

Strategies of Regional Economic Integration and WTO Accession in Central Asia

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Abstract

This study debates the roles of trade liberalization and regional economic cooperation for the sustainable economic growth of the Central Asian countries. An economic research paradigm was used to obtain a macro view from the perspectives of Kazakhstan and neighboring countries. In general, factors that enhance regional trade development and regional economic integration include improving business environment, increasing trade policy coordination, accelerating trade liberalization, and increasing economic cooperation. Selected policies and practical implications are identified, which facilitate enhancing free trade agreements and regional economic cooperation, coordinating WTO accession, and creating a systematic monitoring organization.

Keywords: *International trade, trade policy, regional trade, regional cooperation, cross-border trade, regional economic integration, WTO, Central Asia*

JEL Classification Codes: F02, F15, F18, F42

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1. Introduction

Central Asia is a vast landlocked region of steppe, desert, and various mountain ranges in the center of the Eurasian. It stretches from the winter freezing Siberia in the north to the summer humid of Pakistan and India in the south, and is bordered on the geographical diversity of China inland in the east and to the Caspian Sea in the west. For most people, Central Asia comprises of the five former Soviet republics of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan in Central Asia, along with Xinjiang, which is a province in northwestern China. The nations of Central Asia are a conglomeration of people with a combined population estimated to be about 61 million at the end of 2006. The total area is sparsely settled with a population density of about 13 inhabitants per square kilometer.

Central Asia has an abundant supply of mineral resources that include petroleum, natural gas, and rare metals. Kazakhstan, Turkmenistan, and Uzbekistan are the three main oil and gas exporters in the region. Farming, the regional primary industry, is in line with the climactic and natural conditions of the region. Cotton is one of the main products for the Central Asian countries. The countries of Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan are the world top producers of cotton. Livestock and grain industries are important for a number of the Central Asian countries. Most of these countries are in transition from the centrally-planned agricultural production to the market-oriented manufacturing industries.

Since its separation from the Union of Soviet Socialist Republics (USSR) its economic transition has continued. The gross domestic product (GDP) growth rates on average also have continued higher than those of other developing countries. During the period from 2001 to 2006 the average annual GDP growth rate was 8.9 percent in Central Asia as compared with 6.5 percent in other developing countries (see Table 1 for details). GDP grew faster, particularly during the period from 2001 to 2006, due to high oil and gas prices in the world market. The hydrocarbon exporters - Kazakhstan, Turkmenistan, and Uzbekistan - accounted for much of the regional growth. Most of the non-oil exporters also saw higher growth in 2006, which benefiting from higher non-oil commodity prices and from worker remittance inflows.

Asian Development Bank (ADB, 2007b) forecasts that the growth of the region will continue with expanding their capacities to meet the larger demand from growing Asian economies, particularly from that of the People's Republic of China (PRC). Foreign direct investments (FDI) in hydrocarbon industries are expected to grow, especially in Kazakhstan. Uzbekistan is also expected to see further increases in FDI, particularly by the Russian Federation and the PRC. The growth prospect of Central Asian countries has benefited from their efforts improving the private sector investment climate and doing business environment. In Kyrgyzstan and Uzbekistan the tax regime is being streamlined. In Kazakhstan private companies are benefiting

from competition law and from reforms in business registration and licensing procedures. ADB Chief Economist Ifzal Ali said, "The region has progressed for structural reforms in areas such as small-scale privatization, banking and infrastructure reforms. However, there is a need for additional reforms in other areas such as governance and enterprise restructuring."

Table 1: Gross Domestic Product Growth Rates in Central Asia

Country name/year	2001	2002	2003	2004	2005	2006	2007	2008	Average
Kazakhstan	113.5	109.8	109.3	109.6	109.7	110.6	108.9	104.5	109.5
Kyrgyzstan	105.3	100.0	107.0	107.0	99.8	102.7	108.2	107.5	104.7
Tajikistan	109.6	110.8	111.0	110.3	106.7	107.0	107.8	106.0	108.6
Turkmenistan	120.4	115.8	117.1	114.7	109.0	109.0	111.6	110.8	113.6
Uzbekistan	104.2	104.0	104.4	107.7	107.0	107.3	109.5	108.0	108.6
Central Asia average	110.6	108.1	109.8	109.9	106.4	107.3	109.2	107.4	108.9
Developing countries average	104.3	105.0	106.7	107.7	107.5	107.9	n.a.	n.a.	106.5

Note: Gross domestic product growth rate is presented as percentage of previous year, as of the base year 2000.
Source: The authors compiled the data from International Monetary Fund (2007), World Economic Outlook 2007 Report. <http://www.imf.org/external/pubs/ft/weo/2007/02/pdf/text.pdf>.

Table 2: Main Indicators of Socioeconomic Development of Central Asia, as of year 2006

Country	(1) Population	(2) Employed population	(3) GNI per capita	(4) GDP growth	(5) Industrial output	(6) Investment in Fixed capital	(7) Retail turnover
Kazakhstan	15.4	7.4	5,291	110.6	107.2	111	114
Kyrgyzstan	5.2	2.1	440	102.7	89.8	118	116
Tajikistan	7.1	2.1	330	107.0	104.9	155	112
Turkmenistan	6.7	*n.a.	*n.a.	109.0	122.0	n.a.	126
Uzbekistan	26.7	10.2	510	107.3	110.8	109	108

Notes: *n.a. refers to "data not available."
 (1) Number of population at the end of year 2006, million persons
 (2) Number of employed population, annual average of year 2006, million persons
 (3) Gross domestic product per capita in US dollar, 2006
 (4) Gross domestic product growth, as percentage of previous year, at constant prices, 2006
 (5) Volume indices of industrial output, as percentage of previous year, 2006
 (6) Volume indices of investment in fixed capital, as percentage of previous year, 2006
 (7) Volume indices of retail turnover through all channels of sales, as % of previous year, 2006
Source: The authors compiled the data from the Agency of Statistics of the Republic of Kazakhstan (2007). Statistical Yearbook of Kazakhstan 2007

The 2006 per capita income in most of the Central Asian countries was less than 1,000 US dollars, except in Kazakhstan of 5,291 US dollars (see Table 2 for details). Based on existing trends, Kazakhstan is looking forward to the possibility of catching up with the middle-income countries within the next decade. In addition to her oil and gas exports, Kazakhstan has devoted her efforts to expand regional

trade with other Central Asian countries. As the result, Kazakhstan has created a trade market of significant impact on its economic growth. Therefore, this paper focuses on answering the following questions: What are factors that can promote trade development and regional economic integration in Central Asia? What are challenges faced by the Central Asian countries in their accession to WTO and integrating regional economies? What are possible recommendations for the policy makers of Central Asia to accelerate trade development and economic integration in the region?

2. Factors Promoting Trade Development and Regional Economic Integration

2.1. Improving Doing Business Environment

Potential investors and entrepreneurs in Central Asia face complex regulations, cumbersome licensing procedures, and other institutional obstacles that are often unclear and usually inconsistent with the rules commonly practiced in the rest of the world. This environment generally deters investors and entrepreneurs from participating in business investments because of unnecessarily high operating costs. As shown in Table 3, most entrepreneurs in Central Asia spent close to 35 percent of their time solving problems related to governmental regulations. On average, it took 34 days to start a business and about 235 days to acquire licenses in Central Asia compared with 6 days and 129 days respectively for Singapore, the most business-friendly economy in the world in the year of 2007.

Table 3: Doing Business Environment in Central Asia

Country	Starting a business time (days)	Dealing licenses time (days)	Registering property time (days)	Credit information index (0-6)	Investor protection index (0-10)
Kazakhstan	20	248	52	4	5
Kyrgyzstan	21	218	8	3	6
Tajikistan	67	187	37	0	1
Uzbekistan	29	287	97	0	4
Central Asia average	34	235	48	2	3
Singapore	6	129	9	4	9

Note: Data are not available for Turkmenistan
Source: The authors compiled the data from the World Bank (2007), Doing Business 2007 Report. [Http://www.doingbusiness.org/documents/DoingBusiness2007_FullReport.pdf](http://www.doingbusiness.org/documents/DoingBusiness2007_FullReport.pdf)

There are various options to improve institutional environments for doing business in the region such as a reduction of excessive regulation, simplifying licensing requirements, and removing bureaucratic barriers that impede the normal process of business investments. In addition, a well functioning legal system that supervises the economic process to ensure transparency and equal justice is equally important in promoting investment and economic growth. Among these countries,

Kazakhstan is the one country that has strived to improve doing business environments and has achieved a significant progress (see Figure 1).

In Figure 1, the numbers that range from 0 to 180 indicate that the highest score (for example, 180) indicates the most worsen state of doing business environment. Kazakhstan had a score of 60 in the year 2005, but it worked diligently to reduce obstacles to get a score of about 40 in the year 2006. Figure 1 indicates that Kyrgyzstan also reduced obstacles to have a score of 70 in the year 2006 from 80 in the year 2005. The scores for other countries such as Uzbekistan and Tajikistan remained unchanged between 2005 and 2006. This suggests that among the Central Asian countries the governments of Kazakhstan and Kyrgyzstan have been working hard to improve their doing business environments.

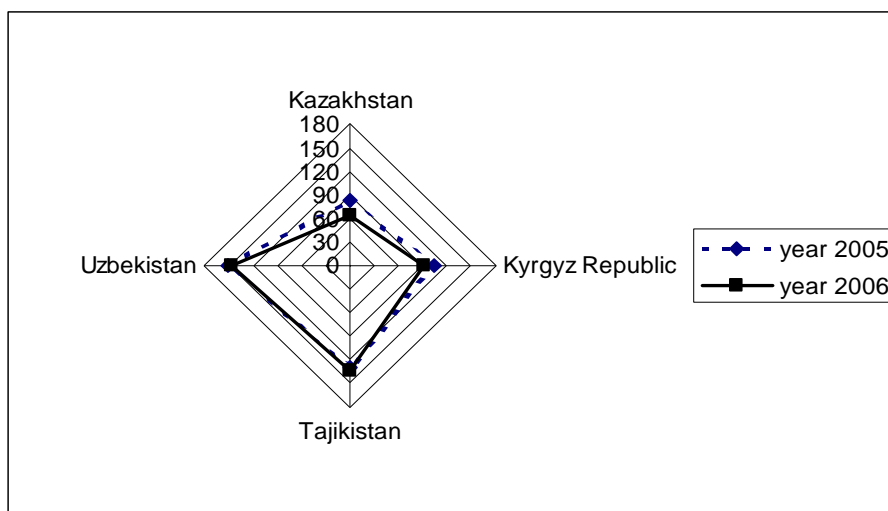


Figure 1: Changes of Rankings on the Ease of Doing Business in Central Asia (2005-2006)

Source: The authors compiled the data from the World Bank (2007), Doing Business 2007 Report. [Http://www.doingbusiness.org/documents/DoingBusiness2007_FullReport.pdf](http://www.doingbusiness.org/documents/DoingBusiness2007_FullReport.pdf)

2.2. Increasing Economic Cooperation in Central Asia

After gaining independence in 1991 from the former Soviet Union, Central Asia faced the twin challenges of nationhood building and transition to a market-based economy. These tasks were made particularly formidable by a number of long-term development factors characterized by landlocked location and remoteness from major world markets, small domestic markets, and efficient use of complementary resource endowments especially in water and energy. These challenges lead to an idea that developing regional markets can save heavy transport costs and create advantage of the economies of scales. Joint actions of the member states should

meet these challenges effectively to raise the living standards of the people in the region. This is the fundamental reason for regional economic cooperation. Some progress of the regional economic cooperation of Central Asia is the following:

The Commonwealth Independent States (CIS) as a geopolitical entity is a confederation consisting of 11 former Soviet Republics: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Ukraine, and Uzbekistan. Since its formation the member states of CIS have signed a great number of documents concerning integration and cooperation on matters of economics, defense and foreign policy. The signatories of CIS seem to believe their goals would be accomplished what was referred to as a unified economic space. Many of these arrangements adopted at the time of CIS creation were intended to coordinate monetary, customs, employment, tax, and investment policies. The CIS issued a declaration to establish an economic union in May 1993 and signed an economic union treaty in September 1993. The goal was to foster a free trade area, reduce internal tariffs, create standard external tariffs, and establish a system for payments and settlements. The treaty was buttressed by a series of impressive sounding but ultimately ineffectual subsidiary agreements on free trade (April 1994), payments (October 1994) and customs (January 1995), legal harmonization (January 1996), customs classification lists (February 1996), and railway tariffs (October 1996). In reality, the CIS agreements incorporated little in the way of effective sanctions and enforcement powers. These agreements expressed intentions, but did little to create working mechanisms.

The Central Asia Regional Economic Cooperation (CAREC) Program is an Asian Development Bank (ADB) supported initiative that seeks to encourage economic cooperation among countries in Central Asia. The CAREC program was developed in early 1997 in order to promote economic growth and to raise the standard of living in Central Asia by encouraging economic cooperation. Participants in the program include ADB member countries in Central Asia, namely: Azerbaijan, People's Republic of China (focusing on Xinjiang Uigur Autonomous Region), Mongolia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan. The operational strategies of the program are to finance infrastructure projects and to improve the policy environment for promoting cross-border activities in the areas of transport, trade, and energy. Therefore, the three underlying strategic concerns are: 1) lessening the economic isolation of the region by the improvements of transport systems within Central Asia; 2) maximizing benefits from resources management by encouraging regional energy trade based on market principles and by rehabilitating existing infrastructure; and 3) ensuring a policy environment favorable to trade and traffic to and from the region (ADB, 2007a).

The Eurasian Economic Community (EAEC) was formally created when the treaty was finally ratified by the five member states - Belarus, Russia, Kazakhstan, Kyrgyzstan, and Tajikistan - in May 2001. Uzbekistan became the newest member

on January 2006. With the revival of EAEC in 2005, the possibility to implement the common economic space in its original framework has greatly increased. On October 2007 it was announced that a customs union would be formed by Russia, Belarus, and Kazakhstan no later than 2011, so thus other members will be able to join later (Xinhua News, 2007). The aims of EAEC include full scale customs union and common market; harmonization of customs tariffs; establishment of the general rules of trade in goods and services.

The Economic Cooperation Organization (ECO) is an intergovernmental regional organization established in 1985 by Iran, Pakistan and Turkey for the purpose of promoting economic, technical and cultural cooperation among the member states. In 1992 ECO was expanded to include seven new members: Afghanistan, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan. ECO has developed into a thriving regional organization despite its young age. Over the past years, the member states have been collaborating to accelerate the pace of regional development through their collective endeavors. Besides shared cultural and historic affinities, they have been able to use the existing infrastructural and business links to fortify further their resolve to transfer their hopes and aspirations into a discernible reality. ECO has embarked on several projects in priority sectors of its cooperation including energy, trade, transportation, agriculture, and drug control. Nevertheless, the organization faces daunting challenges with respect to the realization of its objectives and goals. Most importantly, the region is lacking in appropriate infrastructure and institutions that the organization is seeking to develop to make full use of the available resources in the region.

The Central Asian Cooperation Organization (CACO) is an international organization composed of Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, and Russia. The current member nations - minus Russia and Tajikistan, plus Turkmenistan - formed CACO in 1991 as the Central Asian Commonwealth. Turkmenistan eventually withdrew from the organization. Tajikistan and Russia joined in 1998 and 2004 respectively. The CACO objective is to enhance the development of economic integration in the region, to perfect the forms and mechanisms of expanding the political, social, scientific-technical, cultural and educational relations among the member states.

2.3. Enhancing Trade Policy Coordination in Central Asia

The CAREC programs have focused on customs modernization and cooperation in order to facilitate cross-border trade. CAREC has supported measures to facilitate trade and transport goods as well as people in the region. These measures include the use of information technology for automated customs services and data exchanges; risk management and post-clearance audit; joint customs control and single window practices; and regional transit development (ADB, 2007a). The results include ADB support for bilateral trade and data sharing agreements; pilot

testing of joint-border processing; continued support for regional trade financing from European Bank for Reconstruction and Development (EBRD); the support of United Nations Development Program (UNDP) for trade facilitation under Phase II of the Silk Road Area Development Program; joint EC/UNDP support for improving the effectiveness of border management through the Border Management Program for Central Asia; and prepared trade studies on individual countries of the region.

The Trade Policy Coordinating Committee of CAREC addresses trade liberalization in the context of World Trade Organization (WTO) and appeals to non-WTO members in the region to become WTO members. The committee further addresses bilateral and multilateral trade agreements in Central Asia with a view of minimizing trade distorting effects. The committee has undertaken the assessments of current trade policies and trade policy initiatives including comparative advantages in trade for Central Asia; regional trade agreements; and barriers to trade in Central Asia and the benefits of removing these barriers. The April 2004 Senior Officials Meeting (SOM) called for the creation of a Trade Policy Coordinating Committee (TPCC) with supports from International Monetary Fund (IMF). On 12 September 2004 the committee convened its first meeting to draft work agenda for TPCC as well as to present the results to SOM for approval. At the second TPCC meeting participants discussed the draft papers on trade barriers in Central Asia (prepared by ADB), regional trade agreements and WTO accession (prepared by IMF), and potential comparative advantages of cross-border trade in Central Asia.

2.4. Accelerating Reforms of Trade Policies in Central Asia

Since 15 June 1997 Kazakhstan has implemented the codes of the combined nomenclature (CN) system that conforms to the international unified system of commodity nomenclature (harmonized system: HS 96). Adoption of the system has simplified the procedure of license issuance for export and import of goods. Thus, it provides more favorable conditions for carrying on external trade instead of bring the procedures of licensing intra-regional exports and imports of goods into conformity with international standards and rules. Kazakhstan has embarked in the step-by-step process of creating equal conditions for domestic production and import excise tax by introducing uniform rates for alcoholic drinks and oil. The Kazakhstan government has abolished tax and tariff duties on foreign investors and removing imports of commodity groups to excise taxation in line with fostering competitive medium. While Kazakhstan has undertaken notable trade policy reforms since 2002, major trade policy reforms by other Central Asian countries especially in Uzbekistan and Tajikistan have been continued very slowly (World Bank, 2007).

3. Challenges to Trade Development and Regional Economic Integration

3.1. Limiting Cross Border Trade in Central Asia

Cross border trade can contribute significantly to economic development by improving the balance of payments, attracting FDI and promoting competition. However, Kazakhstan trades minimally with the rest of Central Asian countries. As shown in Table 4, Kazakhstan exports to the rest of the region only about 2.2 percent of the total and imports about 2.6 percent of the total external trade in 2006. The major factors limiting the regional economies include the commodity based structure, restrictive trade policies, high tariffs, heavy transport costs, underdeveloped infrastructure, and cross border barriers.

Table 4: External Trade of Kazakhstan with Other Central Asian countries (unit: in million US dollars, () as % of total)

	Country	2004	2005	2006
Export to	Kyrgyzstan	220.0 (1.1%)	225.5 (0.8%)	267.8 (0.7%)
	Tajikistan	136.1 (0.7%)	150.6 (0.5%)	157.3 (0.4%)
	Uzbekistan	201.7 (1.0%)	242.6 (0.9%)	384.7 (1.0%)
	Turkmenistan	26.1 (0.1%)	17.3 (0.1%)	20.7 (0.1%)
	Central Asia total	583.9 (2.9%)	636.0 (2.3%)	830.5 (2.2%)
	Russia	2838.1 (14.1%)	2927.1 (10.5%)	3731.1 (9.8%)
	China (PRC)	1967.3 (9.80%)	2423.9 (8.70%)	3592.5 (9.4%)
Import from	Kyrgyzstan	91.2 (0.7%)	118.6 (0.7%)	138.9 (0.6%)
	Tajikistan	3.5 (0.0%)	17.0 (0.1%)	27.7 (0.1%)
	Uzbekistan	227.6 (1.8%)	254.5 (1.5%)	319.1 (1.3%)
	Turkmenistan	75.6 (0.6%)	50.7 (0.3%)	132.6 (0.6%)
	Central Asia total	397.9 (3.1%)	440.8 (2.6%)	618.3 (2.6%)
	Russia	4812.5 (57.7%)	6591.2 (38.0%)	9072.9 (38.3%)
	China (PRC)	758.2 (5.90%)	1251.8 (7.20%)	1924.9 (8.10%)

Source: The authors compiled the data from the Agency of Statistics of the Republic of Kazakhstan (2007). Statistical Yearbook of Kazakhstan 2007

The presence of numerous trade barriers pertaining to trade policy in Central Asia has constrained the growth of intra-regional trade and external trade with other countries. The crucial trade barriers in Central Asia include relatively high tariffs in Kazakhstan and Uzbekistan, a complex tariff schedule, and frequent as well as unpredictable changes in the tariff schedule. Other trade barriers in Central Asia include high transport costs and low quality of logistics services for international shipments to and from Central Asia. Lack of competition is one of the main reasons for the low quality and high costs of transport services. See Table 5 for details.

Heavy reliance on exports of a few primary commodities makes Central Asia vulnerable to the abrupt price swings of these commodities at the time of volatile world market and complicates trade management and economic development. Consequently, Central Asia as a whole derives relatively little benefits from external

trade in attracting diversified FDI and in fostering the sustainable economic development of the region.

To some extent Kazakhstan has the potential to be an engine of economic growth in the region if all governments are willing to make the necessary political commitment, invest adequately in their infrastructures, and enforce liberal trade and transit policies. The neighbors of Kazakhstan can benefit from its investment, energy export, and relatively advanced financial sector. Greater cooperation among the countries could provide all of them with significant opportunities for the sustainable economic growth of the region.

Table 5: Doing Business Indexes of Trading Across Borders in Central Asia

Country	Documents for export (number)	Time for export (days)	Cost to export (USD \$)*	Documents for import (number)	Time for import (days)	Cost to import (US\$)*
Kazakhstan	14	93	2,780	18	87	2,880
Kyrgyzstan	n.a	n.a	n.a	18	127	3,032
Tajikistan	14	72	4,300	10	44	3,550
Uzbekistan	10	44	2,550	18	139	3,970
Central Asia	12.6	69.6	3,210	16	99	3,358
Singapore	5	6	382	6	3	333

* US dollars per container / Turkmenistan data not available

Source: The authors compiled the data from the World Bank (2007), Doing Business 2007 Report. [Http://www.doingbusiness.org/documents/DoingBusiness2007_FullReport.pdf](http://www.doingbusiness.org/documents/DoingBusiness2007_FullReport.pdf)

3.2. Slow process of WTO accession in Central Asia

In parallel with the development of various regional economic cooperative organizations, the Central Asian countries have pursued WTO membership with a varying degree of success. While Kyrgyzstan joined WTO in 1998, other countries are at different stages of the accession process, see Table 6 for details. Among them, only Kazakhstan has made considerable headway in revising its national legislation in line with the WTO requirements and is at an advanced stage of the accession process with an active program of Working Party meeting in recent years.

Table 6: Status of Central Asian Countries in Accession to WTO (as of 27 July 2007)

Country	Applied	Working Party Meetings	Member/Status
Kazakhstan	January 1996	8 meetings (1997-2006)	Observer
Kyrgyzstan	1993		December 1998
Tajikistan	May 2001	3 meetings (2004-2006)	Observer
Uzbekistan	December 1994	3 meetings (2002-2006)	Observer

Turkmenistan has not applied to accession until 27 July 2007.

Source: The authors compiled the data from the World Trade Organization (2007). [Http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm)

A country needs to implement a broad range of policy and institutional reforms including liberalizing trade policy and improving the legal and regulatory

framework for international trade in order to join WTO. Once it joins WTO, a country must conduct trade with other WTO members in accordance with pre-agreed rules. This means that accession to WTO can help Central Asia liberalize trade policy at relatively low costs and expand trade rapidly to markets available in a large number of WTO member countries (in total 153 WTO members as of October 2008). Accession to WTO can also help Central Asia fully realize its bilateral trade potential vis-à-vis these countries and diversify its trade in different geographical locations. Furthermore, WTO membership can help Central Asia reduce its vulnerability to possible protectionist measures against trading partners and make trade liberalization irreversible, in which should make the policy environment more predictable and conducive to trade, investment and economic growth.

The potential benefits of joining WTO will be increased over time as more of its neighbors and trading partners accede to WTO. For example, Kyrgyzstan has not been benefited much from its accession to WTO in 1998. One possible reason is that all of its neighbors and its key trading partners such as Russia and China were non-WTO members at the time. The Kyrgyzstan government did not effectively coordinate its trade policy with neighboring states and acceded to WTO with tariff bindings, in which were substantially lower than tariffs prevailing in the region. In response, some of its neighbors imposed tight restrictions on imports from Kyrgyzstan in an effort to prevent deflection of their trade with other countries through Kyrgyzstan. However, the situation has changed significantly since 2001. Most notably, China acceded to WTO in 2001 and Russia and Kazakhstan are likely to join WTO in very near future. Continuing rapid economic growth and the attendant increase in the two large countries – China and Russia - will create an opportunity for Central Asia to boost exports and its sustainable economic growth.

It should be pointed out that WTO membership does not and will not preclude regional economic cooperation in trade policies. In fact, Central Asia can pursue several options to achieve regional economic cooperation within a multilateral framework. These include concerted but nondiscriminatory trade liberalization, coordination of negotiating positions in the accession process to WTO, and joint efforts with other developing countries and neighboring countries to push for the elimination of certain agricultural product subsidies in developed countries. From a broader perspective, greater access to markets outside of the region remains very important. Consequently, WTO membership for Central Asia should improve its exports, enhance competition, promote cost competitiveness, and increase FDI inflows to the region.

4. Discussion and Policy Implications

Central Asia has made considerable progress in expanding market based trades with international communities and gradually integrates into the global economy.

Its merchandise trade grew rapidly during the 2001–2006 period. In comparison, the growth of trade in Kyrgyzstan, Tajikistan, and Uzbekistan was slower than that of Kazakhstan. Overall the trade expansion of Central Asia has been relatively modest, if exports of crude oil and oil related products and imports of capital goods for oil sector development were excluded. Better yet, each of the countries appears to have greater potential for additional growth in individual as well as the overall trade levels. Therefore, Central Asia should further implement international trade policies that can provide industrial sectors with an outward orientation and increase the pressures of international competition to bring about a positive supply response and increased efficiency. However, many developing countries including many of the Central Asian countries continue to practice protective trade policies. These protective policies lead to not only excessive bureaucratic interference in effective resource allocation but also limit international competitiveness.

Free trade agreements, either bilaterally and/or multilaterally in Central Asia, have not been implemented for a very long time and may expect additional complications in the future. The effects of the Central Asia economic cooperation on the economic integration of the region will likely depend on individual free trade agreements among the countries of the region. Central Asia will have to develop and institutionalize a cooperation framework that accommodates diversity (see ADB report, 2006; Badykova, 2006; Grafe et al., 2005; Olimova et al., 2006; Paramonov et al., 2006; Parkash, 2006; Zardykhan, 2002) in order to achieve comprehensive economic integration. The current regional cooperation has not made any substantial progress in the area of trade liberalization. Broader cooperation among the member countries is necessary in order to strengthen the capacity and competitiveness of the countries since the full liberalization requires a certain level of institutionalization.

The potential benefits of WTO membership for Central Asia are considerable, especially after WTO accession of China in 2001. These benefits will increase significantly after more countries such as Kazakhstan and Russia join WTO in the near future. In order to realize the full benefits of WTO membership, Central Asia and its neighboring countries are necessary to become WTO members. On the other hand, WTO membership does not preclude regional economic cooperation in trade policy. In fact, several options for such cooperation are available at this time for Central Asia to pursue within the multilateral framework. Of these, nondiscriminatory trade liberalization and joint efforts to WTO accession are pivotal efforts for Central Asia.

Many developing countries are setting up protective trade barriers, which make exports more difficult. This should not be an ideal way to advance regional trade. One possible solution would be to promote regional economic integration among developing countries (e.g., within the Central Asia region) and then increase regional free trade to alleviate their dependency on developed countries for

exports. For non-WTO members, however, increased regional trade may further intensify the barriers to their international trade. Such a potential result is in conflict with their efforts toward international trade and free market system. The policy makers should consider how WTO rules guide regional trade to be compatible with international trade principles. The complementary path between regional and international trade relies on a nation's trade policy reforms and its effort in dismantling trade barriers.

Central Asia can further benefited from full regional economic integration that not only involves a certain degree of preferential trade liberalization but also increased regional economic cooperation in transport, customs transit, and other areas of free trade facilitation. The positive effects of increased regional economic integration in trade development can more than offset the negative effects of preferential trade liberalization. This is more likely to be a case, when preferential trade liberalization is accomplished by international trade liberalization resulting in fairly low non-preferential policy toward trade barriers.

Kazakhstan as a country with a considerable amount of international trade surplus should not be overly concerned with its regional trade deficit with other Central Asian countries. The larger international trade surplus provides a basis for Kazakhstan to be a financial leader of the region, to be the engine of regional economic growth, and to be in the forefront to remove and/or to reduce international trade barriers. To do this successfully, the Kazakhstan government should open up its own market in order to realize the benefits of international trade. Therefore, Kazakhstan has to be a major proponent of the open market agreements that liberalize its markets for international free trade in the region.

The intent of this study and its findings should help Central Asia to realize and increase gains from participating in and reduce costs associated with conducting international trade. To achieve these objectives, governmental officials and policy makers in the region should consider the followings: (1) Governments should review various regional trade agreements and analyze the possible relationships and potential conflicts between existing and planned regional agreements among Central Asian countries. (2) Identify and implement what are the best efforts and practices for all Central Asian countries to join together WTO, and how to liberalize further regional trade policy on a nondiscriminatory basis as part of WTO accession process. (3) Intensify their efforts to promote regional economic integration such as the formation of a common market in Central Asia. (4) Consider the possibilities of establishing a mechanism to monitor the implementation of regional trade agreements and regional economic cooperation.

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