

Prospects for Regional Integration in Central Asia^{*)}

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In the aftermath of the collapse of the USSR, the former Soviet republics of Central Asia have been afflicted by the negative consequences of the transition to a much greater extent than the European successor states. After giving a short introductory outline of the common political, cultural, and economic factors that should facilitate their cooperative efforts, the article first describes the current economic position of Central Asia by discussing not only the requirements for regional integration, but also the prerequisites for the future transformation process in the individual Central Asian countries. The author then examines the ecological problems within this region that transcend national boundaries, and draws an outline of the steps towards regional integration that have been taken to date. This section will be followed by a discussion of the future prospects for regional integration in Central Asia as well as the immediate problems that must be solved as part of this integration process.

Considering the past experiences, today's goal of effecting a process of integration that is decisive, yet progresses at its own pace by building on smaller, cooperative ventures, appears reasonable and appropriate for the conditions in Central Asia. Even if developments within Russia should make the implementation of a program for economic integration more difficult, there will be numerous opportunities for comprehensive, regional cooperation at the lower levels.

1 Introduction

Five years after gaining independence, the countries of Central Asia, as all states of the former Soviet Union, are still greatly affected by fundamental political and economic transformation processes. However, in many ways, the negative consequences of the transition have impacted these countries to a much greater extent than the European successor states of the USSR. Whereas the Baltic states and the Russian Federation are showing the first signs of stabilization, this is not yet the case in the Central Asian states. To date, only Uzbekistan has been largely able to avoid the scenario of a self-perpetuating downward spiral.

Without question, the unstable situation in Central Asia represents a threat to peace in this region, arising from five primary problem areas. First, the boundaries of the national states that were created after the collapse of the USSR did not evolve from historical processes or ethnic settlement patterns, but were more or less arbitrarily established.¹ So far, the territorial fragmentation of the former Soviet Union has not

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1 For example, an examination of the Fergana Valley, an old cultural region, demonstrates the non-sensical distribution of this valley among Kyrgyzstan, Tajikistan, and Uzbekistan. Two parts of the valley that belong to Uzbekistan are separated by an area belonging to Tajikistan. Today, the Fer-

led to the formation of consolidated national states (cf. Halbach 1994a, p. 5). Second, although the titular nations in most cases represent the ethnic majority of their populace, the boundaries of the respective states also contain large minorities of other ethnic groups of this region as well as sizeable Russian population groups. A third problem area is the current economic situation which, in all Central Asian states with the exception of Uzbekistan, is cause for great concern and has been showing few signs of stabilization.² Fourth, the environmental degradation of several regions, e.g., the area around the Aral Sea, has taken on dramatic proportions and has resulted in the rapid deterioration of living conditions, including a noticeable reduction in life expectancy. These developments may also engender destabilizing tendencies. Finally, after the independence of the Central Asian states, serious conflicts have arisen over the usage of natural resources, especially of water: Whereas some countries possess sufficient stores of water, other countries, particularly Uzbekistan, are dependent on water supplied by their neighboring states.

During the upcoming years, a lot will be at stake for the states of Central Asia. The basic issue will be whether the countries of this region will succeed in producing a sustainable economic upswing or whether they will commence their descent into the poorhouse of the world. To date, it has been impossible to identify a definite trend: Although the developments of the past years are suggesting that poverty may be the inevitable result, we must also take into consideration that several promising conditions for a successful transformation process have been identified. Specifically, all of the Central Asian successor states of the USSR have a sizeable pool of human resources at their disposal. The qualifications of the respective individuals must, of course, be adapted to the requirements of free-market economies. Nonetheless, we should not make the mistake of assuming the lack of a solid foundation for modernization efforts. Another positive aspect is the fact that Central Asia possesses a multitude of raw materials which can serve to finance the development of modernized economies.

There are many reasons to pursue the early incorporation of regional cooperation and integration into the transformation processes.³ The entire former 'Council for Mutual Economic Assistance' (COMECON) is representative of the general situation in Central Asia: The autarchic efforts of the Eastern European countries and the successor states of the USSR impede the revival of a mutual division of labor and cooperation (cf. Winterberg 1995, pp. 275-76). Central Asia now has the opportunity to avoid repeating the mistakes and omissions of the other CIS states by choosing the path of joint development.

The prospects are not fundamentally bleak: At this point, the Central Asian coun-

gana Valley is a hotbed of ethnic tension (cf. Kößler 1993, p. 26). In 1990, the rivalries between the Kyrgyz and Uzbeks led to bloody confrontations in Osh, Kyrgyzstan's second largest city.

- 2 At this time, the future economic development is completely uncertain: Although prescriptions for the transformation of individual sectors of the economies do exist, there continues to be a lack of coherent concepts addressing the overall transition process.
- 3 A distinction must be made between regional cooperation which does not involve the partial relinquishment of sovereign rights and regional integration which requires that specific, limited sovereign rights of the nations are subordinated to a supranational institution.

tries still have much in common which would greatly facilitate comprehensive cooperative efforts. The most important factors are:

- The political, economic, social and cultural environments of the five former republics of the Soviet Union have been shaped by more than 70 years of communist policy. Although the continuance of Soviet traditions cannot be an option, we must acknowledge that the experiences from the era of the Soviet Union will form the basis for the future societal and economic development of the countries of Central Asia.
- Russian is the common language of all countries in this region. The absence of communication problems greatly facilitates cooperation within Central Asia.⁴ However, all countries of this region have shown noticeable tendencies towards promoting their respective native language, representing the beginning of a cultural disintegration process that will make future cooperative efforts more difficult unless these policies are revised.
- From an economic perspective, despite significant individual differences, the Central Asian countries are in comparable positions. No one country possesses a definite competitive edge over the other economies of the region. Therefore, there is no reason to expect that the integration process would lead to a significant decrease in wealth for some states with one-sided benefits accruing to the remaining states.
- Despite a certain amount of industrial production, the Central Asian economies are very much dependent on primary goods and their export. The building of the capacity to process these raw materials, at least in an initial production stage, would greatly facilitate the transformation processes within the individual countries.⁵
- The attempts at integrating Central Asia are also based on the countries' common heritage. The concept of establishing a united state of all Turkic peoples within Central Asia ('Turkistan') dates back to the time before czarist rule (cf. Marnie/Whitlock 1993, p. 39; Halbach 1994a, p. 4). Turkistan as a political entity did, in fact, exist during the second half of the 19th century, at which time a Governor of Turkistan had been appointed. During the early years of the Soviet Union, Central Asia was governed as the "Autonomous Soviet Republic of Turkistan"; not until 1925 it was divided into separate republics (cf. Marnie/Whitlock 1993, p. 39).
- The previously mentioned overlapping of areas of ethnic settlement within Central Asia also has some positive aspects. Since the creation of homogeneous, ethnic units is neither possible nor reasonable, the process of regional integration may be able to prevent developments similar to those in the former Yugoslavia. The prevention of conflicts is a particularly important function of regional integration, especially in Central Asia which has been experiencing the long-term

4 The Cyrillic alphabet was introduced during the second half of the '30s, with the intention of documenting Central Asia's orientation towards Moscow (cf. Kößler 1993, pp. 26-27).

5 One example is the expansion of cotton processing. To date, Uzbekistan, the world's fourth-largest producer of cotton, has only been processing one tenth of its harvest in its own country (cf. Marnie/Whitlock 1993, p. 40).

civil war in Tajikistan and the almost 20-year old conflict in Afghanistan.

It is highly unlikely that the economic transformation processes in the individual countries can be successfully completed within a short time period, i.e. prior to the beginning of the new millennium. Quite to the contrary: The earliest time at which we can expect Central Asian countries to reach an economic position that can be considered stable is the second decade of the 21st century. However, especially because of this prolonged transition phase that can be expected to extend beyond the year 2000, we must set the course today for creating an economic structure that is sustainable in the long run.

This sustainable economic structure should include a sound concept for regional integration, or, at a minimum, for regional cooperation. By itself, no one country in Central Asia can have realistic hopes of achieving economic success, even if some of the observers from that region find this difficult to acknowledge. Even the economies of the larger states within Central Asia, i.e. Kazakhstan and Uzbekistan, are comparatively small. A single Central Asian economy would still not constitute a large economic bloc; from a perspective of economic relevance, it would be comparable to Iran. The only alternatives that are realistically available to the smaller countries, i.e., Kyrgyzstan, Tajikistan, and Turkmenistan, are progressively increasing poverty or regional integration. It is apparent that Central Asia is not in a position to choose between regional integration and integration into the world market: Successful regional cooperation will be the minimum requirement for any attempt at integration into the world market, if for no other reason than that none of the countries of Central Asia have direct ocean access and the increased exchange of goods and services is, therefore, tied to building a common infrastructure within Central Asia.

Occasionally, the argument has been presented that it is too early for an attempt to start the process of regional integration. For example, Halbach maintains that such efforts at integration would have the effect of taking the second step before completing the first one, i.e., the national integration within the existing boundaries of the republics (cf. Halbach 1994a, p. 5). Although, at first glance, this appears to be a persuasive argument, upon closer analysis, it lacks validity since it assumes a static structure of the process: first, national consolidation, then regional integration. However, an examination of the conditions in Central Asia from a broader perspective which incorporates transnational ecological problems and the difficulties encountered during the development of concepts for the creation of productive economies makes it clear that, from the very beginning, national consolidation without broad regional cooperation is bound to fail. In other words: Without regional integration, there will be no possibility of stabilizing the individual national states within Central Asia. Turkmenistan is the only state that may attempt to first take steps towards national consolidation, albeit with great difficulties. However, from an economic perspective, this concept has little chance of success, as evidenced by the experiences of many of the developing countries.

In this paper, I will first outline the current economic position of Central Asia, by discussing not only the requirements for regional integration, but also the prerequisites for the future transformation process in the individual Central Asian countries.

I will then proceed to examine the ecological problems within this region that transcend national boundaries. This section will be followed by an outline of the steps towards regional integration that have been taken to date. I will conclude with a discussion of the future prospects for regional integration in Central Asia as well as the immediate problems that must be solved as part of this integration process.

2 Current Economic Position of Central Asia

As is to be expected, the economic basis for regional integration in Central Asia has been significantly shaped by the economic heritage of the Soviet Union. In the USSR, the supply of raw materials, particularly cotton, represented one of Central Asia's primary economic functions, important not only for the division of labor within the Union but also within the Council for Mutual Economic Assistance (COMECON) (cf. Marnie/Whitlock 1993, p. 35). Simultaneously, however, all of the republics had industries for the manufacture of technologically sophisticated products.⁶ Therefore, it would be overly simplistic to view the Central Asian countries strictly as suppliers of raw materials, although raw materials have, of course, been of central importance to the foreign trade strategies of the individual countries.⁷

The countries of Central Asia are rarely examined as separate, differentiated units. However, significant structural differences existed even during the era of the Soviet Union that have become even more pronounced since the independence of the Central Asian states in 1991. To date, Tajikistan and Turkmenistan⁸ have not joined in the integration efforts of their neighboring states. Nonetheless, they will be included in this analysis, if only for the purpose of conceptualizing potential models for future cooperation.

The data in Table 1 illustrate that, by comparison with the remaining three countries, Kazakhstan and Uzbekistan are by far the most significant states of this region. Both states are of approximately equal rank, not only in terms of the size of their population, but also with regard to the volume of their economic production. Although Kazakhstan is significantly larger in size, this also creates a number of specific problems for this country, e.g., difficulties in maintaining a viable infrastructure.

According to the World Bank's classification, the larger countries within Central Asia fall into the category of 'lower-middle-income' states. Only Kyrgyzstan and Tajikistan have been classified 'low-income' countries. The spread between the per

6 Uzbekistan, for example, has been manufacturing transport planes. As late as February 1994, Uzbekistan delivered seven Model IL 76 TD planes to the People's Republic of China (cf. Wacker 1994, p. 3).

7 One of the difficulties encountered during the process of performing detailed examinations of the capacity of the individual branches of industry is the continuous lack of available and/or reliable data.

8 Buoyed by its natural gas exports, Turkmenistan's economic development during 1992/93 was relatively stable. However, 1994 brought a general economic slump which also eroded the basis for Turkmenistan's autarchic efforts. The 15% reduction in the GDP and 25% reduction in industrial production during 1994 emphasized that even Turkmenistan's prospects are none too favorable without cooperation with its Central Asian neighbors (cf. Götz 1995, p. 5).

capita gross national products of the three states that have formed the Interstate Council of the Republic of Kazakhstan, Kyrgyz Republic and the Republic of Uzbekistan is relatively narrow.⁹ Kazakhstan's per capita national product is less than twice as high as that of Kyrgyzstan. By comparison to other integration projects in classical developing countries, e.g. in South-East Asia, this provides quite a significant advantage: The development differential among the countries involved is not too great.¹⁰

Table 1: Selected Structural Data for the Countries of Central Asia

	Kazakhstan	Kyrgyzstan	Uzbekistan	Tajikistan	Turkmenistan
Population (millions)					
mid-1993	17.0	4.6	21.9	5.8	3.9
mid-1994	16.8	4.5	22.4	5.8	4.4
Area (thousands of sq. km)	2,717	199	447	143	488
Adult illiteracy (%) 1990	3	3	3	2	2
Life expectancy at birth (years) 1993/1994	70/68	69/68	69/70	70/67	65/66
GNP per capita (US \$) 1993/1994	1,720/1.160	850/630	970/960	470/360	/
GNP per capita avg. annual growth (%)					
1980-1990	1.5	4.2	3.4	2.9	3.6
1990-1994	-14.7	-16.9	-5.0	-22.5	-5.2
GNP (millions US \$) 1993/1994	24,728/ 18,167	3,915/ 2,666	20,425/ 21,508	2,520/ 2,003	5,156
Share of agriculture in GNP (%) 1994	44	37	33	33	32
Current account balance (million US \$) 1993/1994 ^a	-1,479/ -722	-123/-202	-405/-8	/	927
Current account balance (% of GNP) 1993/1994	- 5.98/-3.97	- 3.14/-7.57	- 1.98/-0.03	/	+17.97

a) Before public transfers.

Source: *World Development Report 1995*, pp. 162-63, 166-67, 194-95; *World Development Report 1996*, pp. 188-89, 208-09, 210-11. Figures in italics are for years other than those specified.

An important issue for the assessment of the prospects for the future development of the Central Asian countries is the previously mentioned educational level of their population. Although a detailed analysis of this subject goes beyond the scope of this paper, the data contained in the *World Development Report* speak for themselves. None of the Central Asian countries have adult illiteracy rates of more than

9 In the following referred to as Interstate Council of Central Asia.

10 Significantly larger development disparities exist within the Association of South-East Asian Nations (ASEAN). In 1993, Indonesia's per capita GNP was US \$740 and the Philippines' was US \$ 850. By contrast, Singapore's GNP was US \$19,850 and even the Malaysian per capita GNP of US \$3,140 was more than four times as great as that of Indonesia (cf. *World Development Report 1995*, pp. 162-163.).

three percent. However, the average rate for middle-income economies is 17 percent, as high as 19 percent for lower-middle-income economies (cf. *World Development Report 1995*, pp. 162-163). We must, however, keep in mind that these generally favorable conditions may not last. After the collapse of the Soviet system, government funding of science and education has been drastically curbed. It is likely that this dramatic reduction in the funding for science and education will mark the beginning of a general regression of educational levels. Within a period of only a few short years, this development may create a shortage of qualified individuals and, subsequently, a significant bottleneck for economic development.¹¹

A further indication of the relative homogeneity of the Central Asian economic region is the comparatively large share of agriculture in the gross national product of all countries. Only Kazakhstan stands out as a country that is somewhat more dependent on agriculture than the others.

The data presented in line 6 of Table 1 illustrate the differences in the long-term economic development of the states. During the 1980s, all Central Asian economies managed to grow, although growth was limited to 1.5 per cent in the case of Kazakhstan. Since 1990 the transformation processes have resulted in a sharp decline in all economies of the region. However, there is an obvious difference between Kazakhstan, Kyrgyzstan and Tajikistan on the one hand and Uzbekistan and Turkmenistan on the other. Whereas the former have followed neoliberal adjustment policies which have resulted in continuing reduction of economic output, the latter have managed significantly better.

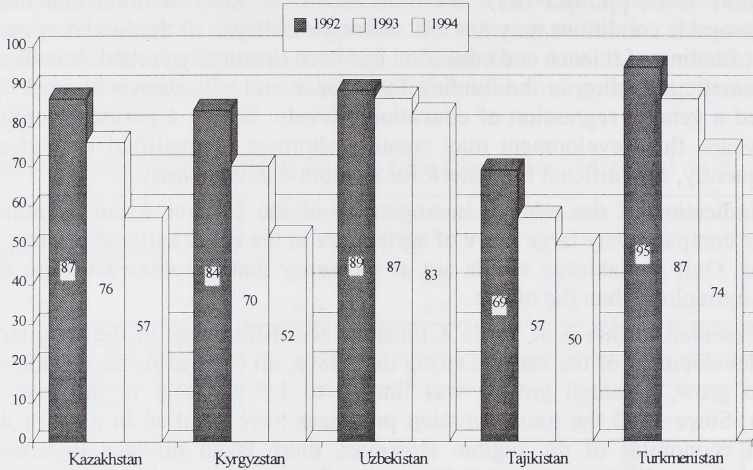
Even without considering more recent data, the effects of the substantially differing economic policies can be seen in Table 1. Within only one year, the market oriented economies lost between 32 per cent (Kyrgyzstan) and about 20 per cent (Tajikistan) of economic output (expressed in US-Dollar). With regard to the balance of payments, especially Kyrgyzstan shows a rapidly deteriorating position, while at the same time Uzbekistan was able to improve its current account balance.

The data presented in Figure 1 underlines the different courses taken by the transformation processes in the individual countries. These trends are, for the most part, confirmed by the data in Figure 2. Kazakhstan, Kyrgyzstan, and Tajikistan also recorded dramatic slumps in industrial production, whereas Uzbekistan was able to maintain its industrial production near 1991 levels.

Without going into a more detailed analysis of the development of the individual countries here, an examination of the overall economic development and the current position of the manufacturing industry shows that, despite similar beginnings, the structural adjustment and transformation processes have produced highly divergent

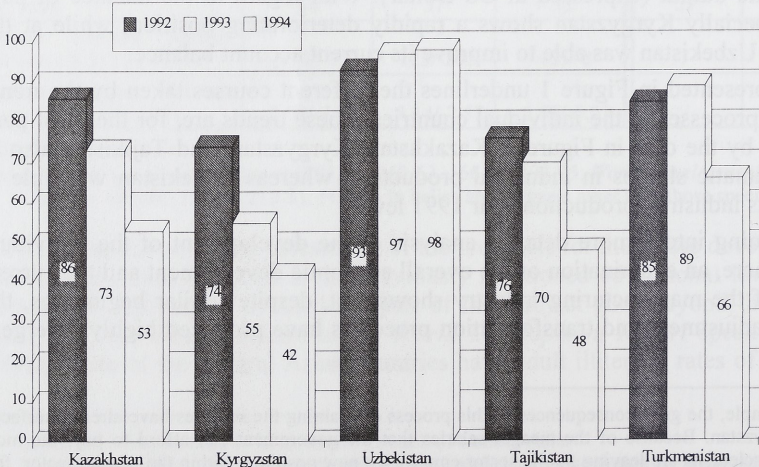
11 For example, the grim consequences of this process of draining the sciences have already surfaced in Kyrgyzstan. Because of the meager salaries that the government can afford to pay, the most capable scientists are leaving public sector employ for new positions within the private sector, frequently far below their educational qualifications. Subsequently, the use of foreign advisers in areas such as economic research continues to increase, as a direct result of this lack of native experts and the insufficient efforts made to fill this gap. Whether the transition processes can be successfully completed under such conditions, remains to be seen.

Figure 1: The Development of the Gross National Product Since 1991 (1991 = 100)



Source: Götz 1995, p. 5.

Figure 2: The Development of Industrial Production (Gross) Since 1991 (1991 = 100)



Source: Götz 1995, p. 5.

results. A thought-provoking fact is that, to date, the results of the transformation process in Kyrgyzstan, a country that employs a multitude of foreign advisers and, under the direction of the IMF, has been following a very rigid, monetarist policy of stabilization, are, in some instances, worse than those of Tajikistan, a country ravaged by civil war.¹² Considering the poor results of this transition process for which Western advisers must accept shared responsibility, it should hardly be surprising that there has been increasing criticism of the manner in which this process has been conducted, as well as of the Western advisers.¹³

As illustrated in Figure 2, the former structures of industrial production in Kazakhstan, Kyrgyzstan, and Tajikistan have been destroyed. However, the process of developing new industrial production has not yet been successfully completed.

These highly divergent methods of transformation have had significant consequences for the process of regional integration in Central Asia; however, in the current, turbulent transformation stage, these consequences are apparent to only a limited extent. Unless the structures currently in place are substantially altered, we can distinguish between two types of economic policies: Located at one end of the spectrum are Kazakhstan and Kyrgyzstan which have been heavily influenced by Anglo-Saxon advisers. Fundamental elements of their policies are the deliberate relinquishment of governmental control and the high level of importance assigned to the regulatory mechanisms of the free market. Located at the other end are Uzbekistan and, to some extent, Turkmenistan. Uzbekistan in particular makes explicit reference to the success of the People's Republic of China in its transition from a planned to a free-market economy and places great emphasis on public control, gradual transformation, and strong government. In its foreign trade policy, Uzbekistan is following a mercantilist course similar to that of many East and Southeast Asian countries. In other words: Uzbekistan's government rejects the large-scale opening of its domestic market that has repeatedly been demanded by the Bretton-Woods institutions and neoliberal advisers and has been implemented in Kazakhstan and Kyrgyzstan with, at times, grotesque consequences.¹⁴

12 Between 1992 and 1994, bi- and multilateral transfer payments to Kyrgyzstan totaled US \$800 million. In June 1994, an agreement was reached that provided another US \$550 million for the upcoming 12-month period, representing approximately 10% of the country's gross domestic product. Kyrgyzstan receives the largest per capita financial aid of any of the CIS countries and is considered a model for reform. In the opinion of the European Bank for Reconstruction and Development (EBRD), Kyrgyzstan's enthusiasm for reforms rivals that of the Baltic states (cf. Helmschrott et al. 1995, p. 22). Priewe and Herr have developed an alternative development strategy for Kyrgyzstan that seeks to avoid the negative consequences of a transformation strategy based on a policy of monetarism and to relatively quickly stabilize the overall economic performance (cf. Priewe/Herr 1995).

13 The Kyrgyz newspaper *Bishkek at Night* published a massive criticism of the services rendered by Western advisers. According to the paper, the advice provided by foreign specialists is so far removed from the realities in Kyrgyzstan that its implementation frequently has the opposite of the intended effect. Considering the negative example of Africa, financial aid is accepted, but advice rejected (cf. *Bishkek at Night*, July 3, 1995, p. 1).

14 However, several other explanations for the relative stable development in Uzbekistan have been proposed in the literature on this subject. Helmschrott et al., for example, suggest that the pace of reforms in Uzbekistan has been slower than in other CIS states and that Uzbekistan was relatively

Should the states succeed in developing a relatively high level of regional integration during the upcoming years, e.g., a common Central Asian market, it will be necessary to align the various concepts of economic policy. Experiences in Europe have shown that different approaches in economic policy, e.g., on the issue of subsidizing industry, are bound to result in conflicts. A comprehensive harmonization of the concepts of economic policy in all economies involved appears to be the most meaningful approach, but is also the most difficult to achieve.¹⁵

3 Transnational Ecological Problems

The current transnational problems related to resource allocation and environmental issues also emphasize the need for regional cooperation in Central Asia. Two striking examples for these types of problems and the resulting need for regional cooperation are the ecological crisis around the Aral Sea and the controversy between Kyrgyzstan and Uzbekistan over the use of water.

By now, the ecological crisis around the Aral Sea has received world-wide attention and has been addressed through projects sponsored by Western donor countries. Since 1963, the Aral Sea has lost more than 75% of its volume and continues to dry up further. This development is the result of the excessive diversion of water from the two large rivers in Central Asia, the Amy Darya which originates in the Pamirs and the Syr Darya which has its sources in the Tianshan mountain range. With a combined volume of about 110 km³, these two rivers carry approximately 90% of Central Asia's total river water (cf. Klötzli 1994, p. 6). During the '60s, the inflow rate into the Aral Sea was between 50 and 60 km³ per year, whereas today the Sea receives hardly any river water. By the late '80s, as a result of intensified agricultural production and particularly the expansion of the cotton monocultures favored by the USSR, nearly 90% of the river water was used for agricultural purposes.¹⁶ Only 3% was used to supply cities and communities (cf. Klötzli 1994, p. 8).

Numerous plans for saving the Aral Sea have been proposed which I will not address here in greater detail. However, a fundamental solution to this problem can only be achieved by coordinating the activities of all states in the affected region. The situation around the Aral Sea can only be stabilized if the amount of water withdrawn from its tributaries is drastically reduced.¹⁷ There are several conceivable

quickly able to find distribution channels for its raw materials, particularly cotton and gold (cf. Helmschrott et al. 1995, p. 19).

15 Brown is among those who are skeptical of the success of coordinating economic policies based on divergent concepts (Brown 1994, p. 35).

16 The concept of promoting the cultivation of cotton had a prominent advocate: In 1919, Lenin demanded a more intensive irrigation of Central Asia to achieve independence from cotton imports (cf. Klötzli 1994, p. 18).

17 The per capita water consumption of the countries in Central Asia is by far the greatest in the world: According to figures provided by the World Bank, Turkmenistan is the world's single largest consumer of water, with a usage of 6,216 m³ per year between 1970 and 1992. With 4,007 m³, Uzbekistan is second, Kyrgyzstan is in third place (2,663 m³), followed by Tajikistan (2,376 m³) and Kazakhstan (2,264 m³). At 1,868 m³ per capita per year between 1970 and 1992, even the water consumption of the USA was significantly lower than that of the Central Asian countries (cf. *World Development Report 1995*, pp. 226-227).

methods for effecting such a reduction, ranging from economic approaches, i.e., a dramatic increase in the cost of water usage, to various technological concepts such as the transition from the current flooding method of irrigation to sprinkler systems or even drip irrigation.¹⁸

At this point, even the government of Kyrgyzstan, a nation that is many hundreds of kilometers removed from the Aral Sea, has realized that a continuation of the current policies cannot be in the country's best interest, since salt and sand storms are already causing glaciers in Kyrgyzstan to melt. Simultaneously, however, the desert country of Turkmenistan is making plans for additional irrigation projects which would divert even more water from the Amy Darya and the Aral Sea.¹⁹

A second example are the controversies over the use of surface waters in Central Asia. Particularly notable are the disagreements between Kyrgyzstan and Uzbekistan with regard to the use of the Syr Darya river. Through numerous hydroelectric stations and dams such as the Toktogul Dam in the Naryn region, Kyrgyzstan can exercise control over the amount of Syr Darya water flowing into Uzbekistan. A dispute developed shortly after both states became independent, initially over the prices of Uzbekistan's natural gas supplies to Kyrgyzstan. When Kyrgyzstan was unable to pay the higher prices demanded, Uzbekistan discontinued supply. Subsequently, during the summers of 1993 and 1994, the Kyrgyz filled their water reservoirs to capacity to boost the production of hydroelectric energy. Since, after natural gas shipments had been discontinued, electric power was increasingly used for heating, Uzbekistan was faced with the unpleasant situation that during the summer months considerably less water than before was available for purposes such as irrigation. Conversely, during the winter months, Kyrgyzstan drained - for the production of electricity - its reservoirs more frequently, in the process causing flooding in Uzbekistan (cf. Klötzli 1994, pp. 37-38).

Although pursuant to the Helsinki Rules on the Uses of the Waters of International Rivers and considering that the conduct of the Kyrgyz government has been in accordance with international law, this issue continues to place a major strain on the relationship between Uzbekistan and Kyrgyzstan (cf. Klötzli 1994, p. 62). It represents yet another example of the compelling need for at least workable, regional cooperation among the states of Central Asia, emphasizing that the primary issue is not whether regional cooperation is necessary, but what form it should take.²⁰

18 Uzbekistan has shown that considerable improvements can be achieved through relatively simple methods. In a model cotton plantation located in the province of Syr Darya, the classical flooding method of irrigation was replaced by a sprinkler system. The result was a reduction in water usage from 4,900 m³ to 2,400 m³ per hectare and a simultaneous increase in yield from 2.2 tons to 2.93 tons per hectare (cf. *Central Asia Quarterly Labyrinth*, 2 (Winter 1995) 1, pp. 30-31).

19 The existing Karakum Canal by itself causes immense wastage of scarce water. Each year, approximately 15 km³ are diverted from the Amy Darya to feed the Karakum Canal. The canal is poorly constructed: Seepage losses are enormous because the canal is running on loose sand. This is evidenced by the formation of a 800 km² lake along the Canal (cf. Klötzli 1994, p. 9).

20 For example, Rosegrant and Binswanger have suggested the establishment of tradeable water rights to arrive at an efficient allocation of the scarce resource of water (cf. Rosegrant/Binswanger 1994, p. 1613). Such a measure would require a joint effort of all states of Central Asia.

4 Steps towards Regional Integration

Initial attempts at creating a single Central Asian economic territory were made relatively early, even prior to the collapse of the USSR. The integration of Central Asia was first discussed in 1990, during a conference in Almaty. However, until 1994, this as well as other attempts to achieve regional integration in Central Asia met with very little success, due to a lack of decisive action to implement these resolutions (cf. Brown 1994, p. 33).

After the abolishment of the ruble zone, Kazakhstan and Uzbekistan began their pursuit of creating a single economic territory. On January 10, 1994, the states concluded the negotiations on the agreement for the creation of a single economic territory, joined, shortly thereafter, by Kyrgyzstan. This non-binding agreement was expressed more precisely in the Almaty Declaration of July 8, 1994. Among the resolutions made by the three heads of state were the formation of an interparliamentary work group charged with harmonizing the legal frameworks, an increase in joint efforts to protect the environment, specifically in the form of additional measures for the rehabilitation of the Aral Sea, and the coordination of the foreign policy of these three Central Asian countries.

Although the declaration by the three heads of state leaves several unanswered questions pertaining to crucial details of a single economic territory, they did, in fact, agree on many important ventures, among them 60 projects in almost all important sectors of the economy, as well as the establishment of a Central Asian bank to serve as a clearing house and development bank. However, this emphasis on joint projects also has two significant drawbacks: First, the project-oriented approach reflects a concept of the role of the state that seems to date back to the time of a planned economy. Of greater importance than individual projects should be the development of a uniform regulatory framework, an area that so far has been neglected. Second, this project-specific approach includes inherent dangers for the integration project; during periods of financial shortfalls, the realization of such projects may be jeopardized and, as a result, the entire integration process may suffer.

It should be noted that the Declaration of Almaty emphasizes the open nature of the integration project. Thus, we may assume that it is theoretically possible for Turkmenistan, Tajikistan, and other CIS countries to join this alliance.²¹

The three heads of state not only issued non-binding declarations of intent but also took concrete action by forming an Interstate Council consisting of the Presidents and Premiers of the member states. In addition to creating this supreme executive body, they resolved to establish the following forums:

- the Council of Premiers that meets four times per year,
- the Council of Defense Ministers,
- the Council of Foreign Ministers.

21 The logo of the Executive Committee is a tree with five branches, i.e., it includes the two states (Tajikistan and Turkmenistan) that haven't joined the Interstate Council yet.

Of particular relevance is the simultaneous decision to form an Executive Committee headquartered in Almaty, another indication of the strong commitment to regional integration. As evidenced by the experiences of the European Union and other integration projects, the establishment of supranational organizations with independent legal personalities, budgets, and adequate staffing can significantly contribute to the success of the entire project.

The provisions for the Executive Committee are another indication of the sincere desire to succeed. Its chairman enjoys the same privileges as a minister of the government of Kazakhstan, the seat of the Executive Committee. The scope of the Committee's mandate and primary functions also creates the impression that it was not simply formed to make a joint political statement, but as a vehicle for promoting long-term, sound cooperation (cf. the charter of the Executive Committee. In: Dieter 1996, pp. 336-344). It is very apparent that the majority of the responsibilities that have been transferred to this body are representative of the economic problems experienced by its member countries. In other words: The Executive Committee is expected to provide solutions for the problems of economic policy that the individual states have been unable to resolve on their own. Since, in the short term, it is unlikely that the Executive Committee will be able to accomplish such a comprehensive task, there is a potential risk of unjustifiably discrediting the entire integration process.

The Executive Committee commenced operations immediately after July 8, 1994. The Interstate Council appointed Serik Primbetov, a Kazakh, as the Committee's first chairman. Kyrgyzstan and Uzbekistan are each represented by one vice-chairman.

5 Prospects for Regional Integration

In addition to integrating the Central Asian states within the framework of the Interstate Council, there are other possible vehicles for strengthening economic cooperation. One variation discussed at the beginning of the transformation process was cooperation within the framework of the 'Economic Cooperation Organization' (ECO). The ECO was established in 1965 by Turkey, Iran, and Pakistan as part of the first wave of regional integration projects, but never achieved the hoped-for impact. Pursuant to the collapse of the USSR, the ECO was revived in 1992 with a conference in Tehran. In February 1993, the five Central Asian countries of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan participated in a follow-up conference in Quetta/Pakistan, together with Iran, Pakistan, Turkey, Afghanistan and Azerbaijan (cf. Freitag-Wirringhaus 1993, p. 56).

Unlike the integration efforts in Central Asia, the ECO has a very low probability of success. Rather than viewing the ECO as a bona fide forum for integration, its three most important members, Iran, Pakistan, and Turkey, have been attempting to use this body to advance their countries' interests in the Central Asian successor states of the USSR. From the very beginning, Iran has emphasized the Islamic nature of the ECO and maintained that this organization could represent the first step towards a common Islamic market. Turkey, however, has been opposed to placing such

emphasis on the Islamic character of the ECO (cf. *Development & Cooperation*, (1993) 3, p. 6; Klötzli 1994, p. 49).

Ignoring, for the moment, the issue of religion, the poor prospects for the future of the ECO become apparent upon taking a second look at the organization. The differences between the participating countries are too great to make them good candidates for a regional integration project. Successful regional integration can only be achieved if the countries involved possess a minimum of economic, cultural, and political common ground. Simply referring to their common Islamic religion is not sufficient, particularly since the religious practices in the individual member countries of the ECO vary greatly.

Much more favorable are the conditions for integration within the framework of the Interstate Council. Currently, all Central Asian countries are experiencing serious transformation crises of varying degrees, resulting in the relatively low probability that any one country would gain an advantage over the remaining countries of this region due to a position of economic superiority. Therefore, it would be a mistake to wait until these transformation processes have been completed, at which time the countries may be faced with the difficult task of effecting cooperation between highly divergent economies.

Conversely, it must be noted that the relatively similar economic structure of the Central Asian countries also presents certain disadvantages. The experiences of the countries of the South have shown that integration projects frequently fail because the economies of the countries involved are too similar and do not sufficiently complement each other. Some authors believe that this problem exists in Central Asia and are therefore holding little hope for the success of Central Asian integration (cf. Halbach 1994a, p. 4). However, here we must make an important distinction: Although it is correct that noncomplementary economies may stymie the regional integration of developing countries, this does not apply to already developed countries. In fact, the opposite is true: The largest portion of the trade of industrialized nations consists of trading goods in equal stages of production (cars versus cars). This potential increase in competition (within the integrated territory) which, of course, cannot be achieved in complementary economies is a particularly important argument in support of regional integration.

The question remains whether the CIS represents a suitable platform for intensive cooperation among the successor states of the Soviet Union. At the time of its establishment in December 1991, there had been hopes that it would guarantee a single economic territory (cf. Sagorskij 1995, p. 263).²² However, as the intervening years have shown, the CIS has not been successful in maintaining a commonwealth of states, largely due to its decision-making processes.²³ Instead, it is divided into three distinct sections: a nucleus (Russia, Belarus, Kazakhstan, Kyrgyzstan), a first ring

22 However, from the very beginning, the format and structure of this single economic territory were unclear. The lack of a proper economic concept for this region was the primary cause for its process of economic disintegration, e.g. as a result of the abolishment of the ruble zone.

23 Sagorskij calls the CIS's decision-making processes the 'consensus of interested parties' (cf. Sagorskij 1995, p. 264). Since the individual member countries are not required to adopt specific resolutions, a systematic future development of the CIS appears to be impossible.

(Armenia, Georgia, Tajikistan, Uzbekistan), and a second, far more distant, ring (Azerbaijan, Moldavia, Turkmenistan, Ukraine) (cf. Sagorskij 1995, p. 264). It is highly unlikely that the CIS will develop into an integration project that extends to the creation of an economic and monetary union comprising all member countries, particularly in light of the experiences of the years 1991-1995. However, there are definite possibilities for close cooperation below the level of the CIS.

One project that may overshadow and jeopardize the success of integration efforts within Central Asia is the Eurasian Union (EAU) proposed by Kazakhstan's President Nazarbayev in mid-1994. Nazarbayev was one of the strongest supporters of continued cooperation within the boundaries of the former Soviet Union and did not leave the ruble zone until the requirements imposed by the Russian Federation on Kazakhstan for its continued participation were no longer acceptable. There are several reasons for Kazakhstan's policies which have been oscillating between the preservation of national independence and the relinquishment of its sovereign rights through participation in regional integration projects. Certainly, the most important reason is that Kazakhstan's population is split into two large segments: a Russian majority in the north, a Kazakh majority in the south. The great importance of the Russian minority has set relatively narrow limits for promoting the titular nation through specific language and cadre policies (cf. Halbach 1994b, p. 2).

From an economic perspective, Kazakhstan continues to have close ties to Russia and remains very dependent on cooperation with its large neighbor to the north, largely because its infrastructure is heavily oriented towards Russia. Nonetheless, Nazarbayev's proposal not only reflects Kazakhstan's specific interests, but also illustrates that particularly the economically weaker CIS countries are dependent on close economic relations with the Russian Federation, at least in the intermediate term (cf. Sagorskij 1995, p. 267; Brown 1994, p. 34).

In many ways, the integration project proposed by Nazarbayev is similar to the Central Asian Interstate Council, but constitutes a much more ambitious approach. Rather than limiting itself to creating an economic and monetary union, the EAU also envisions a political union of independent states possessing equal rights (cf. Halbach 1994b, p. 3). According to the organizational set-up proposed by Nazarbayev, the EAU would establish, as its supreme body, the council of heads of member states and governments and include a permanent, interstate executive committee, structurally reminiscent of the Central Asian integration process. However, through the creation of a union parliament, the EAU seeks to take on much greater political significance than its Central Asian counterpart (cf. Halbach 1994b, pp. 3-4).

Ultimately, the EAU as visualized by Nazarbayev would represent the continuation of the former Soviet Union with different economic and social policies, i.e., a project of re-integration. From a qualitative perspective, this proposal is significantly different from the comparatively loose cooperation within the CIS framework. The strong criticism voiced by Uzbekistan's President Karimov is an indication of how difficult it would be to implement the EAU (cf. Halbach 1994b, p. 5). Uzbekistan has distinctly oriented itself towards Asia and its oriental neighbors, a process that Kazakhstan could never duplicate due to its geopolitical position. Undoubtedly,

Kazakhstan's attempt to pursue the economic and political integration with Russia would make the integration of Central Asia more difficult.

A concrete step towards integration is the January 1995 agreement on the formation of a customs union consisting of Belarus, the Russian Federation, and Kazakhstan; Kyrgyzstan had then not yet decided whether it would join.²⁴ The project enjoyed further support during the Russian presidential election campaign. The intention to form a customs union between Belarus, the Russian Federation, Kazakhstan and Kyrgyzstan was repeated in March 1996.

Apart from economic considerations geopolitical interests seem to play an important role. Uzbekistan has been invited to join the customs union, but has declared the conditions unacceptable. At the same time the United States have selected Uzbekistan as the country receiving most support in Central Asia, despite the fact that Uzbekistan is showing little progress both in questions of economic and political reform. The goal is obvious: By strengthening Uzbekistan's independence, the US is also reducing the chance for a cooperation scheme lead by the Russian Federation.

Whereas the motives of Uzbekistan and the US seem to be clear, the considerations of the Russian Federation are more difficult to understand. If Russia would have liked to continue a system of close economic cooperation, there would have been no need to terminate the existing monetary union, the rubel zone. However, one motive surely is that Russia does not favour a united Central Asia: An increased political and economic relevance of Central Asia would lead to improved foreign policy options for Central Asia and thereby would reduce the region's dependence on Russia.

From the perspectives of Kazakhstan and Kyrgyzstan, a customs union with the Russian Federation contains some obvious risks. As Russia clearly will dominate the customs union, the joint tariff policy will be tailored to serve Russia's needs, not those of the Central Asian countries.²⁵ Another political disadvantage for the Central Asian countries is that in a customs union they will depend on the Russian authorities for the collection and distribution of import duties.²⁶

Considering Uzbekistan's reluctance to join the customs union, the development of a trade regime for Central Asia seems to be a difficult task. Basically, only the entire customs union could form a free trade agreement with Uzbekistan. Individual agreements between Kazakhstan and Uzbekistan will not be possible: Either Uzbekistan will participate fully in the customs union or a tariff wall will be erected between Uzbekistan and the other states of the Interstate Council.

Should the planned customs union prove to be viable and indeed result in the creation of an economic territory that includes the Russian Federation, it must be ex-

24 On January 1, 1995, the heads of state of Russia, Belarus, and Kazakhstan signed an agreement on the establishment of a customs union.

25 For instance, Russia is in favour of high tariffs on motor vehicles to protect its own currently not very competitive car industry, a sector of commerce that neither exists in Kazakhstan nor in Kyrgyzstan.

26 The agreement on a mode of distribution of the revenue from import duties may prove to be one of the most complicated issues in the negotiations of the customs union.

pected that Central Asian integration efforts will no longer be pursued with the same degree of urgency. Therefore, we must acknowledge the fact that qualitative advances in Central Asia will only be possible if integration with Russia proves to be unsuccessful. In other words: Should Russia indeed revise its policy of focusing on its development as a separate nation that clearly prompted the abolishment of the ruble zone, this would significantly reduce the motivation for regional integration in Central Asia.

Theoretically, an alternative regime could have the following structure: A Central Asian customs union that subsequently forms a free trade agreement with the Russian Federation. What would be the advantages of such a scheme? Firstly, Central Asia could both continue to strengthen its relevance in international relations by acting unitedly as well as continue to work towards the solution of the above described environmental problems. Secondly, the customs union could be tailored to the needs of the participating countries and it could form an integral part of a strategy to develop and strengthen manufacturing industry in Central Asia. Thirdly, the free trade agreement with Russia would facilitate trade without increasing the region's dependence on the Russian Federation, in particular on the Russian customs authorities. Fourthly, such a regime would enable the Central Asian countries to negotiate free trade arrangements with other regional integration schemes, e.g., the European Union, without depending on the Russian Federation's position.

Another issue to be addressed is the conformity of the Central Asian integration project with the GATT/WTO. Although the countries of Central Asia are not yet members of the WTO²⁷, all states of this region are expected to join in the near future. According to Article 24 of the GATT, the formation of customs unions and free-trade areas shall be permitted provided they fulfill certain requirements. Since a concrete concept for the trade policies of the Central Asian integration project has yet to be developed, it is still too early to make valid predictions (cf. WTO 1995b, pp. 31-34, for the GATT provisions). However, we can definitively state that, in the case of Central Asia, there is no danger of jeopardizing or weakening the WTO which did occur pursuant to large integration projects in Asia (Asia Pacific Economic Cooperation - APEC) and America (Free Trade Area of the Americas - FTAA) (cf. Senti 1994, p. 132; OECD 1995). Undoubtedly, this region does not carry sufficient economic weight to cause a weakening of the multilateral trade order.

However, there are still a number of open questions pertaining to the implementation of the integration project in Central Asia, especially on the central issue of trade policy. Although there has been talk of establishing a single economic territory in Central Asia by the year 2000, its precise format has not yet been determined: From today's vantage point, a customs union would be the format of choice, primarily due to the relatively small administrative burden created by such customs unions. By contrast, a Central Asian free-trade area would not only represent a less comprehensive alternative from the perspective of trade policy, but also requires comparatively

27 Uzbekistan is currently in the process of negotiating its conditions of accession. Kazakhstan and Kyrgyzstan are still debating the issue of membership and have not yet applied for admission.

well-functioning customs administration systems. Since the existing customs authorities in Central Asia are not equipped to handle the tasks necessary for the administration of a free-trade area, e.g. the control of certificates of origin, it follows that a customs union is the most appropriate trade format in Central Asia.

At the present time, the establishment of a common market must be considered an overly ambitious undertaking, particularly because the inherent freedom of movement of economic agents may meet with resistance from the individual states. In addition, the experiences with other integration projects have unequivocally demonstrated that overly ambitious endeavors may jeopardize the entire integration project.

Considering our past experiences, today's goal of effecting a process of integration that is decisive, yet progresses at its own pace by building on smaller, cooperative ventures, appears reasonable and appropriate for the conditions in Central Asia. Even if developments within Russia should make the implementation of a program for economic integration more difficult, there will be numerous opportunities for comprehensive, regional cooperation at the lower levels.

Europe will fulfill an important function during this process. Much more meaningful than the current, helpless attempts at mediating and defusing already existing conflicts will be measures directed at the prevention of military confrontations. As previously mentioned, regional integration is one of the elements of an active peace-keeping policy. Thus, the actions taken by the European Union will be of utmost importance to Central Asia. Bilateral donors, specifically the Federal Republic of Germany, are not appropriate partners for promoting regional integration because such efforts must occur in conjunction with measures that facilitate access to the European Single Market. Since the EU Commission has been vested with sovereign powers over foreign trade relations, it must also serve as the chief negotiator during the process of developing a concept to support the regional integration of Central Asia.

This process has already begun. The EU has provided financial support of the Interstate Council. However, this can only be a first step; we must develop a concept that combines financial aid for the integration process with a plan for gradually phasing in access to the European Single Market. Conceivably, such access could be tied to the requirement of successful integration, i.e., the plan could be structured to apply to the group as a whole, but not necessarily to the individual member countries of the Interstate Council.

A historical precedent for this type of approach - albeit under somewhat different conditions - is the Marshall Plan. Consequently, the demand that the EU underwrite a new 'Marshall Plan' for these transitional economies is hardly surprising. Similar to its historical model, the primary function of this new 'Marshall Plan' would be the structural design of a new economic and political order (cf. Winterberg 1995, p. 274). The lessons learned from the Marshall Plan are clear: Self-sustainable, economic development is not possible without a revival of regional cooperation. The coordination of the economic policies of the individual countries is a requirement for, not a goal of, stable economic development (cf. Winterberg 1995, p. 279). To

support the spirit of cooperation through a mutual willingness to effect coordination and cooperation would not only contribute to securing peace, but also significantly facilitate the transition process of the Central Asian countries. The EU's spirit of cooperation within Europe could provide a positive stimulus for Central Asia.

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