



Policy Brief

**Overview of Central Asian Trade Growth and
Economic Integration**

Some Recommendations

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Central Asian republics (CARs)¹ place a greater emphasis on intraregional cooperation than interregional integration, which raises the question of why they are not integrating regionally²

Although CARs' economies, politics, histories, cultures, and other aspects share a number of similarities, the level of interregional cooperation remains relatively low compared with their intraregional integration. The lack of interdependence among regional economies in Central Asia makes market integration ineffective at promoting regional cooperation. CARs suffer from limited industrial diversification, which contributes to export uncertainty. Oil, gas, minerals, and agricultural products are the main export commodities of these countries. This heavy dependence on a narrow range of products makes these countries vulnerable to fluctuations in global commodity prices and demand. As a result of this lack of diversification, neighboring countries are not able to engage in complementary trade. In addition, the lack of industrial development and value-added production in the region hinders intra-regional trade in manufactured goods. Furthermore, the low intraregional trade share in Central Asia can be attributed due to limited transportation infrastructure, political tensions, and a heavy reliance on similar natural resources. In addition, the absence of regional trade agreements in the Central Asian region has hampered intra-regional trade integration among them. A study conducted by UNCTAD estimated that 68% of all European exports are directed towards trading partners on the same continent;³ whereas Eurostat indicates that exports of goods to European partners in the same year accounted for 73% of the total value of intra-EU exports.⁴ According to the World Bank, ASEAN has a rate of 25%, whereas the rate for CARs is 9%.⁵

Similarly, our results indicate that the average export and import shares do not exceed 10%. The level of trade intensity decreased from 20.1% in 2005 to 8.1% in 2010 and slightly increased during recent years and reached 17.3%.⁶ Tajikistan and the Kyrgyz Republic are primarily trading with Kazakhstan and slightly with Uzbekistan amongst CARs. Tajikistan's trade share with Kazakhstan is 20.28% and its trade share with Uzbekistan is 7.80%, while Kyrgyz Republic's trade share with Kazakhstan is 14.65% and its trade share with Uzbekistan is 6.78%. During the same period, Uzbekistan's trade share with Kazakhstan was 9.83%, while its trade share with the remaining CARs was 1.13% to 2.45%, respectively. Turkmenistan also has a relatively small share of the trade with the CARs, ranging from 0.27 to 9.61%, of which Uzbekistan owns a majority of Turkmenistan's trade share. In contrast, Kazakhstan's trade share with CARs varies from 0.37 to 4.21%, respectively. Between 2005 and 2022, the total trade turnover among CARs reached 20.16 billion USD, an increase of 2.2 times.

It must be kept in mind that a higher share indicates greater integration between partner countries/regions and a greater number of SMEs can conduct cross-border trade.⁷ By adopting such an approach, the CARs will be able to address their common challenges and capitalize on their

¹ CARs include Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan. The dissolution of the Soviet Union in 1991 resulted in the independence of these countries.

² Please see the original research paper for details: Abduvaliev, M, (2024). An Overview of Central Asian Trade Growth and Economic Integration. Visiting Fellow Program, CAREC Institute. URL: <https://www.carecinstitute.org/wp-content/uploads/2024/02/CI-VFP-An-overview-of-Central-Asian-trade-growth-and-economic-integration.pdf>

³ United National Conference on Trade and Development (UNCTAD), 2021. Trade structure by partner. Merchandise Trade. Available at: <https://hbs.unctad.org/trade-structure-by-partner>

⁴ Eurostat Statistical Explained (Eurostat) 2022. Intra-EU trade in goods—main features. Available at: <https://ec.europa.eu/eurostat/statistics-explained/index.php>

⁵ World Bank, 2022. World development indicators. Washington, DC.

⁶ CAREC Institute, 2021. *CAREC Regional Integration Index (CRII): Some Progress, But New Push Required*. Urumqi, The PRC.

⁷ Asian Development Bank (ADB), 2022. Asian Regional Integration Center. Tracking Asian Integration. Integration Indicators technical notes. Available at: <https://aric.adb.org/integrationindicators/technotes>

shared opportunities more effectively, cross-border cooperation can be facilitated, knowledge can be shared, as well as dialogue and economic collaboration among the region will be strengthened. In addition, by focusing on intraregional cooperation, the CARs can foster trade and financial development, enhance regional investment climate, and promote cultural exchange within their region.

There is no longer a puzzle surrounding regional cooperation between CARs

Overall, regional economic integration represents a strategic approach for countries to leverage their collective strengths and achieve shared prosperity. Historically, Central Asian nations have focused more on their national interests than on regional cooperation. Their establishment of independent economies and political systems after independence from the Soviet Union in 1991 was challenging. It is often the case that efforts towards regional trade integration are overshadowed by this initial focus on nation-building. Despite serious economic difficulties in the initial period and several other unifying factors, CARs have never established their regional economic groupings or joined other serious economic integrations in their entirety. In contrast to the EU and ASEAN, there has been no comprehensive regional trade agreement between CARs. Therefore, a fragmented trade policy and regulatory environment make it difficult for businesses to engage in cross-border trade within the region.

In time, CARs gradually became members of larger regional organizations such as the Commonwealth of Independent States (CIS), Eurasian Economic Union (EAEU), Collective Security Treaty Organization (CSTO), and Shanghai Cooperation Organization (SCO). There is no clear indication that all these organizations aimed to facilitate trade (except the EAEU). Even though some claim that the EAEU has not made a significant contribution to Central Asian regional integration, since not all CARs are members of the EAEU (only Kazakhstan and the Kyrgyz Republic are members). While the EAEU aims to promote economic cooperation and integration among its member states, Tajikistan, Uzbekistan, and Turkmenistan have taken a cautious approach to integration around the EAEU. Each country has its unique considerations and concerns when it comes to regional integration, which have influenced their decision-making processes.

Unlike other regional organizations such as the EU, the CIS does not have a supranational body with significant decision-making powers. Instead, it relies on consensus-based decision-making, which often leads to slow and ineffective decision-making processes. Consequently, the organization has been unable to address pressing issues and implement meaningful reforms.

In 1992, CARs joined the Economic Cooperation Organization Trade Agreement (ECOTA). However, the member states lack adequate infrastructure and institutions to properly utilize the available resources in the region. Tariff reductions have not yet been achieved by the original plan. Even though, ECOTA's weak progress does not necessarily mean that economic cooperation within the ECOTA region has broken down. Instead, alternative approaches or agreements are needed to improve trade and economic integration.

Later, in 1994, there was established the Central Asian Cooperation Organization (CACO) by Kazakhstan, the Kyrgyz Republic, and Uzbekistan, however, Tajikistan and Turkmenistan did not participate. The CACO has been dissolved since 2005. One of the main obstacles was the lack of a clear institutional framework and mechanisms for decision-making and implementation. This hindered the organization's ability to effectively address regional issues and deliver concrete results.

Despite these failures, international organizations and multilateral development banks have been providing substantial support to regional cooperation in Central Asia since independence and the

ADB was the first institution to plan regional integration in the region. It is noteworthy that in 2001, the Central Asian Regional Economic Cooperation (CAREC) was established to promote economic cooperation and development. The ADB has been a key partner and supporter of CAREC since its inception, helping to enhance regional economic cooperation and development throughout the region and beyond. The initiative aims to improve regional connectivity, facilitate trade, develop energy infrastructure, and strengthen institutional capacity in the Central Asian region. CAREC has played a crucial role in promoting regional economic integration by facilitating dialogue and cooperation among its member countries.

CARs have adopted a multivector foreign economic policy, relying primarily on China, Russia, and the EU for trading

A multi-vector foreign economic policy was adopted by the CARs after the collapse of the Soviet Union, which meant diversifying their trade partners and reducing their dependence on one country in particular. Consequently, China, Russia, and the EU have become the CARs' main trading partners, rather than their former CIS counterparts.

There is a high dependence on trade with China for the five CARs, with approximately 14-36% of trade share, respectively. Our finding indicates that Turkmenistan has the highest average trade share with China at 36.4%, following Uzbekistan at 21.8%, the Kyrgyz Republic at 18.33%, Kazakhstan, and Tajikistan at 14.1% and 14.3%, respectively. In addition, Chinese investors are becoming increasingly influential in the region. Essentially, China built its first links to the Central Asian economies decades ago and the Belt and Road Initiative (BRI) is a new, more advanced phase of the cooperation. According to the China Global Investment Tracker of the American Enterprise Institute, the total volume of Chinese investment to CARs from 2005 to 2020 amounted to USD 50 billion of which USD 35.58 billion went to Kazakhstan, 4.73 billion to the Kyrgyz Republic, 2.15 billion to Tajikistan, and 5.79 billion to Uzbekistan.⁸ CARs serve as a major corridor between China and Europe. The two of six BRI corridors have been implemented in the Central Asian region (CCWAEC⁹ and NELB¹⁰), each with its own set of trade and investment opportunities. Silk Road Briefing reports that China's trade with the five CARs increased to 70.2 USD billion in 2022 from 0.46 USD billion in 1992,¹¹ when China established diplomatic ties with the five CARs after the disintegration of the Soviet Union.

Along with China, the CARs maintain strong bilateral relations with the EU. Among Central Asian export destinations and import sources in 2000, the EU ranked second after Russia in terms of exports and third in terms of imports. The EU, however, holds the position as Central Asia's largest export market in part since products such as cotton or oil are traded on European exchanges or are sold to companies in the EU, regardless of where they ultimately go. Due primarily to the resource boom, Central Asian exports to the EU increased. From 2000 to 2022, Kazakhstan's oil imports to the EU increased by nearly 960%. In recent years, Kazakhstan has emerged as the EU's third-largest oil supplier after Russia and Norway. However, the volume of trade between the CARs for which the EU is the primary partner has decreased by 26.8% since 2019 due to the Western sanctions against Russia. Sanctions imposed on Russia may pressure the EU to change its behavior, but they may have unintended consequences for the EU's trade with Central Asia, which may prevent them from

⁸ American Enterprise Institute, 2022. China Global Investment Tracker. Available at: <https://www.aei.org/china-global-investment-tracker>

⁹ CCWAEC: China–Central Asia–West Asia Economic Corridor

¹⁰ NELB: New Eurasian Land Bridge

¹¹ Silk Road Briefing from Dezan Shira and Associate, 2023. 'Impact Scenarios Should the EU Impose Secondary Sanctions on Central Asian Economies for Providing Parallel Exports to Russia?' Retrieved in April 2023. Available at: <https://www.silkroadbriefing.com/news/2023/04/19/>

engaging with and supporting the economic development and stability of the region. These consequences include trade disruptions, energy dependence, geopolitical shifts, transportation route disruptions, economic interdependence, and political considerations.

Considering the medium-term effects of sanctions against Russia, and the global cost-of-living crisis, Central Asia is likely to suffer large and negative economic consequences. Consumer spending will be reduced, and economic growth will be slowed due to the rising costs of food, energy, and other essential goods. In particular, this will pose a challenge to countries such as the Kyrgyz Republic, Tajikistan, and Uzbekistan, which rely heavily on remittances from migrant workers (Russia is the main destination of CARs migrants) to maintain their economic stability. With a share of GDP of 41% and 31%, Tajikistan and the Kyrgyz Republic rank as the first and the second, respectively, among regional economies; remittances remain by far these countries' most important source of hard currency income.¹²

Kazakhstan and Russia's trade share increased by 23%. Despite the conflict between Russia and Ukraine a total of USD65.8 billion in exports from Kazakhstan were recorded between January 2022 and September 2022, an increase of 47.5% over the same period in 2021. A significant increase in Kyrgyz Republic's bilateral trade with Russia by 32.5%. Exports from the Kyrgyz Republic increased by 2.4 times. In the past five years, Uzbekistan and Russia's bilateral trade has grown by 18.5%, with exports to Russia rising by 39%. Tajikistan's trade share with Russia remained at 23.3% while Turkmenistan and Russia held a 6% share.

Central Asian trade relations with China, Russia, and the EU have evolved. The BRI and China's energy requirements have driven China's engagement in the region. Historically, Russia has been an important trading partner because of its geographical proximity and historical ties. The EU's commitment to economic development and stability has increased trade cooperation. All three partners play an important role in shaping Central Asia's trade landscape, despite their unique dynamics.

Policy recommendations:

1. CARs often share similar economic interests and face similar challenges, such as poverty, unemployment, or inadequate infrastructure, due to regional cooperation. Therefore, it is possible to achieve this goal through bilateral or multilateral trade agreements. Trade agreements and regional cooperation are two of the most effective methods of deepening economic integration among the CARs. Regional cooperation can enhance connectivity, facilitate trade flows, and attract more foreign investment by harmonizing regulations, reducing trade barriers, and promoting cross-border infrastructure projects.
2. Cooperation with the CAREC program should be a priority for CARs to promote regional economic integration and sustainable development in the region. Since, in comparison with other wider organizations (such as CIS, EAEU, CSTO) that CARs joined, CAREC has played a crucial role in increasing trade and investment. It has also improved regional connectivity, strengthening economic institutions, improving energy security, and promoting sustainable development in the region.
3. Promoting trade openness and attracting FDI requires a favorable investment climate. By implementing policies that protect property rights, ensure transparency in regulations, simplify administrative procedures, and provide incentives for foreign investors, CARs can benefit from the growth of foreign investments.

¹² World Bank, 2023. World development indicators. Washington, DC.

4. The CARs are geographically interconnected, and they face common challenges including being landlocked, having limited access to water routes, and lacking adequate infrastructure. It is therefore essential to improve physical infrastructure to improve connectivity and facilitate trade flows. Roads, railways, and airports are just some of the transportation networks CARs can upgrade or build. As a result, transportation costs will be reduced, logistics efficiency will be enhanced, and access to global markets will be made easier.
5. Central Asia's economic integration needs to streamline customs procedures and simplify cross-border trade procedures. As a result of the implementation of modern customs regulations, efficient and effective customs systems, electronic customs clearance systems, transparency, the reduction of bureaucratic obstacles, and the implementation of digital solutions, goods can be moved more quickly.
6. Diversifying exports can help CARs increase their participation in global value chains, reduce dependence on a single market, and enhance trade openness. Countries that are overly dependent upon a small number of commodities or markets may be vulnerable to external shocks. By providing targeted incentives, investing in research and development, fostering entrepreneurship, and facilitating access to financing, Central Asian governments can encourage the development of new export sectors.
7. CARs can establish mutually beneficial partnerships with China by leveraging their historical ties and geographic proximity. Numerous benefits can be gained by Central Asia from close cooperation with China. As part of the BRI, China's FDI through BRI may provide CARs with opportunities for economic growth, infrastructure development, and regional connectivity. On the other hand, CARs can benefit from energy cooperation to meet China's growing energy demand. Furthermore, CARs have been exploring various initiatives to enhance regional economic integration with other countries, particularly with China. The geographical proximity of Xinjiang to the CARs has made it a focal point for trade and economic cooperation. The establishment of a pilot free trade zone in the Xinjiang Uygur Autonomous Region further underscores the combined efforts made by central and local governments to strengthen economic ties. As a gateway between China and Central Asia, Xinjiang plays a crucial role in regional economic integration. A vital transit point between the two regions, the region serves as a hub for trade and investment flows. Moreover, the cultural diversity and historical connections between Xinjiang and Central Asia provide a solid foundation for deeper engagement and collaboration between the two regions. As a result of Xinjiang's unique geographical and cultural location, stakeholders hope to enhance regional economic integration through its potential as a bridge.