

The Central Asia Fellowship Papers

No. 1, October 2013

Elliott School of
International Affairs

THE GEORGE WASHINGTON UNIVERSITY



STOCKHOLM INTERNATIONAL
PEACE RESEARCH INSTITUTE
SIPRI North America

Regional Cooperation in Central Asia: Nurturing from the Ground Up

Aitolkyn Kourmanova



Aitolkyn Kourmanova is the head of the private consultancy Central Asia Strategic Management Group based in Almaty, Kazakhstan. She specializes in economic and regional issues, risk consulting, as well as media and knowledge projects. She was a Hubert Humphrey Fellow in 2011-12, and head of the Central Asia Institute for Economic Strategies from 2007 to 2011, where she launched a popular economic magazine, *Vox Populi*, and edited a quarterly academic business magazine, *Economic Strategies – Central Asia*. Aitolkyn holds a bachelor's degree in international relations and earned her Executive Master of Business Administration degree from École des Hautes Études Commerciales de Paris (HEC Paris). She was a Central Asia Fellow from April to August 2013.

The countries of Central Asia have long been unable and unwilling to develop regional cooperation. Unwillingness to engage with competing neighbors, inability to address emerging conflicts around water and land resources, borders or ethnic minorities, and a resulting failure to produce any kind of sustainable regional cooperation platform, should be regarded primarily as a leadership failure. Indeed, the authoritarian leaders of Central Asia, in the first stage of post-colonial nation-building, have prioritized insular national interests and pursued a narrow definition of sovereignty, opposing any kind of supranational authority. In addition, current elites derive significant income from utilizing deficient economic structures based on natural resources and have been unable to institute structural reforms.

Two decades after independence the region remains poorly industrialized, with multiple barriers to regional trade, rigid political structures, and an unstable business climate, all of which have failed to attract diversified foreign direct investment (FDI). Current economic strategies, mainly based on managing the legacy of Soviet industry and infrastructure, are exhausted, and the coming power transfer in Uzbekistan and Kazakhstan is seen as a moment of political fragility that opens the door to a potentially deeper change in the regimes' legitimacy and the intra-elite sharing of resources. Meanwhile, the global context is changing as well: changing world energy patterns with the shale and fracking revolutions and post-2014 security priorities have made the region less important for the West, especially the United States.

These developments may impact the way elites and some social groups in Central Asia perceive the future of regional cooperation. The Kazakhstan-Uzbekistan strategic partnership treaty, signed on June 14, 2013, according to which the presidents of both countries have indicated that "in the conditions of the continuing world financial and economic crisis it is in the interests of both countries to

maintain and increase trade dynamics,"¹ indicated a renewed—even if only theoretical—interest of Central Asian elites in regional cooperation. But even more important than inter-state declarations are grassroots dynamics, which will likely drive a more genuine and powerful demand for regional cooperation.

This paper develops three core arguments:

- 1. Regionalism in Central Asia is one of the few available instruments to address the region's mounting social and economic problems.**
- 2. Regional cooperation is likely to be driven by bottom-up dynamics rather than the other way round.**
- 3. New ideas on developing organic regionalism and fostering regional linkages will likely be addressed by business circles and the next generation of elites.**

This paper argues that the countries of the Central Asia region need to cooperate economically as this will help to bring tangible economic gains to wider groups of the population. It develops three core arguments: 1. Regionalism in Central Asia is one of the few available instruments to address the region's mounting social and economic problems; 2. Regional cooperation is likely to be driven by bottom-up dynamics rather than the other way round; 3. New ideas on developing organic regionalism and fostering regional linkages will likely be addressed by business circles and the next generation of elites.

External actors: allies or adversaries to Central Asian regional integration?

Since the Central Asian countries' independence, external actors have been both willingly and unwillingly involved in the debate over regional cooperation, and some of them have

¹ "President Kazakhstan zavershil vizit v Uzbekistan", *UzDaily*, June 15, 2013 <http://www.uzdaily.uz/articles-id-16026.htm>.

directly participated in fostering it, often with underlying geopolitical agendas that complicate, more than they solve, the issue of regional cooperation.

Throughout its history, Central Asia has never really displayed political consolidation from within but, rather, was influenced from the outside, being the subject of various conquests from the east, south, and north. In post-Soviet times, the countries of Central Asia have been subject to complex global geopolitical forces, primarily with regard to energy and post-9/11 security, which has arguably drawn the region's states further apart from each other, instilling highly complex external vectors into their political agendas. But with Western energy markets becoming targeted more toward unconventional resources, and the international community's growing disinterest in Afghanistan's future, the region is starting to realize that the conventional "Great Game" is probably over, and that, instead, regional games will likely become more the order of the day. These will involve mostly Russia and China, as well as "second-order" neighbors, whether close or more distant, such as Iran, the Gulf countries, and South Asian nations.

With Western energy markets becoming targeted more toward unconventional resources and the international community's growing disinterest in Afghanistan's future, the region is starting to realize that the conventional "Great Game" is probably over, and that, instead, regional games will likely become more the order of the day. These will involve mostly Russia and China, as well as "second-order" neighbors, whether close or more distant, such as Iran, the Gulf countries, and South Asian nations.

The United States has never had a close engagement strategy for Central Asia nor com-

elling interests in the region.² With the decrease of involvement in Afghanistan, post-2014 American interests will probably focus again on building democracy and market reforms, but with low political and financial direct involvement. A good example of this evolution is the "new Silk Road" strategy launched in 2011 by State Secretary Hillary Clinton, which aims at linking Central Asia with South Asia through Afghanistan's regional integration process. Seen as a way to indirectly facilitate trade liberalization, so far this strategy has lacked the necessary financial resources and other mechanisms to implement what could be bold vision.

For its part, meanwhile, Russia's interests in the region mainly serve to prevent Central Asian unity. First, Russia interprets Central Asian regional integration as subordinate to a larger Eurasian regionalization under its leadership. As Uzbekistan and Turkmenistan reject the latter, any Central Asian integration project comes up against the relationship with Moscow. Second, Russia's economic integration model is not based on purely economic grounds, but has political importance in terms of recognizing Moscow's leading role. Third, Russia does not offer any clear modernization strategies for the economies of Central Asia, but it also suggests a mere update of the old Soviet linkages between the Central Asian resource base and Russian processing facilities. This results in less imported technology from the more technologically advanced European Union and other countries, thus incurring a loss in productivity gains in the long run.

A suggestion of the head of Russia's State Anti-Drug Committee, Viktor Ivanov, to industrialize the region and create jobs by setting up a Central Asia Development Corporation—which would finance and implement a number of projects in Central Asia in the fields of energy, food security, construction of new

² Boris Rumer, ed. *Central Asia at the End of the Transition* (Armonk-London: M.E. Sharpe, 2005), 29.

industrial enterprises, and training of new cadres—could in theory have a modernization component,³ but it needs a multi-million dollar investment which Russia is probably unable to provide.

That said, Russia is also facing drastic domestic changes that could impact the future of any Eurasian integration. Central Asia is mostly seen as an economic burden by Russia's new elites. According to Rajan Menon, "even the most nationalistic of Russian politicians do not seriously entertain the possibility of re-gathering this former domain, and few if any Russians want that responsibility, and certainly not the costs that will accompany it."⁴ Furthermore, any stable, conflict-free Russian-Central Asian relationship is more likely to develop if democracy takes firm root in Russia.

Compared to the U.S.'s minimal role and Russia's own Eurasian strategy, China is probably the only external actor who can both gain and help support Central Asian regional integration. Contrary to Russia, for which a Central Asian unity is detrimental to its own economic interests, China would only gain from more cooperative dynamics in the region, as they would foster and not hamper its own investment projects—which include trade and transport infrastructure, new transit opportunities in the China-Europe corridor, transportation of natural gas from Turkmenistan to China, and so on. The region's membership in the World Trade Organization (WTO) is also preferable for China, rather than the Russia-

backed Customs Union, which seems to be a closed regional bloc and, as such, is more autarkic than cooperative towards the rest of the world.⁵

Moreover, as Beijing is aware of its "neo-imperial image of a hunter for natural resources," it tries to deflect from such images by investing in community development, diplomacy, soft power, and cultural and intellectual exchanges, which suggest that it has more sustainable interests in the region.⁶ China's role in contributing to Central Asia's integration is based not on the Shanghai Cooperation Organization (SCO), which is mostly a security structure, but on its bilateral and region-based investments. That said, even if China can contribute to fostering increasing Central Asian unity, this would not necessarily give the region more room for maneuver, and could on the contrary strengthen Central Asia's dependency on China's economic power.

Several multilateral organizations are also involved in fostering regional cooperation, most notably the Asian Development Bank and the Central Asia Regional Economic Cooperation (CAREC), which has facilitated over \$20 billion in infrastructure and investments since its inception in 1997.⁷ New infrastructure would help to turn such geographical factors as distance from main markets and landlockedness from an insurmountable barrier to trade with the rest of the world to an advantage in trade with China and the greater Asian region. Some analysts argue that the

³ The project was supported by Yuri Krupnov, Chairman of the Development Movement, who wrote on his web-site that "a New Middle Asia will unite Russia, China, Afghanistan, Mongolia, Azerbaijan, Turkey, Pakistan, and the Central Asian countries where Russia will pursue the main objective of industrializing the region of Central Asia and Afghanistan" (<http://krupnov.livejournal.com/>).

⁴ Rajan Menon, "Central Asia in the 21st Century" in Boris Rumer, ed., *Central Asia. Views from Washington, Moscow and Beijing* (London: M.E. Sharpe, 2007), 15.

⁵ Nargis Kassenova, "Kazakhstan and Eurasian Economic Integration: Quick Start, Mixed Results and Uncertain Future," Paris: IFRI, Series *Russie. NEI. Vision* No. 14, November 2012.

⁶ Wang Jisi, *Marching Westwards: The Rebalancing of China's Geostrategy* (Washington, DC: Center for International and Strategic Studies, 2012).

⁷ *The New Silk Road and Regional Economic Integration*, Remarks by Robert O. Blake, Jr., Assistant Secretary, Bureau of South and Central Asian Affairs, US Department of State, March 13, 2013, <http://www.state.gov/p/sca/rls/rmks/2013/206167.htm>.

region has already started a larger process of continental integration of the Eurasian economic space, one which entails a shift from the countries of the region “being landlocked to land-linked.”⁸

This is a new concept which is focused on diversifying the region’s interactions away from its previous European/Russian vector and instead envisaging a broader Asian market. Nevertheless, for this to be achieved, the region is highly dependent on the international community’s leadership. Currently it faces acute geopolitical contingencies, especially related to Afghanistan’s stability, the India-Pakistan relationship, and the need to reintegrate Iran into the regional game.

Where to begin? Why economics is the obvious lever for integration

In this complex environment in which international and regional external players are unavoidable, how can Central Asia organize itself from within? The availability of a wide range of possible regional cooperation models somewhat complicates the “kick-starting” of regionalization in Central Asia, which is understood as “an active process of change towards increased cooperation, integration, convergence, coherence and identity.”⁹

While models of economic regionalism are viewed relatively favorably in the region, those involving political issues are unlikely to emerge: having long been members of the Soviet bloc, the governments of Central Asia dislike any references to union models that require greater political will and a certain loss of sovereignty.¹⁰ As Linn and Pidufala point

out, “even use of the term ‘integration’ is often viewed with suspicion in Central Asia, since it is felt to imply a reversal toward the way Soviet Republics related to each other—managed by a Moscow-based central authority which dictated what was to be invested, produced and distributed in each republic.”¹¹ Even after having joined the Russia-led Customs Union, President of Kazakhstan Nursultan Nazarbayev advances cautious statements—which serve as a caveat for his more nationalist-minded electorate—that integration within the Customs Union is based on purely economic drivers and does not foresee any political integration.¹²

Security-based regional cooperation is also limited. It has been one of the main focuses of the international community and the region’s main external actors, especially through the CSTO (Collective Security Treaty Organization) and the SCO. However, security-based cooperation has proven far from successful, for three main reasons: 1. none of the existing organizations include all five of the Central Asian states, but all of them include external actors with their own geopolitical agendas. They thus do not represent a genuine intra-Central Asia trend; 2. They are declarations of intent based more on shared threat perceptions (Islamic risks, terrorism, and so on) than on efficient mechanisms, and avoid addressing real security challenges such as water; 3. The security interests of the current Central Asian elites are opaque and centered on their own narrow, regime security-oriented inter-

⁸ Johannes Linn, “Central Asian Regional Integration and Cooperation: Reality or Mirage?” in Evgeni Vinokurov, ed., *Eurasian Integration Yearbook of the Eurasian Development Bank* (Astana: EDB, 2012), 96-117.

⁹ Allison Roy, “Regionalism and Security in Central Asia,” *International Affairs* 80, no. 3 (2004): 465.

¹⁰ Richard Pomfret, “Regional Integration in Central Asia,” *Economic Change and Restructuring* 42, no. 1-2 (2009): 71.

¹¹ Johannes Linn, and Oksana Pidufala, *The Experience with Regional Economic Cooperation Organizations. Lessons for Central Asia* (Washington, DC: Wolfensohn Center for Development, 2008): 18.

¹² See, for example, Nazarbayev’s statement as regards the Customs Union: “I want to once again reiterate that there will be no planned transfer of political functions to supranational bodies which could deter countries’ sovereignty. We are talking exclusively about economic integration” (http://www.akorda.kz/ru/page/page_214000_segodnya-v-akorde-prezident-kazakhstana-nursultan-nazarbaev-prinyal-uchastie-v-zasedanii-vysshego-evraz).

ests. Therefore, initiatives in this area are usually perceived with skepticism by local populations, who do not see themselves as the main beneficiaries of security-oriented regional cooperation frameworks.

Central Asia's resource-related economic backwardness became "structured" back in Soviet times while the region's demographic boom during the Brezhnev era underscored the inability of the Soviet system to offer job opportunities and industrial development in all the southern republics.¹³ Despite varying success in implementing broad economic reforms in the 1990s, Central Asian states remain heavily dependent on energy, extractive industries, and grain and cotton as their main export commodities. This is particularly true of Kazakhstan which has been experiencing the phenomenon of "Dutch disease" with the oil sector dominating the economy and the manufacturing sector shrinking rapidly. In addition, the country has been hit hard by the recent financial crisis and its oil and mining sectors are losing their investment attractiveness. Hence for Kazakhstan, the imperative of attracting FDI is acute—an issue that the government is preoccupied with—and especially in the light of increasing problems regarding the Customs Union, which has thus far failed to attract FDI.

Uzbekistan, which put forward the goal of industrialization and import-substitution in the early years of independence, has also experienced mixed results. The country is still dependent on cotton, gold, and gas and it has to subsidize its newly created manufacturing projects (such as automotive and chemical production). Foreign investors are reluctant to come to this closed country while investors from neighboring countries, which display an interest in the large Uzbek market, are denied entry for political reasons. Kyrgyzstan and Tajikistan, which employ their main advantage as suppliers of cheap, young labor,

are also realizing the deficiencies of their semi-rentier policy. No solution will emerge for the future of Central Asia without a totally reshaped vision of the need for economic transformation.

Security-based cooperation has proven far from successful, for three main reasons: 1. none of the existing organizations include all five of the Central Asian states, but all of them include external actors with their own geopolitical agendas. They thus do not represent a genuine intra-Central Asia trend; 2. They are mostly declarations of intent based on shared threat perceptions (Islamic risks, terrorism, and so on) than on efficient mechanisms, and avoid addressing real security challenges such as water; 3. The security interests of the current Central Asian elites are opaque and centered on their own narrow, regime security-oriented interests.

Three Economic Incentives to Cooperate

Search for New Economic Ideas

CIS countries look regularly at the success stories of China, the Republic of Korea, and Taiwan, which, with their complex trade regimes, managed to provide extensive import protection while at the same time provide a very substantial stimulus to export industries. The 2008 world financial crisis also contributed to feeding new ideas about the global division of labor, and the process of regionalization as a cushion from future financial turmoil. It was the East Asian financial crisis of 1997–98 which had the biggest impact on the mindsets of Asian policymakers, giving substantial impetus to regional integration of the Asian economies. Another reason being their "growing frustration with the unilateral approaches by the US and 'market fundamentalism' symbolized by the Washington Consensus."¹⁴ In the current post-crisis period, Cen-

¹³ Robert A. Lewis, Robert R. Churchill, and Amanda Tate, eds., *Geographic Perspectives on Soviet Central Asia* (London, New York: Routledge, 1992).

¹⁴ Dilip K. Das, *The Asian Economy: Spearheading the Recovery from the Global Financial Crisis* (London, New York: Routledge, 2011), 135.

tral Asian countries may share a similar sentiment in their search for regionalized economic alternatives.

To be both successful and gain the support of the population, regional cooperation has to focus on real long-term challenges for the well-being of ordinary Central Asians, that is, first and foremost on economic issues. For a long time, Western literature on political economy insisted that regional integration was most effective when propelled in by wealthy, knowledge-rich countries, which were more likely to provide better access to technology than poorer trading partners. This was the underlying legitimacy of any North-South regional integration agreements.¹⁵ However, dependency theorists argued that because of the inherent inequality in the international economic system, developing countries find themselves trapped in a position of permanent underdevelopment as suppliers of inexpensive raw materials to the developed core.¹⁶ South-South regional initiatives thus emerged as a part of protectionist development strategies, with regionalism part of development discourse.¹⁷ The market size, enlarged as a result of reducing internal barriers to trade, confers an advantage in terms of economies of scale in the production of goods and provision of services and increased potential for investment, both from foreign and local sources.

¹⁵ Maurice Schiff, and Alan Winters, *Regional Integration and Development* (Washington, DC: World Bank, 2003).

¹⁶ Mathew Doidge, "From Developmental Regionalism to Developmental Interregionalism. The European Union Approach," *NCRE Working Paper No.07/01*, July 2007, 4.

¹⁷ South-South cooperation has recently been discussed by the Uzbek economist Ildus Kamilov, from the Center for Economic Research in Tashkent. See Ildus Kamilov, "Sotrudnichestvo v formate Yug-Yug," *Mezon.uz*, September 23, 2013, <http://www.mezion.uz/analytics/trends/11566-sotrudnichestvo-v-formate-yug-yug-prishlo-vremya-dlya-uzbekistana-stat-donorom>.

Today, "developmental regionalism" is one way to consider the future of Central Asian regional cooperation. This model could secure the region from the dominance of foreign/global firms that is associated with globalization, and attempt to support domestic capital through regionalism.

As a UN report on regional cooperation in Africa¹⁸ suggests, in "developmental regionalism" cooperation among countries should be led in a broader range of areas than just trade and trade facilitation, to include investment, research and development, as well as policies aimed at accelerating regional industrial development and regional infrastructure provision. The region of Central Asia could thus expand its productive capacity, focusing on industrial projects that are job-intensive to accommodate its work force, and utilize its extensive natural resources to meet both local and external demand. To realize industrial potential, the mechanism of economic cooperation would use increased economies of scale and falling costs, as well as encourage private sector investment and FDI, both from within and outside regional integration arrangements as a result of market enlargement.

Diverging Economic Patterns

Conventional thinking argues that there are few incentives to cooperate in Central Asia due to lack of economic complementarities. This was true at the collapse of the Soviet Union when the countries of the region essentially exploited their resource endowments, which were more competing than complementary.¹⁹ However, this has drastically changed, and economic patterns are today

¹⁸ "Shift from traditional approach to integration to 'developmental regionalism', report urges," *UNCTAD Press Release*, July 11, 2013, <http://unctad.org/en/pages/PressRelease.aspx?OriginalVersionID=146>.

¹⁹ Pomfret, "Regional Integration in Central Asia", 48.

largely more diversified, which creates new, unexpected vectors for cooperation.

Conventional thinking argues that there are few incentives to cooperate in Central Asia due to lack of economic complementarities. This was true at the collapse of the Soviet Union when the countries of the region essentially exploited their resource endowments, which were more competing than complementary.¹ However, this has drastically changed, and economic patterns are today largely more diversified, which creates new, unexpected vectors for cooperation.

The complementarity and possible cohesion of Uzbek and Kazakh markets forms the core of any integration initiatives, because of the size of their economies and because of their different development strategies. Besides evident possible complementarities in the water/energy nexus as well as agricultural sector, multiple other domains of interaction could be added. For instance, Kazakhstan's share of manufacturing in GDP dropped from 18 percent in 2000 to 12 percent in 2011, while, on the contrary, Uzbekistan managed to increase the share of its manufacturing sector from 13 percent to 22 percent of GDP.²⁰ In 2012, Uzbekistan produced more than 230,000 cars—more than ten times that of Kazakhstan which produced only 21,000.²¹ It follows that the dynamic Kazakh market could become a key client of Uzbek production.

In the joint Uzbek-Kazakh meeting of June 2013 regarding bilateral economic cooperation, mention is made of exports to Kazakhstan of Uzbek cars and cargo transport, buses, agricultural equipment, finished textiles, elec-

tronic equipment, construction materials, glass, high-density polyethylene; and exports to Uzbekistan of Kazakhstani metal, ferroalloys, wood, and wood products. Today Kazakhstan is the third largest trading partner of Uzbekistan; and Uzbekistan the third largest CIS trading partner for Kazakhstan—albeit figuring in the second half of the table in its top 15 world trading partners. Given Tashkent's isolationist policies, these statistics actually serve to show that there is still a large room for improvement in the two countries' complementarities.

Kazakh businesses often have a surplus of capital, and thus could become the bankers for the whole region. In 2007, before the global financial crisis hit the region, Kazakh bankers were controlling up to 50 percent of the Kyrgyz banking market²² and developing strategies to invest capital in Tajikistan, and potentially in Uzbekistan if the local legal system had been opened to them. These Kazakh private investments were not large per se but they were sizeable compared to the smaller economies of their neighbors. According to official data from the Kazakh National Bank (which likely underestimates the true amount), the total FDI from Kazakhstan to Kyrgyzstan was around \$537 million in the period 2005 to 2012. FDI was also targeted at Uzbekistan (\$252 million) and Tajikistan (\$88 million) in the same period.²³ In Tajikistan, Russian investors are more important, but Kazakh mining companies are showing increasing interest: KazZinc is currently bidding for the gold deposit Bolshoi Konimansur, and outbid the Australian mining giant BHP Billiton.

Uzbekistan and (especially) Turkmenistan are much less active in the development of intraregional investment ties, partly because of

²⁰ United Nations Statistics National Accounts Main Aggregate Database, <http://unstats.un.org/unsd/snaama/dnllist.asp>.

²¹ Alima Bolatbek "Proizvodstvo avtomobilei v Kazakhstane uvelichilos' v 20 raz," *Bnews.kz*, April 29, 2013, <http://www.bnews.kz/ru/news/post/136525/>.

²² Nikolai Kuzmin, "Nursultan Nazarbaev predlozhit Kirgizii ekonomicheskuiu pomoshch i investitsii kazakhskikh kompanii," *Expert Kazakhstan*, May 7, 2007, <http://expertonline.kz/a6479/>.

²³ National Bank of Kazakhstan Direct Investment Database, <http://www.nationalbank.kz/>.

capital control, but the underlying reason is political, not economic. Should there be a shift in the strategies of the Uzbek and Turkmen regimes, Kazakh investments could also make their impact felt in these two countries. Currently, although Kazakh access to global capital has reduced after the crisis, the country still has considerable domestic resources (national reserves, assets of commercial banks, and pension funds) which are looking for more diversified areas of investment, and therefore would support any regional integration project with Central Asian neighbors.

Kazakh firms are also increasingly interested in locating their production processes in countries with cheaper labor, such as Tajikistan and Kyrgyzstan, or in using the industrial capacities of Uzbekistan while targeting a larger market comprising of Russia, China, and South Asia. For Uzbekistan, which directs most of its manufacturing exports to the CIS markets (food, cars, chemicals), the encirclement resulting from the Customs Union's possible enlargement to Kyrgyzstan and Tajikistan is a worrying sign. Fear of marginalization could drive Tashkent, a lynchpin in Central Asia cooperation, to consider the benefits of improving regional cooperation. Like Belarus with its manufacturing advantages in the Customs Union framework, Uzbek manufacturing would only stand to gain in Central Asia regional value chains as it has developing capacities in oil and gas processing facilities, chemical industry, textiles, and food processing. Kyrgyzstan too has an emerging textile and agro-processing industry and could develop this niche to export to the Kazakh and Uzbek markets.

Central Asia migration is another factor to consider in informal exchange flows. Both Kyrgyzstan and Tajikistan will favor any labor-intensive project that could address their issue of chronic unemployment and the out-migration of labor. Although Russia remains a major destination for labor migration from Central Asia, Kazakhstan is increasingly competing with Russia as a destination for mi-

grant labor.²⁴ Factors of familiarity and common cultural ties, for instance, make Kazakhstan a more attractive place to work compared with the protective and nationalist-minded migration policies of Russia. Although Kazakhstan's construction sector, which used to employ most of the migrants, has slowed down, many migrants are finding opportunities in the cities of western Kazakhstan, where oil operations are located, as well as in southern agricultural regions.

In the near future Kazakhstan and its neighbors will need more regional cooperation projects that are job-intensive to cope with the migration phenomenon. Complementarity between workforce-seeking countries and workforce-sending ones could thus constitute one of the drivers of regional integration.

Even if the region's new leaders may wish to preserve the status quo, it must be recognized that the national economies are already "exhausted" by the current rent-seeking strategies. Social unrest, which is growing even in comparatively rich Kazakhstan, will force the leaderships to address the issue if they want to maintain popular legitimacy and not lose the support of a large part of the population.

Many other positive signs of diversification of the regional market that create greater opportunities for cooperation exist, but a more detailed assessment should be made as regards economic, political, and social gains, as well as losses from potential economic cooperation. The experience of the Russia-led Customs Union shows that in the absence of preliminary, trustworthy, detailed, and publicly available analysis of integration models, including assessments of the likely impact for all stakeholders, such an integration model is misunderstood and even viewed with suspicion. Central Asia cooperation should be stud-

²⁴ Aleksandr Libman, "Integratsiia snizu v Tsentral'noi Azii," *Evrasiiskaia ekonomicheskaiia integratsiia*, no. 1 (2009): 14.

ied in multiple dimensions and preferably on a single institutional basis.

Most of these prospects for increased regional cooperation will largely depend on the next generation of Central Asian leaders, who will be better equipped in terms of economic and global knowledge thanks to having received greater training in these domains and gained more experience abroad. The next generation will also be more concerned with structural economic reforms and renewing infrastructure and technologies than the previous one, who, rather, have mostly directed their energies at state-building.

Even if the region's new leaders may wish to preserve the status quo, they will have to recognize that the national economies are already "exhausted" by the current rent-seeking strategies. Social unrest, which is growing even in comparatively rich Kazakhstan, will force the leaderships to address the issue if they want to maintain popular legitimacy and not lose the support of a large part of the population. Obviously, better economic cooperation in Central Asia in the near and mid-term perspective remains largely dependent on a leadership change in Uzbekistan. The new Uzbek elites will have to address the sustainability of the autarkical choices made by Islam Karimov, and could decide that their own interests lie in an *at least* partial liberalization that would foster regional projects.

Today's elites might be willing to start considering regional cooperation more seriously. For them, regional integration could be seen as a tool by which to oppose external forces. In addition they may see in regional integration the driver of a more powerful domestic agenda, one that addresses the demands of the emerging entrepreneurial class.

Grassroots economic activities

The economist Alexander Libman has put forward two models of bottom-up integration for Central Asia: an investment model which relies on direct investments from large trans-

national companies; and an informal model which is related to emerging informal cross-border linkages.²⁵ Despite limitations in trade and other barriers erected by the governments of the region, for the last twenty years both formal and informal regional business linkages have grown in Central Asia. Fostering of business linkages among the countries is thus a key element favoring regional integration, and grassroots dynamics are visible. Most local analysts list the business community as a major actor in regional economic cooperation and national bureaucracies as major hurdles.²⁶ It is worth remembering in this context that the leading voice for a new post-war order in Europe was neither an intellectual nor a politician, but rather a French wine merchant from Cognac, Jean Monnet.

Business development in Central Asia occurs in a challenging environment of stiff regulations and difficult access to credit. Local businesses need more knowledge-related products and services to expand their entrepreneurial knowledge and strategies. At the same time, Central Asian markets are more familiar to local businessmen, who understand how they work and how to deal with the authorities and other institutions. The constant flow of inter-regional interactions and real cross-border activities, involving shuttle trade, migrants, students, tourists, and small-scale businessmen, is largely unrecorded in official statistics, but many micro-studies and anthropological studies confirm their significance in providing revenues to hundreds of thousands of Central Asian households. The huge market at Kara Suu in south Kyrgyzstan, centered in the vibrant Ferghana Valley, the Bishkek-based Dordoy market which supplies mostly Kazakhstan, and the Almaty markets dominated by Chinese entrepreneurs are the backbones of the non-industry related economic sectors.

²⁵ *Ibid.*, 6.

²⁶ Olimova et al, "Regional Cooperation in Central Asia: A View from Tajikistan," *Problems of Economic Transition* 48, no. 9 (2006): 6–86.

At all levels of the economic chain, business operations are conducted region-wide, via informal links that make use of relatives, friends, or dummy companies to allow cross-border movement of capital. Such activities may focus on agriculture, construction, the real estate market, or mining; mergers and acquisitions also take place but they are less likely to be recorded so as to circumvent strict regulations.

Despite limitations in trade and other barriers erected by the governments of the region, for the last twenty years both formal and informal regional business linkages have grown in Central Asia. Fostering of business linkages among the countries is thus a key element favoring regional integration, and grassroots dynamics are already visible.

The following are but a few examples of recorded business activities and ventures that display a regional dimension. One such venture is that of the notorious Uzbek Patokh Shodiev, one of the majority shareholders in the Eurasian Natural Resource Corporation (ENRC), who has substantial personal interests in the non-mining sectors in Kazakhstan. Another example is ShymkentPivo, one of the largest producers of beverages in Kazakhstan, which owns a joint venture in Uzbekistan, Marvel Juice. Visor Capital, an asset management firm based in Kazakhstan, is one of the most active mediators in business transactions in Kazakhstan, Kyrgyzstan, and Uzbekistan. Even Turkmen products (although the regime distances itself from integration initiatives) needs Central Asia markets: there is, for instance, a successful chain of outlets, Tuana Home Textile, which sells Turkmen textiles in Almaty and, recently, a Turkmen textile exhibition was held in Dushanbe.²⁷ It is important to note that most “interactions” derive purely

²⁷ “Turkmenistan prodemonstriruet svoi tekstil’ dushanbintsam,” *Asia Plus*, March 25, 2013, <http://www.asia-plus.tj/ru/news/turkmenistan-prodemonstriruet-svoi-tekstil-dushanbintsam>,

from business initiatives without the aid of cooperative policies on the behalf of governments.

Obviously, there is a fear of competition in some business circles as trade liberalization might erode the market power of dominant firms through entry of competing firms from other member countries. Distributing the benefits accruing as a result of the availability of larger markets evenly among all members is also seen as a challenge. Insufficient experience of international cooperation leads to situations in which many stakeholders cannot accurately estimate the benefits from cooperation and therefore tend to underestimate them. As experts from CASE-Kyrgyzstan put it in their analysis of the regional cooperation problems: “As cooperation brings increased efficiency, transparency, and long-term gains, the winners are those who are competitive and have a long-term vision. Losers are rent-seekers of all kinds—corrupt government officials, businessmen preserving monopolies or economizing on environmental protection, and unskilled workers fearing competition from migrants.”²⁸

Central Asian entrepreneurs need a sustainable business-to-business platform to meet and exchange ideas and understand each other better. There is a wide information gap between them as regards local business regulations and market and logistics opportunities. A regional business cooperation initiative would facilitate joint regional projects within Central Asia, with the potential to attract foreign investors as well.

When identity becomes a lever for integration

Economic cooperation is easier to implement if based on common cultural grounds. As Jean Monnet once said, if he were to begin again,

²⁸ CASE-Kyrgyzstan, “Regional Cooperation in Central Asia: A View from Kyrgyzstan,” *Problems of Economic Transition* 48, no. 8 (2005): 5–61.

he would start with culture.²⁹ If we can agree with Martha Brill Olcott's statement that "[t]he imprint which the Mongol conquest set on Central Asia society was more powerful than that of the Russians and Soviets,"³⁰ does that mean that this century-old historical reference can make sense in today's world? Each of the Central Asian countries is still searching for a national ideology, while recognizing a shared civilizational legacy, and partly a shared regional geographical definition. Even if not implemented immediately, these elements should be part of a candid debate on how cultural levers can help to foster regional cooperation.

Because of Central Asia's dissociated national ideologies, the next generation is believed to be less inclined to cooperate regionally and to have a weaker sense of regional identity. However, this statement has yet to be confirmed, and, on the contrary, it is possible to observe many elements that would point to a growing feeling of regional identity.

Personal animosities between presidents and the collusion of political and economic interests among incumbent elites are obviously key barriers to regional cooperation.³¹ In autocratic regimes it is difficult to distinguish regional rivalries from personal rivalries and political strategies from country strategies; in any case, the majority of the population is not able to voice their opinion regarding regional issues. Nonetheless, many prominent ana-

²⁹ Virgil George Baleanu, *A Conflict of Contemporary Europe: Is it the Case that before there can be Europeans, there must be Europe?* Conflicts Studies Research Centre, 1994.

³⁰ Martha Brill Olcott, "Common Legacies and Conflicts," in Roy Allison and Lena Jonson, eds., *Central Asian Security* (London: Royal Institute of International Affairs, 2001), 28.

³¹ Marlene Laruelle, and Sebastien Peyrouse, "Regional Organisations in Central Asia: Patterns of Interaction, Dilemmas of Efficiency," *University of Central Asia's Institute of Public Policy and Administration Working Paper No. 10*, 2012, 45.

lysts, such as Olcott, think that competition will continue to dominate the scene due to geographical and historical factors even after generational change. She states that these regional problems are not a feature of the first stage of nation-building, but a sign of more structural differentiation.³² Because of Central Asia's dissociated national ideologies, the next generation is thus believed to be less inclined to cooperate regionally and to have a weaker sense of regional identity.

However, this statement has yet to be confirmed, and, on the contrary, it is possible to observe many elements that would point to a growing feeling of regional identity. For one, the next generation of leaders will come to power shaped by different memories than the Soviet legacy that lingers on in the mindsets of the old guard. For this new generation, therefore, Russia is not equated so much with a civilizational role—which the Soviets played in modernizing and bringing education to the region—but mainly with a self-centered and aggressive policy pursued by Moscow after the dissolution of the Soviet Union.

Fears of Russian domination are strong among the new generation, and post-Soviet nationalist ideologies over the last two decades have been largely more anti-Russian than opposed to any of the other Central Asian nations. Russia's current push for a common political agenda may lead to a more nationalist-oriented response from the new Central Asian leaders, and parts of the population. For example, staunch nationalists in Kazakhstan speak against integration with Russia but will favor greater union with Central Asia neighbors.³³ Blank spots in national his-

³² Olcott, "Common Legacies and Conflicts," 28.

³³ See, for example, one of the most recent suggestions of Valikhan Tuleshov, who could be regarded as a representative of the nationalist intellectuals, at <http://www.altynorda.kz/news/kazaxstanskije-novosti/professor-valixan-tuleshev-filosofiya-geopolitiki-kazaxstana-v-xxi-veke-tyurkskij-proekt/>.

torical narratives such as the anti-Soviet Basmachi movement, pan-Turkism, or Jadidism (all having a potentially powerful regional dimension) will probably be more openly discussed in the years to come, once the last Soviet generation vacates the political scene.

There is indeed a growing demand for new values among Central Asia's youthful population. This youth is a vibrant community exhibiting talent and creativity but built on a shaky foundation of disparities in education levels and diverging cultures. This "young energy" often manifests itself in Islamic piety, radical nationalism, or drives young people to emigrate. On the other hand, events organized mainly by donors such as youth camps and art projects showcase an immense combined potential of Central Asian youth to cooperate and find common ground. If there was a concerted effort to promote regional identity, it would find success precisely among this younger generation of Central Asians.

Moreover, the revival of Islamic identity among the younger generation, whether it is understood as religious and/or as an ideological backlash to the current social and political order, fosters the feeling of shared cultural values with neighbors. Central Asian migrants working in Russia, for instance, tend to develop a stronger sense of their Muslim identity, and attend largely interethnic mosques. Still understudied, these cultural changes both in Central Asia itself and among the diaspora will play a key role in the decade to come in giving the voice to a new generation—for whom Central Asian cooperation, if not unity, is a legitimate process to be publicly discussed.

Conclusion

This paper argued that the countries of the Central Asian region need to cooperate to ensure their sustainable development and that broad economic gains will be won from increased trade and mutual investments. It demonstrated that there is a growing understanding, even if still only vaguely formulated,

that the countries of the region should make further efforts to make the Central Asian market a cohesive and viable economic unit. Interest in diversifying the manufacturing industries and making a more attractive business and investment climate fosters a revival of interest in regional cooperation.

It would be naïve to hope for a rapid improvement in the current state of affairs: it will take time for the countries to assess the costs and benefits of regional economic cooperation. However, the desire of a growing part of the population to take advantage of what they see as the benefits of developmental integration will be a key driver of regional integration: grassroots dynamics are already underway and will, eventually, impact the policy-making process. In this sense, regionalism in Central Asia is likely to be driven from the ground up rather than the other way round. Only private sector initiatives and the understanding of competitive factors or synergy of resources, technology, and factors of production may allow the region to achieve the desired level of modernization that the countries ultimately seek, and to fight poverty and other social issues like unemployment, outward migration, and potential radicalism.

Recommendations

1) International aid focused on the small- and medium-sized private sector and on job creation

Promotion and support of regional cooperation is a difficult task and should be framed in a road map with equal participation of the donors, governments and private sector. Although donors have long been trying to foster regional cooperation, they should not be discouraged from the current failure of the governments to find a common agenda. Their efforts should be focused on providing technical assistance in trade liberalization, business environment confidence measures, transfer of knowledge products in the financial sector, and entrepreneurship. They

should also help in larger strategies of job creation and industrial development.

2) Launching a regional think tank

A consistent and rigorous research program on regional cooperation should be launched within a newly established regional think tank. The research should deepen the understanding of costs and benefits of various integration models and emphasize concrete steps in creating a climate conducive to cross-border trade and investments as well as intra-regional FDI. The improvement of living standards of the overall population as a result of increased cooperation should be calculated. The results should be disseminated widely from government committees to media.

3) Creating a regional business chamber

Business linkages should be encouraged by organizing more regional business forums, trade fairs, and establishing institutions such as a regional business chamber. The market should decide for itself what to produce and where to locate production, with the governments facilitating this in terms of having a better understanding of—and limiting their role to assisting—the infrastructure and policy needs of businesses.

4) Promoting regional cultural initiatives

More cultural and exchange initiatives, particularly among the youth, are needed to strengthen regional identity and promote knowledge exchange. Promotion of regional media with a specific agenda will help to communicate new initiatives to a larger audience.

The opinions expressed here are those of the author only and do not represent the Central Asia Program.

The Central Asia Program at the George Washington University aims to promote high-quality academic research on contemporary Central Asia, and to become an interface for the policy, academic, diplomatic, and business communities. It calls for a multidisciplinary approach and provides a platform for different, and even sometimes contradictory, points of view on contemporary Central Asia. The CAP strives to bring together counterparts from the United States, Europe, Russia, Asia, and Central Asia by promoting various forms of interaction and initiating joint projects.

More on www.centralasiaprogram.org

© Central Asia Program 2013

The Central Asia Fellowship Program

Central Asia has a chronic and acute lack of public policy experts and the opportunities for young professionals to hone their analytical skills are few and far between. The lack of a robust pool of public policy experts, compounded by the entrenched ideological divide existing between civil society and academia, has had a detrimental effect on the transparency and vigor of policy debate in Central Asia.

The CAP-SIPRI North America Central Asia Fellowship Program is intended for young professionals—scholars, government officials, policy experts, human rights and democracy activists—who want to enhance their research and analytical skills and seek to become public policy leaders in their respective countries. More generally, the fellowship program seeks to provide a platform for the exchange of ideas and build lasting intellectual networks between the Central Asian and the US scholarly and policy communities.

Fellows spend five months in residence at the GW Elliott School of International Affairs. They are offered a series of tailor-made programs and introduced to US policy and expert communities in both Washington DC and New York. Fellows are required to attend several seminars, workshops and training sessions, write one policy brief on the predetermined theme and present their research at public seminars. Throughout their fellowship Fellows are closely mentored and guided by CAP and SIPRI North America staff.

Program Directors

Marlene Laruelle, Director, Central Asia Program, The GWU Elliott School of International Affairs

Chantal de Jonge Oudraat, Executive Director, SIPRI North America

Advisory Committee

Cornelius Graubner, former Senior Program Officer, Central Eurasia Project, Open Society Foundations

Henry Hale, Associate Professor of Political Science and International Affairs, George Washington University

Svetlana Jacquesson, Director, Central Asia Studies Institute, The American University of Central Asia, Bishkek

Emil Juraev, Deputy Director, Organization for Security and Co-operation in Europe (OSCE) Academy, Bishkek

Nargis Kasenova, Director, Central Asian Studies Center, KIMEP, Almaty

Kathleen Kuehnast, Director, Center for Gender and Peacebuilding, USIP

Neil Melvin, Director, Armed Conflict Management Programme, SIPRI

Emil Nasritdinov, Acting Associate Professor, AUCA, Bishkek