which can act as enforcer of agreed norms or rules, and infuse credibility to an integration project. This may be considered under the framework of interregionalism, which studies the interaction of regions. Interregionalism can be aimed at balancing in international relations, institution-building within or between regions, rationalising or setting international agendas, and contributing to collective identity formation. The latter may be referred to as regionalism through interregionalism, whereby the cohesiveness of the weaker of two regions is strengthened through interaction with another. Also relevant to this is the idea of external cogency, where an external actor either incentivises (positive cogency) or stimulates through threat (negative cogency) collective identity or region-building.

The analysis in this thesis suggests that the Central Asian republics share patterns of international trade relationships and potentials for increased exports. Russia, and increasingly China, are the main trading partners of the Central Asian republics. The EU and Turkey are also significant trade partners, the former particularly for Kazakhstan. The CARs generally trade at levels expected or higher with partners in the post-Soviet region, China and Europe suggesting there is a need for trade facilitation measures to increase trade with these partners. For trade with Japan and Korea there is significant variability between the CARs for trade in both directions. The study of potential integration schemes did not suggest that such would significantly alter the pattern of extra-regional trade, and that integration between Central Asian countries only would be least likely to do so, compared to Eurasian integration. The ECU appears to have had a negligible effect on trade within Central Asia but Kyrgyz, Tajik and Uzbek exports to Russia have been hit by the new trade barriers. The ECU does not represent significant trade liberalisation and has not brought with it palpable improvements in investment climates. Rather, the process has been focused on restricting trade with third countries. As such, the scheme reinforces the geographical isolation of Central Asian countries, which are participating in the framework, and Russia, the dominant economy in the scheme, is unlikely to play the role of external enforcer of institutional reform. Nor is it likely to offer significant productive investment or technological transfer.

Russian policy towards Central Asia is primarily fostering regional divisiveness. As Kazakhstan and Kyrgyzstan adopt the Eurasian regionalism framework, while Tajikistan, Turkmenistan and Uzbekistan are alienated by it, it drives a wedge through Central Asia. Consequently, Eurasian regionalism is reducing the prospects for Central Asian regionalism in the immediate future. However, while Eurasian integration represents the current trajectory of Kazakhstan and Kyrgyzstan, it is not clear that this is a sustainable option for the long term. Scepticism or outright opposition to the direction is notable within the Kazakh ruling elite, and the business communities in both Kazakhstan and Kyrgyzstan exhibit strong measures of opposition. It is, thus, not certain that, for instance, a post-Nazarbayev Kazakhstan will continue along the same path. Moreover, the current trajectory of Russian foreign policy may also be discouraging the Central Asian republics from aligning themselves too closely with the Kremlin. As discussed in previous chapters, the conflict in Ukraine is a forceful reminder of Russia's ability to meddle in the internal affairs of FSU republics.

Japan, Korea and the EU all engage with Central Asia in frameworks that can be considered interregional. From a Central Asian perspective, one benefit of such engagement is to balance the influence of neighbouring powers, Russia and China. The analysis of trade patterns suggested that particularly in the case of the EU, the CARs may benefit from pursuing trade and investment facilitation jointly. However, in the current formats, none of the three interregional fora are facilitating stronger regional cohesiveness in Central Asia, with limited positive external cogency offered by Japan, Korea and the EU. China may provide a form of external cogency for Central Asia – simultaneously negative and positive in nature. China's growing influence in Central Asia is viewed with apprehension, highlighting the potential for negative external cogency. Over time, Central Asian republics may come to acknowledge the opportunities in coordinating their policies vis-à-vis their larger neighbour. At the same time, China offers positive cogency in the form of investment and technology transfers and cheap consumer goods.

If Central Asian republics are to develop new comparative advantages that build on the region's resources, this is likely to be in agribusiness, chemical industry and textiles. The distance to the EU, Japan and Korea, reduces the potential for Central Asia to integrate in their RVCs or GVCs. That these actors are primarily interested in gaining access to the region's raw materials, energy in particular, further diminishes any prospect for increasing value added production in Central Asia through integration with these external actors. Thus, integration with Russia or China are the most likely options for the Central Asian republics, as well as offering better potentials for increasing value added production. Engagement with either of their large neighbours is perceived to involve risks in the form of political and economic dominance, thus representing potential negative cogency.

Drivers of regional disintegration in Central Asia

In conclusion, drivers of regional disintegration in Central Asia can be found at both the domestic, regional and international levels. Domestically, the authoritarian political structures, which fuse economic and political power, inhibit private sector growth and the development of a growth-oriented business community, which may become a force for market enlargement. Moreover, these political structures reinforce vested interests in existing trade barriers, and thus inhibit both regionalisation and regionalism.

Regionally, the protectionist policies of Uzbekistan are alienating neighbours, particular Kyrgyzstan and Tajikistan. Partly as a consequence, Kyrgyzstan is pursuing Eurasian regionalism, which has already, through Kazakh participation, constrained the potential for Central Asian regionalisation. Furthermore, Kazakhstan's promotion of Eurasian regionalism is also driving Central Asian political fragmentation, as other Central Asian republics are averse to the Russian influence this scheme brings with it. Russian policy, thus, also contributes to the fragmentation of Central Asia. At the international level, moreover, China is on the one hand promoting Central Asian interdependence through infrastructural projects linking the region together. At the same time, however, Chinese engagement is seen to strengthen the independence of the individual countries, notably Kyrgyzstan and Tajikistan, thus also lessening regional interdependence and fragmenting the region.

Further research

Determining which factors are requisite for regional integration to occur may be considered only a first step in a wider research programme to identify and sketch options for progression towards integration. With the missing prerequisites for regional integration laid bare, further research could centre on how to foster articulated demand for regionalism as well as research on how to incentivise governments towards adopting integration-oriented policies. This could be research into finding an effective means for economic and political liberalisation, since the main barrier has been found to be the political structures based on the fusion of economic and political resources among narrow elites, and the dominance of the state over civil society.

The above conclusions suggest that the policy frameworks of external actors, Japan, Korea and the EU, aimed at fostering regional cohesiveness in Central Asia are at best premature as the requisite conditions for Central Asian regionalism are not present. The question, thus, arises if these external actors could pursue their interests in the region in a more productive fashion. For instance, to the extent that these actors are genuinely interested in promoting regional integration, might not be a better use of resource to ensure a successful transition to parliamentary democracy in Kyrgyzstan, which can serve as positive example in the region?

A more detailed study exploring specifically the impact on Russian foreign policy and the pursuit of Eurasian integration may be particularly warranted as this was found to be one of the key drivers of disintegration in Central Asia. Further research questions on regionalism in Central Asia may also arise from current political developments in the post-Soviet space, and beyond. The conflict in Ukraine may, as suggested, make Central Asian governments question their alignment with Russia. On the one hand, Russian policy towards Ukraine is a forceful reminder of its interest in and ability to meddle in former Soviet republics' internal affairs. On the other hand, sanctions against Russia may weaken the attraction of integrating with the country economically. The question is whether this may create negative external cogency in Central Asia, inducing the states to collective action. Related to this is the question of the impact of Russian policy on Russia-China relations, and thus China's policy towards Central Asia.

A more detailed study of the potential for development on new comparative advantages in Central Asia is pertinent. Such research, based *inter alia*, on factor endowments and their relative costs, may provide governments with a more robust framework for considering the potential for development of regional value chains in Central Asia, and which trade partners could offer relevant investment, technology and expertise in this regard. Moreover, it may be explored whether the Central Asians could apply lessons learned from AFTA with a view to integrating in global supply chain trade through the development of RVCs.

As regards economic development the thesis has pointed to the lack of growth-oriented businesses and the need to improve business skills in the region. Development agencies and financial institutions have in Africa through innovative means spread awareness of financial services as well as sought to raise the business skills within particular sectors. For instance, in the TV series *Shamba Shape-Up* farmers are visited by agricultural experts and inspired to improve their production through adopting new business methods. The production of *Shamba Shape-Up* is supported by a group of donors, including the EU, and a series of private companies.[59] Another initiative sees popular soap operas advocate the use of financial services products to improve financial inclusion. For instance in South Africa Standard Bank marketed their products by integrating them in the storyline of TV and radio soap operas (Standard Bank, 2013). It may be explored whether similar initiatives could reach a broad audience in Central Asia improving financial and business skills and through that contributing to economic development.

[59] See http://www.shambashapeup.com/.

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2	Madumarov, Eldar; Assistant Professor, KIMEP (AC)
3	Holzhacker, Hans; Chief Economist, ATF Bank (FB)
4	Lermusiaux, Jean-Christophe; Head of Research, Visor Capital (FB)
5	Representative of business association (BA)
6	Khakimzhanov, Sabit; Head of Research, HalykFinance (BP)
7	Two western diplomats (WD)
8	Western diplomat (WD)
9	Two western diplomats (WD)
10	Western source (WS)

11	Central government official (GO)
12	Representative of business association (BA)
13	Anonymous (NN)
14	Western diplomat (WD)
15	His Excellency Yuzo Harada, Ambassador of Japan, Kazakhstan (AD)
16	Representative of business association (BA)
17	Altaev, Nurzhan Bauirazhanuli; Director, Centre for Business Services, Shymkent (GO)
18	Representative of business association (BA)
19	Representative of business association (BA)
20	Representative of business association (BA)
21	Academic (AC)
22	Academic (AC)
23	Representative of business association (BA)
24	Businessperson (BP)
25	Anonymous (NN)
26	Khusainov, Bulat; Professor, Academy of Sciences, Almaty (AC)
27	Askarov, Tulegen; Journalist (JO)
28	Mambetalin, Serikzhan; Opposition politician (OP)
29	Western source (WS)

30	Central government official (GO)
31	Soliev, Faruk, Head of the Foreign Economic Cooperation Department, Ministry of Economic Development and Trade, Tajikistan (GO)
32	Academic (AC)
33	Western diplomat (WD)
34	Representative of business association (BA)
35	Academic (AC)
36	Representative of foreign aid delivery agency (IA)
37	Bethom, Derek; head of VSO Tajikistan (IA)
38	Representative of international financial institution (IF)
39	Western diplomat (WD)
40	Government agency official (GO)
41	Representative of business association (BA)
42	Representative of business association (BA)
43	Western diplomat (WD)
44	Kislyakova, Larisa; Deputy Chairman, Tajik Chamber of Commerce and Industry (BA)
45	Umarov, Khodjamakhmad; Professor, Institute of Economics, Dushanbe (AC)
46	Representative of international organisation (IO)

47	Bjorvatn, Torbjørn; Head of the Economic and Environmental Department, OSCE (IO)
48	Entrepreneur (EN)
49	Paauwe, Lotje; volunteer at VSO Tajikistan (IA)
50	Dodhodoeva, Nabot, head of Madina NGO (BA)
51	Kadamshoev, Shakhar; Deputy Director, FEZ Iskashim (GO)
52	Two anonymous interlocutors (NN)
53	Asian diplomat (AD)
54	Boymamat, Alishakbaev; head of Milal Inter (BA)
55	Regional government official (GO)
56	Anonymous (NN)
57	Representative of foreign aid delivery agency (IA)
58	City government official (GO)
59	Academic (AC)
60	Academic (AC)
61	Abylkasymova, Gulnara; Entrepreneur (EN)
62	Businessperson (BP)
63	Nurlanbek, Tynaev; Consultant, World Bank, Bishkek (IF)
64	Academic (AC)
65	Central government official (GO)

66	Tungatarov, Atilek; Executive Director, International Business Council, Bishkek (BA)
67	Central government official (GO)
68	Zhunushov, Bakai; Small Business Support team, EBRD (IF)
69	Foreign businessperson (FB)
70	Ahmetova, Nursulu; Head of National Council Secretariat, Kyrgyz Presidential Administration (GO)
71	Shamiev, Ahmet; Prosperity OfficerBritish Embassy Bishkek (LE)
72	Anonymous (NN)
73	Representative of business association (BA)
74	Claytor, Ian; General Director, Celestial Mountains (FB)
75	Two local think tank representaitives (TT)
76	Two western diplomats (WD)
77	Representative of local NGO (NG)
78	Anonymous (NN)
79	Central government official (GO
80	Agan, Nezih; Economic Councellor, Embassy of Turkey, Bishkek (DI)
81	Baimambetova, Gulnara; head of the Women Entrepreneurs Support Association (BA)
82	Representative of local business association (BA)

83	Uskenbaeva, Gulnara; head of the National Alliance of Business Associations (BA)
84	Tolipov, Farkhod; Director, Knowledge Caravan (AC)
85	Entrepreneur (EN)
86	Asian diplomat (AD)
87	Two western diplomats (WD)
88	Diplomat (DI)
89	Representative of business association (BA)
90	Entrepreneur (EN)
91	Western diplomat (WD)
92	Two anonymous interlocutors (NN)
93	Anonymous (NN)
94	Anonymous (NN)
95	Two academics (AC)
96	Paramonov, Vladimir; Director of Project "Central Eurasia" (AC)
97	Bendsen, Hannelore; Senior Tourism Expert, GIZ (IA)
98	Representative of international organisation (IO)
99	Drakinos, Alkis; Head of Resident Office, Ashagabat, EBRD (IF)
100	Representative of international financial institution (IF)
101	Western diplomat (WD)
102	Local employee of foreign embassy (LE)

103	Anonymous (NN)
104	Two anonymous interlocutors (NN)
105	Western diplomat (WD)
106	Two diplomats (DI)
107	Western diplomat (WD)
108	Western diplomat (WD)

Interviewee key

AC = Academic

AD = Asian diplomat

BA = Business association representative

BP = Businessperson

DI = Diplomat

EN = Entrepreneur

FB = Foreign businessperson

IA = Representative of international aid delivery agency

IF = Representative of international financial institution

IO = Representative of international organisation

GO = Government official

JO = Journalist

LE = Local employee of foreign embassy

NG = Representative of non-governmental organisation

NN = Anonymous

OP = Opposition politician

TT = Think tank employees

WD = Western diplomat

WS = Western source

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Appendix A – Data sources

Trade statistics

Data is derived from the IMF Direction of Trade Statistics (DOTS). The database contains two figures for each one-way trade flow as reported by the importer and exporter respectively. In estimation is used the average of the two reportings; if only one partner has reported for a given year, that reporting is used. Gravity model analyses are often based on a weighted average of the two reportings in which the reporting by the importer is given higher weight than the exporter. This is based on the assumption that importers are more reliable reporters – the potential violation of this assumption is then corrected for by reversing the weights in cases of particularly unreliable (for statistical reporting purposes) importers. However, since 1993 changes to EU trade accounting has meant that EU member states' export data is now deemed more reliable than their import data (Baldwin and Taglioni, 2006). Also in the case of Central Asian economies, export data is considered more reliable; as exports are not liable to taxes, it is more likely reported (Mogilevskii, 2012a: 13). Thus, the rule no longer holds. In estimating the gravity equation both a simple and a weighted average of trade data was tested, which did not have significant effect on the estimation results.

The data set contains 192 countries over the years 1992 to 2011. The starting point is chosen based on the fact that the countries of interest became independent in that year; using an in-sample approach, a longer time span would not be possible. Note that for Belgium and Luxembourg trade was reported jointly until 1998; these reportings have been assigned to Belgium.

GDP data

GDP data is derived from the World Development Indicators.

Country- and pair specific, time-constant data

Data on country and pair specific characteristics such as whether a country is landlocked, if two partners share borders, common language, colonial links, bilateral distances etc. are derived from the CEPII database. Bilateral distances are calculated by great circle formula. For further details, see CEPII guidance document. The commercial centres, rather than capitals, were used as basis for this for economies with various options; e.g. for Kazakhstan, Almaty's location, not Astana was the basis of calculation.

For the simulations of the integration scenarios, this data was adapted by the author. Distance data in scenario 1, involving all Central Asian republics, and scenario 2, involving Kazakhstan, Kyrgyzstan and Tajikistan, is based again on Almaty as the commercial centre, as Kazakhstan can be considered the largest economy of the five, three respectively, and hence both the economic and financial centre of Central Asia. For the third scenario, Moscow is considered the economic capital of the extended Customs Union.

Religion

Data on common religion is taken from the UNCTAD's trade analysis material (http://vi.unctad.org/tpa/).

Free trade data

The included free trade dummy is based on active agreements as listed by the WTO on their website. The dummy averages the effect of all active free trade agreements rather them singling them out individually. This simplification was chosen in that the analysis is not interested in the effect of any individual agreement but in controlling for the effect of such agreements, generally. The data was approximated in the integration scenario simulations so that a free trade agreement was interpreted to exist from the year that one of the economies entered one such.

Appendix B – Estimation Results

VARIABLES	(1) lexports	(2) lexports	(3) lexports	(4) lexports
lgdp_origin	1.179***	1.189***	1.220***	1.168***
	(0.00321)	(0.00284)	(0.00214)	(0.00179)
lgdp_destin	0.963***	0.964***	0.942***	0.880***
	(0.00321)	(0.00286)	(0.00216)	(0.00171)
ldist	-1.100***	-1.143***	-1.242***	-1.270***
	(0.00652)	(0.00606)	(0.00529)	(0.00497)
contig	0.871***	0.824***	1.091***	1.023***
	(0.0281)	(0.0272)	(0.0251)	(0.0236)
comlang_ethno	0.503***	0.592***	0.679***	0.622***
	(0.0206)	(0.0176)	(0.0129)	(0.0113)
colony	0.379***	0.317***	0.388***	0.581***
	(0.0340)	(0.0307)	(0.0307)	(0.0308)
comcol	1.528***	1.282***	0.923***	0.965***
	(0.0340)	(0.0296)	(0.0193)	(0.0160)
col45	0.982***	0.973***	1.141***	1.189***
	(0.0532)	(0.0493)	(0.0437)	(0.0404)
religion	-0.141***	-0.0426***	0.0775***	-0.0204*
	(0.0173)	(0.0150)	(0.0123)	(0.0110)
landlocked_origin	-0.119***	-0.146***	-0.241***	-0.376***
	(0.0183)	(0.0174)	(0.0128)	(0.0115)
landlocked_destin	-0.388***	-0.451***	-0.587***	-0.666***
	(0.0180)	(0.0171)	(0.0125)	(0.0109)
fta_together	0.255***	0.180***	0.149***	0.329***
	(0.0133)	(0.0125)	(0.0110)	(0.0106)
Constant	-28.06***	-27.95***	-27.42***	-24.36***
	(0.127)	(0.117)	(0.0924)	(0.0792)
Observations	134,656	164,996	304,767	395,261
R-squared	0.662	0.660	0.642	0.638
Root MSE	2.0878	2.1114	2.3358	2.4164
Robust standard errors in parentheses				
*** p<0.01, ** p<0.05, * p<0.1				
Countries in sample	90	100	150	192

Table B1 – Pooled OLS regression

VARIABLES	(1) lexports	(2) lexports	(3) lexports	(4) lexports
ldist	-1.168***	-1.270***	-1.416***	-1.520***
	(0.00843)	(0.00787)	(0.00661)	(0.00576)
contig	0.496***	0.422***	0.619***	0.597***
	(0.0279)	(0.0282)	(0.0260)	(0.0244)
comlang_ethno	0.463***	0.583***	0.612***	0.475***
	(0.0202)	(0.0178)	(0.0137)	(0.0122)
colony	0.320***	0.223***	0.283***	0.466***
	(0.0347)	(0.0314)	(0.0293)	(0.0286)
comcol	1.680***	1.371***	1.019***	1.015***
	(0.0297)	(0.0266)	(0.0186)	(0.0156)
col45	1.309***	1.301***	1.356***	1.290***
	(0.0552)	(0.0511)	(0.0427)	(0.0389)
religion	0.366***	0.376***	0.429***	0.359***
	(0.0170)	(0.0154)	(0.0129)	(0.0117)
fta_together	0.376***	0.281***	0.314***	0.427***
	(0.0133)	(0.0124)	(0.0108)	(0.0102)
Constant	17.96***	18.94***	20.37***	19.61***
	(0.113)	(0.107)	(0.0975)	(0.124)
Observations	139,690	170,574	318,006	415,999
R-squared	0.758	0.754	0.729	0.717
Root MSE	1.7801	1.8087	2.0335	2.1336

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Countries in sample	90	100	150	192

Table B2 – OLS regression with importer, exporter and time dummies

VARIABLES	(1) lexports	(2) lexports	(3) lexports	(4) lexports
ldist	-1.169***	-1.271***	-1.416***	-1.520***
	(0.00843)	(0.00786)	(0.00660)	(0.00575)
contig	0.498***	0.427***	0.618***	0.591***
	(0.0281)	(0.0284)	(0.0262)	(0.0246)
comlang_ethno	0.456***	0.578***	0.608***	0.468***
	(0.0201)	(0.0176)	(0.0136)	(0.0120)
colony	0.327***	0.229***	0.292***	0.481***
	(0.0350)	(0.0317)	(0.0291)	(0.0283)
comcol	1.685***	1.376***	1.028***	1.020***
	(0.0295)	(0.0263)	(0.0184)	(0.0155)
col45	1.293***	1.286***	1.335***	1.266***
	(0.0550)	(0.0509)	(0.0424)	(0.0386)
religion	0.374***	0.379***	0.433***	0.363***
	(0.0167)	(0.0152)	(0.0127)	(0.0115)
fta_together	0.377***	0.283***	0.330***	0.453***
	(0.0145)	(0.0133)	(0.0113)	(0.0106)
Constant	17.67***	19.34***	15.78***	-49.20
	(0.865)	(0.602)	(0.782)	(3,356)
Observations	139,690	170,574	318,006	415,999
R-squared	0.774	0.768	0.744	0.732
Root MSE	1.7419	1.7725	1.995	2.0943

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Countries in sample	90	100	150	192

Table B3 – OLS regression with importer-time, exporter-time and time dummies

VARIABLES	(1) lexports
ldist	-1.308***
	(0.00788)
contig	0.439***
	(0.0294)
comlang_ethno	0.571***
	(0.0176)
colony	0.232***
	(0.0318)
comcol	0.903***
	(0.0279)
col45	1.087***
	(0.0523)
religion	0.336***
	(0.0152)
fta_together	0.129***
	(0.0134)
Constant	17.57***
	(0.548)
Observations	161,129
R-squared	0.781
Root MSE	1.714

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Countries in sample	96

Table B4 – OLS regression with importer-time, exporter-time and time dummies for integration scenario 1: economic union of all Central Asian republicsTable B5 – OLS regression with importer-time, exporter-time and time dummies for integration scenario 2: economic union of Kazakhstan, Kyrgyzstan and Tajikistan

VARIABLES	(1) lexports
ldist	-1.299***
	(0.00789)
contig	0.458***
	(0.0292)
comlang_ethno	0.570***
	(0.0176)
colony	0.214***
	(0.0316)
comcol	1.141***
	(0.0272)
col45	1.201***
	(0.0517)
religion	0.358***
	(0.0152)
fta_together	0.157***
	(0.0135)
Constant	28.00
	(1,788)
Observations	165,748
R-squared	0.773
Root MSE	1.744
Robust standard errors in parentheses	
*** p<0.01, ** p<0.05, * p<0.1	
Countries in sample	98

Table B5 – OLS regression with importer-time, exporter-time and time dummies for integration scenario 2: integration between Kazakhstan, Kyrgyzstan and Tajikistan

VARIABLES	(1) lexports
ldist	-1.315***
	(0.00795)
contig	0.443***
	(0.0305)
comlang_ethno	0.540***
	(0.0177)
colony	0.250***
	(0.0318)
comcol	0.895***
	(0.0283)
col45	1.106***
	(0.0534)
religion	0.336***
	(0.0153)
fta_together	0.159***
	(0.0136)
Constant	21.45***
	(0.681)
Observations	159,133
R-squared	0.780
Root MSE	1.7244

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Countries in sample	96

Table B6 – OLS regression with importer-time, exporter-time and time dummies for integration scenario 3: extension of Eurasian Customs Union to include also Kyrgyzstan and Tajikistan

Appendix C – SPT index comparisons

Sample size	Pooled vs. Importer, exporter time	Pooled vs. Importer-time, exporter-time, time	Importer, exporter, time vs. Importer-time, exporter-time, time
90	19.75%	20.24%	8.60%
100	18.87%	19.32%	8.17%
150	14.30%	14.59%	6.08%
192	10.52%	10.88%	4.75%

Table C1 – Sign changes of SPT indices on different model estimations; full sample

Sample size	Pooled vs. Importer, exporter time	Pooled vs. Importer-time, exporter-time, time	Importer, exporter, time vs. Importer-time, exporter-time, time
90	7.45%	10.39%	5.42%
100	6.80%	9.66%	4.85%
150	6.18%	7.93%	3.32%
192	5.47%	6.54%	2.60%

Table C2 – Sign changes of SPT indices on different model estimations for sub-sample of Central Asian economies; sub-sample of Central Asian republics

Appendix D – Impact of integration scenarios on total trade and trade balance of Central Asian republics

Total trade

Kazakhstan

	Integration scenario 1: Central Asia	Integration scenario 2: Kazakhstan-Kyrgyzstan-Tajikistan	Integration scenario 3: Customs Union extended
2002	945,891,978	614,062,008	-352,098,223
2003	1,265,851,246	813,306,701	-441,261,119
2004	1,175,888,926	1,157,376,825	-740,564,319
2005	1,927,345,749	1,507,096,414	-738,098,292
2006	-1,204,075,907	-1,240,667,781	-983,979,390
2007	-2,603,351,269	-1,374,202,397	-1,919,668,284
2008	59,121,161	-262,369,003	-1,925,719,260
2009	-1,056,757,195	-270,507,303	-1,045,073,166
2010	2,441,979,922	2,914,873,644	-240,106,727
2011	7,205,785,994	7,010,098,962	183,428,861

Kyrgyzstan

	Integration scenario 1: Central Asia	Integration scenario 2: Kazakhstan-Kyrgyzstan-Tajikistan	Integration scenario 3: Customs Union extended
2002	42,256,732	27,693,152	-16,260,887
2003	53,169,221	34,501,785	-19,247,433
2004	51,788,638	51,432,257	-34,301,599
2005	89,141,840	69,996,108	-34,953,086
2006	-63,110,533	-65,441,537	-54,425,924
2007	-86,772,415	-46,084,827	-68,711,401
2008	2,596,764	-11,559,367	-89,737,903
2009	-51,965,899	-13,319,050	-54,224,580
2010	131,195,111	156,811,391	-13,557,022
2011	379,122,058	369,193,173	10,142,866

Tajikistan

	Integration scenario 1: Central Asia	Integration scenario 2: Kazakhstan-Kyrgyzstan-Tajikistan	Integration scenario 3: Customs Union extended
2002	39,965,478	26,938,633	-17,327,466
2003	62,955,210	41,862,901	-25,123,880
2004	59,398,918	60,599,822	-44,230,633
2005	91,295,883	73,201,224	-40,511,161
2006	-59,138,401	-62,487,186	-56,883,473
2007	-91,205,146	-49,465,279	-80,067,002
2008	2,244,914	-10,120,509	-85,714,534
2009	-44,843,531	-11,615,806	-51,028,189
2010	99,885,767	120,935,859	-11,262,691
2011	192,801,534	190,474,002	5,716,828

Table D1a – estimated impact of integration scenarios on total trade of the Central Asian republics

Turkmenistan

	Integration scenario 1: Central Asia	Integration scenario 2: Kazakhstan-Kyrgyzstan-Tajikistan	Integration scenario 3: Customs Union extended
2002	81,437,649	-59,000,000	-35,000,000
2003	153,899,922	-69,000,000	-32,000,000
2004	133,837,179	-108,000,000	-27,000,000
2005	136,334,280	-84,000,000	2,000,000
2006	-86,127,613	-26,000,000	127,000,000
2007	-110,151,918	-108,000,000	-47,000,000
2008	3,472,811	-192,000,000	-4,000,000
2009	-128,699,232	-151,000,000	75,000,000
2010	244,464,202	-194,000,000	34,000,000
2011	583,803,173	-245,000,000	51,000,000

Uzbekistan

	Integration scenario 1: Central Asia	Integration scenario 2: Kazakhstan-Kyrgyzstan-Tajikistan	Integration scenario 3: Customs Union extended
2002	164,924,778	-94,000,000	-123,000,000
2003	254,383,030	-100,000,000	-119,000,000
2004	265,731,684	-152,000,000	-136,000,000
2005	304,165,855	-169,000,000	-131,000,000
2006	-174,341,687	-220,000,000	-200,000,000
2007	-406,384,487	-400,000,000	-340,000,000
2008	9,593,460	-680,000,000	-480,000,000
2009	-188,401,199	-459,000,000	-359,000,000
2010	422,950,670	-406,000,000	-250,000,000
2011	926,047,097	-413,000,000	-163,000,000

Table D1b – estimated impact of integration scenarios on total trade of the Central Asian republics

Trade balance

Kazakhstan

	Integration scenario 1: Central Asia	Integration scenario 2: Kazakhstan-Kyrgyzstan-Tajikistan	Integration scenario 3: Customs Union extended
2002	-451,193,851	-544,590,984	-17,005,546
2003	-2,037,514,963	611,366,488	-189,514,678
2004	642,381,312	345,130,363	11,375,384
2005	-32,757,517	-269,416,921	47,890,830
2006	2,522,348,468	1,395,120,503	-560,677,991
2007	4,148,018,054	3,330,873,336	-1,754,066,362
2008	-541,605,465	-2,756,295,553	-115,335,460
2009	1,617,428,440	245,206,995	-1,042,165,010
2010	973,171,433	-1,597,008,699	-673,615,346
2011	1,901,624,487	253,408,422	-543,585,493

Table D2a – estimated impact of integration scenarios on trade balances of the Central Asian republics

Kyrgyzstan

	Integration scenario 1: Central Asia	Integration scenario 2: Kazakhstan-Kyrgyzstan-Tajikistan	Integration scenario 3: Customs Union extended
2002	264,830,657	281,772,758	2,529,237
2003	390,020,227	-110,083,744	15,606,697
2004	119,492,268	67,251,035	19,320,524
2005	-40,412,138	-420,644,923	-18,927,313
2006	330,793,790	185,595,073	-96,568,785
2007	223,520,639	181,109,933	-107,515,838
2008	-95,258,536	-501,762,322	-29,269,614
2009	162,333,594	24,922,753	-122,376,108
2010	158,773,227	-265,357,882	-131,979,264
2011	236,914,256	31,923,530	-81,922,717

Tajikistan

	Integration scenario 1: Central Asia	Integration scenario 2: Kazakhstan-Kyrgyzstan-Tajikistan	Integration scenario 3: Customs Union extended
2002	39,124,204	34,818,226	120,970
2003	278,306,843	-77,282,744	11,398,229
2004	61,644,507	32,618,602	8,981,076
2005	-23,412,735	-239,938,156	-11,305,785
2006	227,315,316	128,284,423	-71,847,335
2007	175,459,108	141,016,731	-89,598,137
2008	-89,064,986	-473,942,125	-30,495,073
2009	135,741,974	20,870,252	-110,790,462
2010	104,885,459	-175,633,419	-93,627,416
2011	79,983,987	10,668,048	-29,162,498

Turkmenistan

	Integration scenario 1: Central Asia	Integration scenario 2: Kazakhstan-Kyrgyzstan-Tajikistan	Integration scenario 3: Customs Union extended
2002	624,343,160	35,000,000	7,000,000
2003	2,045,454,321	43,000,000	18,000,000
2004	440,992,388	72,000,000	-7,000,000
2005	-53,827,475	30,000,000	-62,000,000
2006	328,227,132	-26,000,000	-173,000,000
2007	285,642,578	72,000,000	13,000,000
2008	-97,741,077	108,000,000	-44,000,000
2009	380,084,203	89,000,000	-125,000,000
2010	267,926,415	146,000,000	-66,000,000
2011	334,134,855	175,000,000	-109,000,000

Uzbekistan

	Integration scenario 1: Central Asia	Integration scenario 2: Kazakhstan-Kyrgyzstan-Tajikistan	Integration scenario 3: Customs Union extended
2002	571,895,830	30,000,000	-13,000,000
2003	1,132,733,572	20,000,000	-19,000,000
2004	553,489,525	48,000,000	-36,000,000
2005	-92,590,135	71,000,000	-51,000,000
2006	373,315,295	80,000,000	-60,000,000
2007	812,359,621	220,000,000	60,000,000
2008	-269,329,937	480,000,000	200,000,000
2009	526,411,789	341,000,000	181,000,000
2010	354,243,466	254,000,000	30,000,000
2011	449,342,415	267,000,000	-43,000,000

Table D2b – estimated impact of integration scenarios on trade balances of the Central Asian republics

Appendix E – Changes to SPT signs for extra-regional trade under integration scenarios

Origin	Destination	Year	Integration scenario 1	Benchmark
CAR	AFG	1994	0.170	-0.250
CAR	AGO	2010	-0.037	0.041
CAR	ARG	2007	-0.047	0.036
CAR	ARG	2011	-0.104	0.106
CAR	BEL	1994	0.069	-0.028
CAR	BEL	1999	-0.005	0.045
CAR	BEL	2001	0.062	-0.037
CAR	BGR	1992	0.074	-0.357
CAR	BRA	2011	-0.086	0.140
CAR	BRN	2010	-0.278	0.015
CAR	CIV	2011	-0.067	0.110
CAR	COL	1999	-0.098	0.037
CAR	COL	2003	-0.003	0.161
CAR	COL	2004	-0.105	0.026
CAR	CYP	2007	-0.081	0.035
CAR	DEU	1992	0.159	-0.219
CAR	DNK	2010	-0.114	0.057
CAR	DNK	2011	-0.156	0.081
CAR	ECU	1999	-0.001	0.072
CAR	EGY	1997	-0.075	0.055
CAR	EGY	2006	-0.125	0.087
CAR	GBR	1995	0.055	-0.012
CAR	GRC	1994	0.020	-0.103
CAR	GRC	1995	0.016	-0.114
CAR	GTM	2004	-0.028	0.069
CAR	HKG	1995	-0.064	0.030
CAR	HKG	1996	-0.067	0.122
CAR	IDN	1997	-0.102	0.013
CAR	IRN	1993	0.050	-0.119
CAR	IRN	1994	0.175	-0.076
CAR	IRQ	2008	0.033	-0.012
CAR	JPN	2009	-0.090	0.003
CAR	JPN	2011	-0.056	0.158
CAR	KOR	2004	-0.077	0.095
CAR	KOR	2005	-0.088	0.013
CAR	KOR	2006	-0.067	0.038
CAR	KOR	2007	-0.067	0.026
CAR	KOR	2011	-0.236	0.004
CAR	LBY	2009	-0.080	0.069
CAR	LTU	2003	0.099	-0.012
CAR	MAR	1995	0.004	-0.018
CAR	MAR	1999	-0.054	0.115
CAR	MAR	2009	-0.076	0.163
CAR	MLT	1996	-0.184	0.048
CAR	PHL	2005	-0.110	0.005
CAR	SAU	1999	-0.078	0.062
CAR	SAU	2007	-0.060	0.141
CAR	SYR	1996	-0.084	0.047
CAR	SYR	2002	-0.042	0.155
CAR	SYR	2003	-0.090	0.125
CAR	SYR	2009	-0.082	0.076
CAR	TUN	2000	-0.044	0.105
CAR	USA	2007	-0.046	0.013

Table E1 – Changes to SPT sign for exports, integration scenario 1: Central Asia

Origin	Destination	year	Integration scenario 1	Benchmark
AFG	CAR	1994	0.139	-0.186
AFG	CAR	1997	0.350	-0.105
AFG	CAR	1998	0.051	-0.365
AFG	CAR	2000	0.192	-0.047
ARG	CAR	2007	0.043	-0.037
AUT	CAR	1992	0.042	-0.075
BEL	CAR	1996	0.112	-0.091
BEL	CAR	2002	0.008	-0.013
BGD	CAR	2000	-0.029	0.156
CHE	CAR	1993	0.074	-0.024
CHL	CAR	1996	0.157	-0.024
CHN	CAR	2003	-0.090	0.012
CHN	CAR	2005	-0.066	0.071
CIV	CAR	2007	0.009	-0.111
DNK	CAR	1993	0.101	-0.010
DNK	CAR	1998	0.071	-0.068
DNK	CAR	2006	0.034	-0.054
DNK	CAR	2007	0.022	-0.067
ECU	CAR	2001	-0.052	0.007
EGY	CAR	1996	0.133	-0.056
EGY	CAR	1997	0.015	-0.132
EGY	CAR	2001	-0.085	0.014
ESP	CAR	2004	0.002	-0.018
ESP	CAR	2009	0.062	-0.010
FRA	CAR	1993	0.079	-0.020
GRC	CAR	2000	0.002	-0.079
IRL	CAR	2005	-0.094	0.018
IRL	CAR	2008	-0.029	0.006
IRN	CAR	1992	0.158	-0.110
ITA	CAR	1994	0.109	-0.009
ITA	CAR	1997	0.001	-0.158
JOR	CAR	1992	0.097	-0.021
JOR	CAR	2008	-0.055	0.014
KWT	CAR	1998	0.078	-0.045
LKA	CAR	2011	-0.031	0.048
MEX	CAR	2000	-0.127	0.048
MEX	CAR	2005	-0.068	0.178
MEX	CAR	2008	-0.006	0.196
MLT	CAR	1999	-0.011	0.111
MLT	CAR	2001	-0.012	0.200
NLD	CAR	1994	0.046	-0.064
NLD	CAR	1996	0.181	-0.019
PAK	CAR	1996	0.108	-0.089
PAK	CAR	1997	0.093	-0.028
RUS	CAR	2011	0.071	-0.008
SAU	CAR	2003	0.001	-0.047
TUN	CAR	2011	-0.123	0.014
UKR	CAR	1993	0.135	-0.256
USA	CAR	1992	0.016	-0.060
USA	CAR	1994	0.069	-0.026
USA	CAR	1998	0.105	-0.026
ZAF	CAR	2000	0.052	-0.017

Table E2 – Changes to SPT sign for imports, integration scenario 1: Central Asia

Origin	Destination	Year	Integration scenario 2	Benchmark
KKT	AGO	1999	0.003	0.000
KKT	ARE	2006	-0.085	0.119
KKT	ARE	2009	-0.091	0.087
KKT	ARE	2011	-0.293	0.009
KKT	BEL	1994	0.069	-0.021
KKT	BGD	2003	-0.127	0.135
KKT	BGD	2005	-0.116	0.108
KKT	BGD	2006	-0.191	0.030
KKT	BGD	2007	-0.203	0.059
KKT	BGD	2010	-0.140	0.097
KKT	BGD	2011	-0.162	0.174
KKT	BGR	1992	0.102	-0.166
KKT	BHR	1996	-0.128	0.049
KKT	BRN	2010	-0.133	0.104
KKT	CHE	1993	0.054	-0.075
KKT	DEU	1993	0.097	-0.028
KKT	DNK	2011	-0.041	0.142
KKT	EGY	1997	-0.022	0.156
KKT	EGY	1999	-0.009	0.191
KKT	EGY	2011	-0.031	0.303
KKT	FRA	1993	0.102	-0.013
KKT	GBR	2005	-0.011	0.043
KKT	HRV	2008	0.007	-0.045
KKT	KOR	1995	0.000	0.058
KKT	KOR	1997	-0.034	0.025
KKT	KOR	2004	-0.101	0.002
KKT	KOR	2006	-0.009	0.039
KKT	KOR	2010	-0.041	0.006
KKT	MYS	1993	0.057	-0.024
KKT	NGA	2003	-0.045	0.044
KKT	PHL	1996	-0.035	0.040
KKT	PHL	2005	-0.004	0.053
KKT	SAU	1997	-0.034	0.134
KKT	SYR	1999	-0.090	0.102
KKT	SYR	2010	-0.189	0.030
KKT	UZB	1993	0.363	-0.029

Table E3 – Changes to SPT sign for exports, integration scenario 2: Kazakhstan, Kyrgyzstan, Tajikistan

Origin	Destination	Year	Integration scenario 2	Benchmark
ARE	KKT	1995	-0.023	0.024
ARG	KKT	2005	-0.023	0.079
AUT	KKT	1992	-0.016	0.058
BEL	KKT	1993	0.003	-0.072
BEL	KKT	2002	-0.065	0.008
BGD	KKT	1995	-0.061	0.061
BHR	KKT	2011	-0.254	0.000
CHN	KKT	2000	-0.064	0.008
CHN	KKT	2003	-0.037	0.039
CHN	KKT	2004	-0.062	0.016
CHN	KKT	2005	-0.009	0.109
CIV	KKT	1998	0.027	-0.010
DNK	KKT	1993	0.014	-0.059
DNK	KKT	1998	0.019	-0.005
DNK	KKT	2005	-0.020	0.079
DNK	KKT	2011	-0.013	0.090
EGY	KKT	1997	-0.024	0.006
EGY	KKT	2001	-0.080	0.164
EGY	KKT	2002	-0.008	0.251
EGY	KKT	2003	-0.091	0.151
EGY	KKT	2004	-0.174	0.091
EGY	KKT	2005	-0.153	0.094
EGY	KKT	2007	-0.114	0.044
EGY	KKT	2009	-0.110	0.085
EGY	KKT	2011	-0.030	0.235
ESP	KKT	2005	-0.049	0.065
ESP	KKT	2008	-0.073	0.006
ESP	KKT	2011	-0.046	0.057
FIN	KKT	1993	0.021	-0.040
FIN	KKT	1994	-0.010	0.004
GRC	KKT	2011	-0.073	0.047
IRL	KKT	2002	-0.057	0.041
IRL	KKT	2004	-0.023	0.083
ISR	KKT	1997	0.015	-0.064
ISR	KKT	2001	-0.096	0.052
ITA	KKT	1997	0.029	-0.076
JOR	KKT	2002	-0.213	0.032
JOR	KKT	2005	-0.203	0.069
KHM	KKT	2011	-0.105	0.005
KOR	KKT	2004	-0.081	0.005
LKA	KKT	2001	-0.029	0.078
LKA	KKT	2003	-0.050	0.023
LKA	KKT	2010	-0.012	0.095
MAR	KKT	2010	-0.239	0.031
MAR	KKT	2011	-0.250	0.032
MEX	KKT	2002	-0.051	0.062
MMR	KKT	2011	-0.062	0.065
NOR	KKT	2004	-0.027	0.052
OMN	KKT	2011	-0.049	0.208
SWE	KKT	2000	-0.047	0.023
SYR	KKT	1997	-0.010	0.025
TUN	KKT	1995	-0.021	0.047
TUN	KKT	2005	-0.216	0.052
TUN	KKT	2007	-0.022	0.158
TUN	KKT	2009	-0.190	0.015
TUN	KKT	2010	-0.072	0.195
TUN	KKT	2011	-0.031	0.248
UKR	KKT	1993	0.272	-0.018
USA	KKT	2001	-0.051	0.020

Table E4 – Changes to SPT sign for imports, integration scenario 2: Kazakhstan, Kyrgyzstan, Tajikistan

Origin	Destinatio	Year	Integratio	Benchmar
CUE	ARE	1999	-0.109	0.074
CUE	ARE	2002	-0.118	0.012
CUE	AUT	1997	0.061	-0.007
CUE	AUT	1998	0.068	-0.014
CUE	BGD	1992	-0.036	0.056
CUE	BGD	1993	-0.007	0.078
CUE	BGD	2001	-0.113	0.028
CUE	BGD	2003	-0.071	0.023
CUE	BGD	2008	-0.098	0.053
CUE	BGD	2009	-0.097	0.066
CUE	BGD	2011	-0.085	0.091
CUE	BRA	1996	0.030	-0.052
CUE	COL	1996	0.064	-0.024
CUE	CRI	1993	0.020	-0.100
CUE	CRI	1995	0.099	-0.048
CUE	DOM	1998	0.064	-0.042
CUE	DZA	2005	0.000	0.172
CUE	DZA	2011	-0.108	0.086
CUE	ECU	2010	-0.004	0.009
CUE	EST	1998	0.015	-0.134
CUE	EST	2000	0.031	-0.054
CUE	EST	2005	0.058	-0.013
CUE	FIN	1995	0.084	-0.007
CUE	FRA	2011	-0.012	0.017
CUE	GBR	1992	0.048	-0.048
CUE	GEO	1998	0.135	-0.010
CUE	GEO	2008	0.018	-0.096
CUE	GEO	2010	0.071	-0.033
CUE	GRC	2004	0.007	-0.043
CUE	HKG	1998	0.016	-0.023
CUE	HKG	1999	-0.015	0.016
CUE	IDN	2010	0.006	-0.017
CUE	ISR	2009	-0.007	0.059
CUE	ITA	1993	0.034	-0.051
CUE	ITA	2002	0.014	-0.005
CUE	ITA	2003	0.024	-0.018
CUE	ITA	2004	0.015	-0.031
CUE	JOR	2000	-0.107	0.141
CUE	JOR	2003	-0.071	0.087
CUE	JOR	2005	-0.183	0.018
CUE	JOR	2010	-0.120	0.110
CUE	JPN	1992	0.107	-0.006
CUE	JPN	1995	0.088	-0.027
CUE	JPN	1996	0.090	-0.004
CUE	JPN	1998	0.016	-0.041
CUE	KHM	2008	0.010	-0.014

CUE	KOR	1995	0.087	-0.025
CUE	KOR	1996	0.094	-0.008
CUE	KOR	1997	0.032	-0.009
CUE	KOR	1998	0.066	-0.004
CUE	KOR	2004	0.026	-0.022
CUE	KWT	2002	-0.036	0.162
CUE	LTU	1993	0.225	-0.018
CUE	LTU	1998	0.139	-0.047
CUE	LTU	2002	0.018	-0.090
CUE	LTU	2007	0.046	-0.056
CUE	LTU	2010	0.081	-0.023
CUE	LUX	1997	0.031	-0.043
CUE	LVA	2004	0.065	-0.080
CUE	LVA	2006	0.043	-0.050
CUE	MAC	1994	-0.022	0.102
CUE	MAC	2003	-0.033	0.028
CUE	MAR	1999	-0.004	0.148
CUE	NGA	2006	0.000	0.029
CUE	NGA	2007	-0.012	0.008
CUE	NGA	2011	-0.020	0.030
CUE	PAK	1992	-0.010	0.093
CUE	PAK	1994	-0.064	0.086
CUE	PAK	1995	-0.087	0.002
CUE	PAK	1996	-0.087	0.016
CUE	PAK	1999	-0.119	0.011
CUE	PER	1993	0.044	-0.065
CUE	PHL	1996	0.071	-0.036
CUE	SGP	1993	0.005	-0.052
CUE	SGP	1994	-0.040	0.044
CUE	SGP	1996	0.018	-0.018
CUE	SWE	2010	-0.034	0.014
CUE	SYR	2000	-0.074	0.088
CUE	SYR	2001	-0.064	0.081
CUE	SYR	2002	-0.041	0.110
CUE	THA	1993	0.018	-0.090
CUE	THA	1999	0.009	-0.057
CUE	THA	2009	0.001	0.000
CUE	TKM	2006	-0.134	0.105
CUE	TUR	1994	-0.048	0.161
CUE	UKR	1992	0.090	-0.217
CUE	UKR	1996	0.174	-0.070
CUE	UKR	1997	0.144	-0.067
CUE	UKR	1998	0.169	-0.052
CUE	UKR	2000	0.061	-0.100
CUE	UKR	2002	0.013	-0.155
CUE	UKR	2003	0.012	-0.180
CUE	URY	1995	0.045	-0.082
CUE	URY	1996	0.075	-0.037
CUE	VEN	1998	0.043	-0.037

Table E5 – Changes to SPT sign for exports, integration scenario 3: extended Customs Union

Origin	Destinatio	Year	Integratio	Benchmark
AGO	CUE	1992	0.100	-0.049
ARE	CUE	1994	-0.010	0.126
ARE	CUE	2002	-0.034	0.079
ARE	CUE	2006	-0.056	0.035
ARG	CUE	1995	0.048	-0.033
AUS	CUE	1999	0.020	-0.053
AUS	CUE	2005	0.027	-0.054
AUT	CUE	1996	0.022	-0.024
AUT	CUE	1997	0.048	-0.078
AUT	CUE	1998	0.078	-0.103
BEL	CUE	2001	-0.020	0.018
BGD	CUE	2006	-0.035	0.026
BRN	CUE	2003	-0.079	0.074
CAN	CUE	2005	0.055	-0.017
CAN	CUE	2008	0.021	-0.020
CHE	CUE	2005	0.006	-0.034
CHE	CUE	2006	0.033	-0.011
CHL	CUE	1999	0.016	-0.031
CHN	CUE	2002	0.019	-0.077
CHN	CUE	2004	0.006	-0.066
CHN	CUE	2005	0.075	-0.038
CHN	CUE	2006	0.018	-0.116
CHN	CUE	2007	0.051	-0.082
CHN	CUE	2009	0.003	-0.103
COL	CUE	1994	-0.019	0.006
DEU	CUE	1999	0.043	-0.017
DEU	CUE	2000	0.065	-0.003
DZA	CUE	2005	-0.006	0.150
EGY	CUE	2002	-0.057	0.130
EGY	CUE	2005	-0.014	0.127
EGY	CUE	2010	-0.108	0.105
ESP	CUE	2011	-0.003	0.040
EST	CUE	2000	0.062	-0.027
FRA	CUE	2001	-0.032	0.028
FRA	CUE	2003	-0.027	0.028
FRA	CUE	2010	-0.020	0.010
GBR	CUE	2003	-0.042	0.012
GRC	CUE	2007	0.027	-0.025
GRC	CUE	2008	0.015	-0.019
GRC	CUE	2009	0.021	-0.026
GRC	CUE	2011	-0.011	0.043
HKG	CUE	1993	0.014	-0.046
IND	CUE	2005	0.015	-0.089
IRL	CUE	1997	0.067	-0.042
IRL	CUE	1998	0.045	-0.103
IRL	CUE	2001	-0.092	0.008
IRL	CUE	2003	-0.062	0.012
IRN	CUE	1992	-0.062	0.040
IRN	CUE	2000	-0.054	0.078
IRN	CUE	2001	-0.179	0.020
IRN	CUE	2003	-0.031	0.179
IRN	CUE	2004	-0.030	0.154
IRN	CUE	2005	-0.053	0.095
IRN	CUE	2008	-0.053	0.122
IRN	CUE	2010	-0.050	0.156
ISR	CUE	2002	-0.008	0.022
ITA	CUE	2000	0.016	-0.045

JOR	CUE	2009	-0.025	0.183
JOR	CUE	2010	-0.238	0.005
JOR	CUE	2011	-0.216	0.040
JPN	CUE	2009	0.061	-0.008
KOR	CUE	1992	0.055	-0.038
LAO	CUE	2007	0.070	-0.033
LTU	CUE	2007	0.101	-0.072
LTU	CUE	2009	0.007	-0.154
LTU	CUE	2010	0.021	-0.136
LTU	CUE	2011	0.027	-0.120
LUX	CUE	1997	0.009	-0.119
LUX	CUE	1998	0.055	-0.138
LVA	CUE	1992	0.244	-0.023
LVA	CUE	1998	0.249	-0.020
LVA	CUE	2005	0.028	-0.070
LVA	CUE	2007	0.007	-0.094
MAC	CUE	2009	-0.061	0.018
MAC	CUE	2010	-0.091	0.024
MAC	CUE	2011	-0.034	0.103
MAR	CUE	1996	-0.113	0.034
MEX	CUE	2003	-0.038	0.008
MLT	CUE	2004	-0.007	0.058
MMR	CUE	2006	0.009	-0.069
MYS	CUE	2010	-0.028	0.003
NGA	CUE	1997	0.078	-0.022
NGA	CUE	2010	-0.063	0.009
NLD	CUE	2007	0.036	0.000
NZL	CUE	2000	0.010	-0.055
NZL	CUE	2006	0.093	-0.007
OMN	CUE	2001	-0.051	0.078
PER	CUE	1997	0.017	-0.097
PER	CUE	1998	0.149	-0.028
PHL	CUE	2005	0.040	-0.005
PRT	CUE	2006	0.010	-0.025
PRT	CUE	2010	-0.049	0.016
PRT	CUE	2011	-0.028	0.057
ROM	CUE	1993	0.060	-0.017
ROM	CUE	2006	0.057	-0.008
SYR	CUE	1994	-0.022	0.124
SYR	CUE	2002	-0.052	0.130
SYR	CUE	2003	-0.092	0.125
SYR	CUE	2004	-0.191	0.025
TKM	CUE	1993	-0.003	0.018
TUN	CUE	2000	-0.073	0.091
TUN	CUE	2005	-0.101	0.080
TUN	CUE	2007	-0.156	0.031
TUN	CUE	2009	-0.149	0.050
TUR	CUE	2010	-0.030	0.210
TUR	CUE	2011	-0.075	0.181
UKR	CUE	1994	0.182	-0.019
UKR	CUE	1995	0.201	-0.031
UKR	CUE	1996	0.037	-0.158
URY	CUE	1993	0.043	-0.058
USA	CUE	1992	0.085	-0.047
ZAF	CUE	2000	0.073	-0.027

Table E6 – Changes to SPT sign for imports, integration scenario 3: extended Customs Union

Appendix F – Interviewee key

AC = Academic

AD = Asian diplomat

BA = Business association representative

BP = Businessperson

DI = Diplomat

EN = Entrepreneur

FB = Foreign businessperson

IA = Representative of international aid delivery agency

IF = Representative of international financial institution

IO = Representative of international organisation

GO = Government official

JO = Journalist

LE = Local employee of foreign embassy

NG = Representative of non-governmental organisation

NN = Anonymous

OP = Opposition politician

TT = Think tank employees

WD = Western diplomat

WS = Western source