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CENTRAL ASIAN STATES: ON THE WAY FROM AUTARCHIC DEPENDENCE TO REGIONAL AND GLOBAL INTERDEPENDENCE

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Abstract

The paper undertakes the first attempt to re-calculate the main registered trade data of Central Asian states for the period 1991-1993. The aim is to achieve comparability of statistics on their total trade, as well as on trade with the republics of the former Soviet Union (FSU) and the rest of the world. Official publications contain such data only since 1994. On the basis of a restored time series for the 1991-1997, a more consistent evaluation of trends, dynamics and geography of Central Asian states' trade is made. Special emphasis is laid on problems and vulnerabilities (trade deficits, commodity structures and transit transport dependence), combined with impacts of external trade shocks that occurred in 1997-1998. In conclusion, the paper argues that further diversification of foreign trade on a market basis through export promotion could be the best option to cure existing weaknesses.

Key Words: Central Asian States in transition; External trade
JEL classification: F14; O19; O53; P33; P52

I. *Introduction*

Since the breakup of the former Soviet Union (FSU) in 1991, the five Central Asian states in transition — Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan — have been trying to move from previous autarchic dependencies towards greater openness in foreign economic relations and a new interdependence, regionally and globally. Trade performance is a key criterion to evaluate the efforts of the newly independent states to cushion the shocks from disruption of traditional economic ties, develop regional cooperation and integrate into the world economy. Divergence and convergence among the Central Asian states bear witness to the main economic trends, the degree of emerging interdependence and openness for better than numerous official statements and declarations.

It is common knowledge that in the FSU the overall statistical base, quality and reliability of trade data are poor. There is no adequate customs statistics system to cover all transactions inside the Commonwealth of Independent States (CIS). Changes in statistical methodology in 1990, introduction of national currencies with a transfer of trade accounts from the Russian ruble to the U.S. dollar in 1994, hyperinflation and an unprecedented price increase require one to be cautious about any time series for the period under consideration.

However, using all available sources (official national and international organizations, such as the CIS, EU, IMF and World Bank, as well as independent estimates of *the Economist* Intelligence Unit-EIU), it is important to analyze Central Asian states' external trade since their independence on the basis of comparable data. This article undertakes the first attempt to re-calculate the main trade data of Central Asian states with the other FSU countries, given in rubles for 1991-1993, in dollars at implicit exchange rates. On this basis, it is possible to identify the main trends, at least registered by statistics, including both trade: with the FSU states and the rest of the world for the entire period beginning with 1991. Official statistics contain such data only since 1994. For estimates and adjustments, the author relies on World Bank publications containing foreign trade statistics in the FSU [C. Michalopolos and D. Tarr, (eds.), 1994; M. Belkindas, and O. Ivanova, (eds.), 1995], the first and so far the only studies introducing a methodology and comparable key trade data for the newly independent states (NIS).

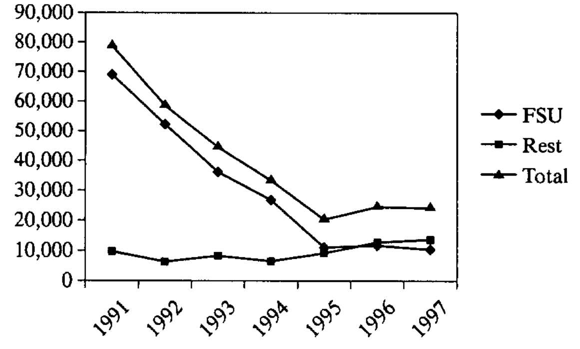
Methodologically, it is both possible and reasonable to choose 1991 as the base year, because data for both the 1991-1993 and 1994-1998 periods is founded on a new system of national accounts. Analytically, it is equally necessary and significant to start with 1991, because this can provide consistency and comparability of statistics for all years of independent development of the new states. Therefore, whenever the existing primary data permits, time series on Central Asian trade is re-calculated from 1991 up to 1998.

So, the aim of this paper is to examine and measure as accurately as possible the changes that have taken place in the external trade of the Central Asian states after independence, to identify major weaknesses preventing better integration with the global economy, and appropriate strategies to overcome them. The first section identifies the main problems in Central Asian states' external trade that have occurred at both initial and later stages since independence. The following four sections are devoted to analysis and statistical clarification of the principal trends in their trade with traditional partners, as well as regional and global trade diversification, for the whole period beginning with 1991. The sixth section presents a brief empirical study of the commodity structure of Central Asian states and the causes of the most recent external shocks they have suffered. The seventh section examines evidence of the monopolistic dependence on northern routes, and considers the challenges and prospects for alternative transit transportation. The conclusion includes a brief discussion of the most urgent policy options.

II. *The Main Stages and Problems in Central Asian External Trade since their Independence*

There have been two distinct stages in the dynamics of trade of all FSU states since independence. The first stage, 1991-1994, was mainly concerned with adjustments to the shocks of the sudden disintegration of the FSU and a sharp fall of mutual trade. The second stage, since 1995, has seen various attempts to keep reasonable trade relations with traditional trade partners and to enlarge ties with the rest of the world.

FIGURE 1. FOREIGN TRADE OF CENTRAL ASIAN STATES
(Total, with FSU and rest of the world), 1991-1997 (unit: U.S.$ million)



Within both periods, the Central Asian states faced additional difficulties connected with specific problems in the geographic and commodity structures of their external trade, that substantially affected total trade and economic growth. According to our estimates, the registered trade of Central Asian states in the first period decreased four times in four years. It was fully connected with an even sharper fall of trade with traditional partners in the FSU. Trade with the rest of the world had contributed to a fall of the total trade to a much lesser extent, and practically had begun to recover by the end of this period.

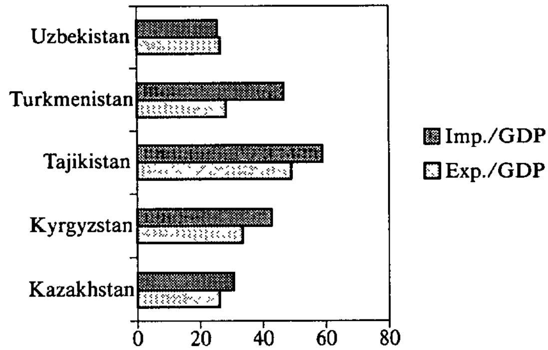
In 1995-1997, total trade had been slowly growing, mainly due to an increase of trade with the rest of the world and partial stabilization of registered trade with traditional partners. The latter trade had been fluctuating around the 1995 level, somewhat larger in 1996 and somewhat smaller in 1997. Two crucial developments were observed in the second period. In 1995, the decline in total trade bottomed down, and since 1996 the share of the trade with the rest of the world had become higher than of that within FSU, while the gap between two segments of the trade had been growing (See Figure 1).

Foreign trade had been playing an important role in all Central Asian countries before and after the disruption of the FSU. They have had higher ratios of exports and imports to their GDP than the average of the CIS in the whole period since its formation. In other words, all of them have a rather strong economic dependence on external trade.

At the same time, in majority of countries, the share of imports in GDP was higher than the share of exports. Kyrgyzstan, Tajikistan and Kazakhstan, for different reasons, had chronic trade deficits throughout almost the whole period, which were sizable in the former two countries in relative terms, and in the latter in absolute terms. Turkmenistan and Uzbekistan had better trade performances, but in the last two to three years they have been also faced similar problems.

In 1998, all of the Central Asian states (except Uzbekistan, two years earlier) suffered some of their biggest trade deficits since independence. As a percent of GDP, according to our calculations based on EIU estimates, these were extremely high in Turkmenistan (18.4 %), Tajikistan (9.9%) and Kyrgyzstan (9.2%). Kazakhstan's deficit actually fell 4.5%, but in absolute figures the trade deficit was about $1 billion, the largest in the region. Uzbekistan had somewhat smaller export and import to GDP ratios, but more balanced foreign trade compared to other Central Asian states (see Figure 2).

FIGURE 2. RATIOS OF CENTRAL ASIAN STATES' EXPORTS AND IMPORTS TO THEIR GDP, 1998 (%)



The following sections present a more detailed analysis of statistics and main causes of the sharp fall in external trade of Central Asian states since independence, as well as their recent trade balance problems.

III. *The Disruption of Autarchic Dependence and fall of the Trade within the CIS*

The breakdown of the FSU, followed by the strong decline of GDP, hyperinflation, and collapse of freight traffic volumes, intertwined with the huge shocks of disintegration of a single national economic entity. Before independence, the republics of the FSU had much more trade with each other than with outside countries. The dependence of the former Soviet republics on trade with each other was significantly higher, compared not only with Council for Mutual Economic Assistance (CMEA) countries, but with all other integrated groups of states, including European Union (EU). The share of mutual trade of the republics of the FSU, just before its disruption 1990, in their total GDP was 1.5 times more than within the EU. But the share of trade with countries outside the FSU was almost three times less than the share of trade between EU members and third countries in their GDP for the same year. Additionally, trade was highly concentrated, with some commodities produced by a single or very few producers. One third of the value of goods of the FSU were produced at single sites, resulting in strong dependence of all republics' economies on monopolist enterprises [See, Islamov (1991, pp. 31, 46)].

So, Central Asian republics were part of strongly integrated domestic and rather closed to foreign trade economy. This combination (too much dependence internally with few external ties, i.e., a rather specific kind of collective autarchy) is referred to here as autarchic dependence. It created an extreme vulnerability, under which even small shocks in intra-FSU trade could ignite a chain reaction of economic, financial and overall crises worse than situation in the world economy during oil crises of the 1970s. This actually happened in 1991, when the disintegration of the FSU led to a vicious spiral of enormous negative growth of outputs and trade declines.

As a result of the disruption of the FSU, within a short period of time, the share of total mutual trade of all NIS decreased abruptly. Their efforts to overcome the burden of the previous autarchic dependence and improve trade with non-CIS countries provided some relief, but could not tangibly offset the collapse of their mutual trade.

All existing estimates had indicated sharp drop of intra-FSU trade, which by 1993 fell to as little as one third of the total. This huge decline in interstate trade between 1991 and 1994, typical in all the NIS, was mainly caused by output declines that reduced demand for all imports. But, because of the extensive inter-linkages in production, the trade decline also worsened an output decline [Michalopolous/Tarr (1994,p.3)].

The disruption of the administrative command system and the state monopoly of trade, without the emergence of new market-based mechanisms for allocating resources, created additional factors that contributed to aggravating the situation. First were outstanding non-payment problems. Second was a worsening of the terms of trade in all Central Asian states (excluding Turkmenistan, which as a net-exporter of gas and oil was a gainer from a sharp increase of prices for energy resources in 1991-1992). Third was a shift of exportable commodities, whenever possible, to shadow transactions.

All these factors, above all the decline in output and in supply of exportable goods, along with the breakdown in the payments system, became largely responsible for the contraction of official interstate trade flows. This was accompanied by an increase of shadow transactions, but their volumes have not been properly measured yet. Available estimates indicate, though, that despite being sizable, they could not make up for the actual decline of output and exports.

Trade with traditional partners was more important to the economies of the Central Asian republics than to Russia or many other FSU states. According to our calculations, the average ratio of mutual trade of the FSU states to their GDP was 21.0% in 1991, but in Kazakhstan it was 31.0%, Kyrgyzstan 45.0%, Tajikistan 59.4%, Turkmenistan 48.6%, and Uzbekistan 33.1%. So, this ratio was from 1.5 to 2.8 times higher for Central Asian states compared to the average for the whole FSU. They were also characterized by higher dependence on trade with other states of the FSU. In 1991, total trade of Central Asians with other republics of the FSU was 87.7%, and respective shares for individual states were as follows: Kazakhstan 88.2%, Kyrgyzstan 89.6%, Tajikistan 83.0%, Turkmenistan 90.8% and Uzbekistan 86.6%.

Central Asia suffered much more than other republics, both from the high degree of product specialization (mainly on raw materials), the distorted system of financial transfer and price mechanisms. Because of the scissor effect of prices for raw materials and manufactured goods, even resource-rich republics and large net exporters of oil and gas, non-ferrous and ferrous metals, gold, cotton, grain and other tradable goods were among, so-called, heavily subsidized republics from the Center. These included Kazakhstan, Uzbekistan and Turkmenistan. But subsidies in certain cases had been compensation for distorted price and turnover tax systems, as was proved previously [see, Islamov (1994, pp. 207-214)].

Nevertheless, due to the disruption of both trade and financial flows, the raw material exporting countries had been affected by external shocks to a much greater extent at the beginning of their independent development than many other FSU states. In this paper, the author further argues that most of them suffered more from the shocks of fast disintegration of a single autarchic economic system, rather than from the loss of subsidies or other benefits.

According to new estimates made in this paper the registered trade of Central Asian states with traditional partners in the FSU decreased for two times in 1991-1993, and in the following two years even more than that. Overall, in seven years official trade with traditional partners declined nearly seven times, while the total trade less than 3.5 times.

TABLE 1. FOREIGN TRADE OF CENTRAL ASIAN STATES (Total, with FSU and Rest of the World), 1991-1997 (unit: U. S. $ million)

	1991	1992	1993	1994	1995	1996	1997
FSU	69,000	52,229	36,194	26,801	11,144	11,764	10,438
Rest	9,736	6,327	8,310	6,533	9,220	12,781	13,723
Total	78,736	58,556	44,504	33,334	20,364	24,545	24,161

Sources: calculated for 1991-1994 on the basis of *Foreign Trade Statistics in the USSR and Successor States, Studies of Economies in Transformation #18*, edited by M. Belkindas and O. Ivanova, The World Bank, Washington D. C., 1995, pp. 61-64; data for 1995-1997 from *Vneshneekonomicheskaya deyatel'nost' gosudarstv Sodrujestva: statisticheskiy sbornik*, Mejgosudarstvenniy Statisticheskiy Komitet SNG, Moskva, 1999, pp. 12, 92, 147, 187, 329.

The drop in the registered trade with FSU, mainly with CIS partners, bottomed out at a low level in 1995, and since then has been fluctuating around it. But it is also worth mentioning that the huge decline of the mutual trade in value terms was accompanied with even more substantial decrease of physical volumes of commodities exchange of Central Asian states within CIS. It was connected with an enormous price increase for all commodities after liberalization in 1992. These included their main exports and imports (foremost oil and gas, grain and cotton and all other goods, that had been much cheaper in FSU trade, compared to world prices).

Exportable commodities have been shifting steadily to the rest of the world. As a result, the share of the traditional trade, following a sharp fall in 1991-1995, has been decreasing in total Central Asian trade afterwards, as well. In the recent years, the share of the trade with the FSU states was less than the share for the rest of the world, and the gap between them was increasing. The ratio between the two segments of trade reversed from 7:1 in 1991 to 1:1.3 in 1997, in favor of trade with the rest of the world (Table 1.).

The share of traditional trade has dropped sharply both in absolute and relative terms. This was mainly connected with drop in trade with Russia. In 1997-1998, it was much less, compared with 1991, especially in Tajikistan, Turkmenistan and Uzbekistan. It was still substantial in Kazakhstan and Kyrgyzstan, but the trend towards reduction is clearly seen in these countries as well (see Table 2 A and B).

Maintaining a certain level of cooperation with traditional trade partners was important for the Central Asian States to reduce the damage from fast disintegration to their economies, as well as to have access to a larger market, with possibilities for diversification of production and trade. Therefore, all Central Asian States, to differing degrees, have been trying to keep their trade within the CIS. However, attempts to institutionalize a favorable foreign trade environment so far has been unsuccessful. The declaration of a customs union between Russia, Belarus, Kazakhstan and Kyrgyzstan (later joined by Tajikistan) provided a minor increase in trade among members at the beginning (1995-1996). But, in 1997 and particularly since August 17, 1998, it has faced setbacks due to the impact of the financial crisis in Russia and its consequences.

The short-run perspectives for trade between the Central Asian states and other CIS countries, especially Russia, do not look very favorable. It is the most probable that within the post-crisis period its share will diminish further. The devaluation of the Russian ruble makes it difficult to maintain exports from Central Asia to Russia. Imports may decrease as well, because of import substitution of grain and energy in individual states and general economic

TABLE 2. SHARE OF TRADE WITH CIS STATES, RUSSIA AND THE MUTUAL TRADE OF CENTRAL ASIAN STATES, (%)

States	Kazakhstan		Kyrgyzstan		Tajikistan		Turkmenistan		Uzbekistan	
Years	Exp.	mp.	Exp.	Imp.	Exp	Imp.	Exp.	Imp.	Exp.	Imp.
A.										
CIS										
1991*	90.7	85.9	97.2	80.0	76.7	81.8	94.7	78.7	84.1	82.3
1992	87.6	94.3	93.7	96.2	80.3	89.5	80.2	84.9	82.5	85.5
1993	83.6	90.2	65.5	91.3	52.6	61.9	70.1	78.3	73.7	81.3
1994	58.0	61.1	87.9	66.1	18.8	42.6	77.0	46.7	62.1	53.8
1995	52.9	69.0	65.8	67.7	33.6	59.0	49.4	54.6	39.3	40.7
1996	55.7	69.6	77.8	58.1	43.0	57.3	67.5	29.6	21.1	32.2
1997	44.8	53.9	52.8	61.4	36.6	64.3	60.1	56.8	24.3	28.2
1998	39.3	47.2	44.9	52.4	34.6	65.7	...	...	...	...
B.										
Russia										
1991	53.4	70.4	42.9	39.0	44.7	34.1	46.1	38.7	55.7	54.7
1992	65.4	81.8	37.2	61.2	39.2	40.8	16.2	53.1	44.1	56.5
1993	57.3	64.0	36.8	44.7	16.4	32.5	7.1	13.1	57.0	48.4
1994	44.5	36.3	17.2	21.9	30.0	15.2	13.2	10.5	26.7	28.4
1995	42.3	45.0	25.6	21.9	34.1	31.0	6.8	7.0	19.5	26.2
1996	44.3	55.0	26.6	20.8	28.3	29.8	10.6	11.8	11.6	18.8
1997	33.9	46.0	16.4	26.9	8.5	15.3	7.5	13.4	...	...
1998**	30.6	41.5	16.8	20.9	...	...	...	...	...	...
C.										
Central Asia										
1991	12.6	10.5	30.7	29.6	13.1	30.4	29.9	7.9	10.4	19.5
1992	11.9	9.9	33.4	23.4	24.8	32.1	27.8	21.6	27.7	22.2
1993	10.7	17.5	...	...	...	...	16.2	...	...	...
1994	6.4	19.0	43.9	42.1	7.4	28.6	21.2	7.0	28.3	13.5
1995	6.5	14.6	35.9	43.0	19.2	41.8	8.6	4.8	16.9	10.3
1996	6.3	7.6	46.4	34.8	30.5	42.6	17.9	2.4	7.5	8.9
1997	5.0	3.7	33.2	31.7	28.4	45.0	12.9	15.2	...	...

*1991 FSU minus 3 Baltic States (Latvia, Lithuania, Estonia), CIS was formed in the end of 1991 by three republics and later enlarged to 12 FSU states; data on 1991-1993 calculated at implicit, adjusted official, exchange rates; **data for Jan.- Sept., 1998; ... not available

Sources: *Foreign Trade Statistics in the USSR and Successor States, Studies of Economies in Transformation #18*, edited by M. Belkindas and O. Ivanova, The World Bank, Washington D. C., 1995, pp. 64, 204-206; *External Trade of CIS & EU countries / Vneshniaia torgovlia stran SNG i ES*, European Comission, Eurostat, TACIS, Mejgosudarstvenniy Statisticheskiy Komitet SNG, printed in Italy, 1998, p, 23; *Vneshneekonomicheskaya deyatel'nost' gosudarstv Sodrujestva: statisticheskiy sbornik*, Mejgosudarstvenniy Statisticheskiy Komitet SNG, Moskva, 1999, p.12; *SNG: Statisticheskiy Bulletin'*, 5 (213), Mejgosudarstvenniy Statisticheskiy Komitet SNG, Moskva, March 1999, p. 34; *Statisticheskiy Bulletin'*, 4 (212), Mejgosudarstvenniy Statisticheskiy Komitet SNG, Moskva, March 1999, p. 69; *Statisticheskiy Bulletin'*, 6 (214), Mejgosudarstvenniy Statisticheskiy Komitet SNG, Moskva, March 1999, p. 71.

re-orientation within the region. Increasing imports of machinery and equipment from OECD countries, as well as consumer goods from the rest of the world (including Turkey, China and other countries) will also make Central Asian states less dependent on imports from Russia. In the longer run, with construction of alternative pipelines and large-scale energy exports to the rest of the world, the share of trade with traditional partners could further diminish. At the same time, countries should not neglect traditional — especially Russian — markets, because of geography, existing infrastructures, and as Iwasaki (1999) reported the division of labor inherited from the Soviet period, human and technological ties.

The better use of traditional connections and their re-arrangements on a legal, market basis, with decreasing role played by shadow operations, and elimination of rudiments of primitive but rather widely spread barter trade, could enable the countries to recover from the overall crisis and start economic growth and pursuit of export expansion, based not only on primary goods production.

IV. *Mutual Trade of the Central Asian States and Regional Cooperation*

The Central Asian states' mutual trade has played an important economic role, especially in the first stage after their independence. Despite the fact that overall trade within the CIS had been sharply falling both in absolute and relative terms, the share of average annual mutual trade in the majority of them was higher in 1992-1995 than in 1991. It thus played a certain stabilizing role, giving time for adjustments in the distribution of trade within the region, with increased role of Uzbekistan and Kazakhstan as trade partners for Kyrgyzstan and Tajikistan.

In 1997, Kyrgyzstan boasted a bigger share of its trade with other Central Asian states (33.5% of exports and 31.7% of imports) than with Russia (16.8% and 20.9%, respectively). Uzbekistan became No.1 trade partner of Tajikistan, having larger share in total trade than Russia, Kazakhstan and all other CIS partners combined. Its share in total trade was also higher than the Netherlands', the largest importer (especially of aluminum) from Tajikistan. The share of regional trade in Tajikistan increased more than twice as for its exports, and one and half times as for its imports in 1997, compared to 1991 (see Table 2 C.).

Trade between the larger countries of Central Asia also increased, though asymmetrically; it accounts for a larger share in the trade balance of Uzbekistan, than Kazakhstan. (There are some discrepancies in the mirror statistics that could be attributed to nature of the region's trade: the some commodities sent from Uzbekistan to Kazakhstan were just crossing and imports to Uzbekistan coming from Kazakhstan did not originated in it). Turkmenistan signed agreements on economic and commercial cooperation with Kazakhstan, Uzbekistan and other Central Asian states. It has been slowly increasing the share of bilateral trade with countries in the region, especially with Kazakhstan. Almost half of Turkmenistan's total trade in the region was also with Kazakhstan in 1997. However, Turkmenistan's largest trade partner was still outside the region. (It was Ukraine that had much bigger in its exports and comparable share with Russia in its imports).

In January, 1994, Kazakhstan, Kyrgyzstan and Uzbekistan signed an agreement on the creation of a customs union, in order to accelerate the regional cooperation. Its provisions concerned free movement of goods, capital and labor, and collaboration on budget, monetary and taxation policies. Initially, it was called the Central Asian Union (CAU) and was intended for closer economic integration among three states. During the Almaty Summit in February, 1995, principles of free trade among CAU member states were approved. Over the past five and a half years, they have developed coordinating structures, including an Executive Committee of Heads of State and Government and a Council of Foreign Ministers, created a

TABLE 3. SHARE OF MUTUAL TRADE AMONG MEMBERS OF CENTRAL ASIAN COMMUNITY IN THEIR TOTAL TRADE (%)

	Kazakhstan		Kyrgyzstan		Tajikistan		Uzbekistan	
	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.
1994	5.8	11.2	41.7	38.8	7.1	21.4	25.3	19.7
1995	5.5	8.2	35.4	39.4	18.9	34.6	16.0	9.1
1996	6.1	3.5	45.8	33.2	29.4	38.7	7.4	8.8
1997	4.2	2.9	32.8	29.5	27.0	41.1	...	...

Sources: the same as Table 2.

Central Asian Bank for Cooperation and Development. The leadership of the three member states coordinate their positions on regional and other issues.

In December, 1997, the Kazakh, Kyrgyz and Uzbek presidents met in Astana, the new capital of Kazakhstan, and signed a protocol establishing three international consortia for energy and water resources, food production, and minerals and raw materials. At the same time, they expressed dissatisfaction that trade between their countries is down in all three founder states (Kazakhstan, Kyrgyzstan and Uzbekistan), compared to 1994. At the meeting in Tashkent, the Uzbekistan's capital, on March 26, 1998, Tajikistan was accepted as a member of the CAU. By that time, it is worth noting the country already had the highest share of trade with other members of the union, especially with Uzbekistan (Table 3). The four countries also agreed to form an international hydroelectric consortium, and reached accord on common principles to create a securities market.

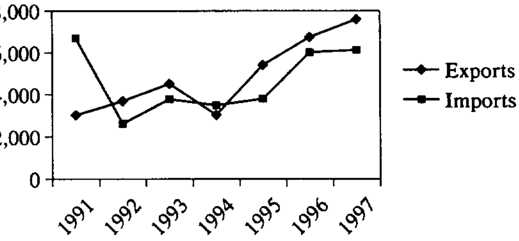
In 1997-1998, there were setbacks in regional cooperation in Central Asia as a result of external factors and domestic policies. In 1998, Kyrgyzstan became a member of the WTO. Both Kazakhstan and Uzbekistan were forced to introduce measures to protect domestic industries against re-exported commodities, especially consumer goods, from Kyrgyzstan. The simultaneous membership of Kazakhstan, Kyrgyzstan and Tajikistan in the customs union with Russia and Belarus, and Russia's observer status within the Central Asian Union, granted in 1997, created another possibility for trade diversion (rather than convergence) within the region.

In the summer of 1998, in Cholpon-ata (Kyrgyzstan), it was proposed to rename the CAU the Central Asian Community (CAC). However, the real problem was not the organization's title, but the political will to search and find appropriate ways to enhance regional cooperation to the mutual advantage of participating states. Step-by-step enlargement and deepening of cooperation towards more mature forms of regional integration is not only possible, but also necessary to use more efficiently existing infrastructure, and human and natural resources.

A joint declaration issued after the summit in Bishkek on June 24, 1999, emphasized the necessity of taking "practical steps" to form a common Central Asian economic space that would include a free trade zone and a common market for goods, services, and capital. The term of the rotating presidency of the community, which is currently held by Kyrgyzstan, was extended from one year to two years. The CAC also granted Georgia, Ukraine and Turkey observer status. Later Armenia indicated that it would be also interested to receive similar status.

1997, compared to 1994, was marked by coutinued decline in mutual trade in relative

FIGURE 3. TRADE BETWEEN CENTRAL ASIAN STATES AND THE REST OF THE WORLD, 1991-1997 (mln. U.S. dollars)



terms, because of a faster increase of trade with the rest of the world. Nevertheless, it is clear that it has become significant factor to all Central Asian states, especially to Tajikistan and Kyrgyzstan. Turkmenistan, Uzbekistan and Kazakhstan have been also trying to use comparative advantages of regional trade. Even though mutual trade shares have declined as a percent of total trade, the Central Asian states find it hard to neglect the important emerging trend toward tighter regional interdependence among Central Asian states, the necessity to promote cooperation in resources (water, energy, and etc.) and infrastructure management.

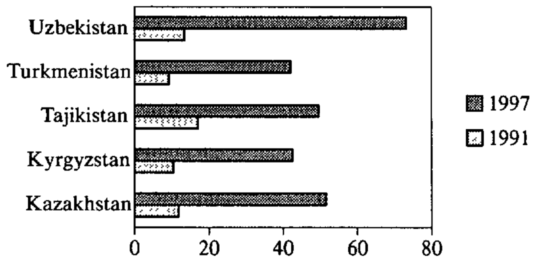
V. *Trade with the Rest of the World - Newly Emerging Global and Extended Regional Interdependence*

Total trade of the Central Asian states with countries outside of CIS, i.e., the rest of the world, declined in 1991-1992, during the breakup of the FSU and the first year thereafter. This was mainly due to a substantial decrease in officially registered imports, which dropped from US$ 6.7 to 2.6 billion or for about 2.5 times in 1992. Since then, imports have been steadily growing, but by 1998 they have not yet reached the level of 1991 in the region as a whole, or in any country under consideration (except Uzbekistan). Total exports have been consistently growing, with one small setback in 1994, and were about US$7.6 billion in 1997, i.e., 2.5 times larger than in 1991 (see Figure 3). Kazakhstan and Uzbekistan made the largest contributions to this growth, with US$3.4 and US$3.1 billion of exports in 1997, respectively.

Dramatic changes were observed in all Central Asian states. For example, imports from the rest of the world to Kyrgyzstan declined in 1992 more than ten times from $ 785 million. in 1991 to $ 71 million. This is the largest contraction in relative terms in the former USSR, and can be explained mainly in light of the limitations of that country's exports and necessity to balance foreign trade within the republic. Its exports increased twelve times from US$23 million in 1991 to US$281 million in 1997. Nevertheless, the country had a substantial trade deficit. Each year during this period, except 1993 when the country's trade was in balance.

Uzbekistan, Turkmenistan and Kazakhstan suffered a significant a decline of imports in absolute terms, but smaller in relative terms, 2-2.5 times within the first year of independence. These countries were able to redirect some of their main exports from the FSU market to the rest of the world and they were the only countries in CIS, that managed an increase in exports to this market and had positive trade balance with the world in 1992-1993. Because of civil unrest, natural calamities, trade and output shocks, Tajikistan has had major difficulties in

FIGURE 4. SHARE OF THE REST OF THE WORLD IN TOTAL EXPORTS AND IMPORTS OF CENTRAL ASIAN STATES IN 1991 AND 1997 (%)



external trade throughout the whole period since independence, though it also managed to redirect its major exportable goods (aluminum and cotton) to Europe.

Since 1994, the share of non-Central Asian trade in the total trade of all Central Asian states has been dynamically growing in both exports and imports, most notably in Uzbekistan (74.0% and 72.2%, respectively, in 1998). The share of exports has been more rapidly growing in all other Central Asian countries, and in 1997 reached in Tajikistan 73.4 %, Kazakhstan 54.5% and Kyrgyzstan 47.2% (up from the 0.7% in 1991), and Turkmenistan 39.9%. The share of registered imports from the rest of the world has also increased, but to a lesser extent and varied between 35.7% in Tajikistan and 46.1% in Kazakhstan. Only in Uzbekistan it was significantly higher, with almost the same rates of increase as for exports. As a result, the share of trade with this group of countries in total trade in 1997 rose from 42.0% in Turkmenistan to 73.1% in Uzbekistan, there by increasing about three to five times in all five countries, compared to 1991 (Figure 4).

The geographic distribution of trade with the rest of the world has also changed significantly, shifting from the former CMEA to the EU, East Asia, North America, and the Near and Middle East. The main partners of Central Asian states in 1997, outside CIS, were, first, European countries (Germany, the UK, Switzerland, the Netherlands), followed by the states of East Asia (China, South Korea, Japan), North America (the USA), Near and Middle East (Turkey, Iran).

The share of partners from these countries has grown substantially in total trade. In 1997, exports and imports of some of them to and from Central Asian countries were higher than the share of trade between Central Asian states and Russia. Kazakhstan exported more to China (29.1%) than to Russia (28.9%). Turkmenistan imported more from Turkey (12.8%) than from Russia (10.0%), and its share in imports yielded somewhat only to Ukraine, its largest importer (14.9%). Imports from the Netherlands (31.9%) and Switzerland (19.6%) to Tajikistan were more than imports from Uzbekistan (28.6%), Russia (9.2%) and all other countries. In 1998, exports of Kyrgyzstan to Germany (37.4%) were higher than to Kazakhstan (16.9%) and Russia (16.3%) combined. Uzbekistan's 1997 import shares from South Korea (15.4%) and Germany (10.0%) together were bigger than its imports from Russia (19.9%).

Uzbekistan has been expanding trade with Japan, which was $122 million in 1998. Sixteen Japanese companies currently have offices in Tashkent. Japan has invested over $1 billion in

Uzbekistan since 1995, of which the Japanese government accounted for some $334 million. Uzbekistan is now negotiating with Japan about funding its communications programs and reconstruction of three airports. (Interfax, September 8,1999). There are good prospects for mutual economic cooperation between the two countries. But, a further substantial expansion in trade and investment to a certain extent, will depend on the speed of currency convertibility reforms in Uzbekistan.

The U.S.A. has been also increasing its trade with the Central Asian states. In 1997, it was among ten largest trade partners for most of them. Especially, its ranking and shares become rather prominent in the countries' imports, (Kazakhstan—the 3d largest importer, with 4.7% of the total, Kyrgyzstan—5th with 5.6%, Turkmenistan—4th with 7.2%, and Uzbekistan (1996) - 3rd with 9.7%).

Among Near and Middle Eastern countries, Turkey was the most active trader in the region, especially in the Turkish-speaking Central Asian states (Kazakhstan, Kyrgyzstan, Turkmenistan and Uzbekistan). In 1997, the share of imports from Turkey to these countries varied from 4.1 % in Kazakhstan to 12.8% in Turkmenistan. Turkey was also among the four largest importing partners for Kazakhstan, Kyrgyzstan, Uzbekistan and Turkmenistan.

Together with Iran, Turkey played a significant role on the export side, as well. In 1997, these two regional partners' shares were rather tangible in the total trade of Turkmenistan: 23.4 % of its total exports and 16.0% imports. Among other Central Asian states, Turkmenistan had the most intensive trade with neighboring Iran throughout this period. In December, 1997, it started export of gas to Iran via newly built pipeline. This alternative pipeline, with an initial capability to transport two billion cubic meters per year will, in the near future, permit an increase in supplies of gas to Iran from western Turkmenistan of up to eight billion cubic meters. In 1998, Iran and Turkey comprised the two largest export markets, accounting for 24% and 19% of all Turkmenitan's exports, respectively.

However, the increase of Central Asian trade with these two countries occurred mainly on a bilateral basis. Despite the fact that all of them were members in Economic Cooperation Organization (ECO), and two of them (Kazakhstan and Turkmenistan) in Organization of the Caspian Sea (CASCO), extended multi-lateral regional cooperation has not yet become efficient yet.

VI. *Commodity Structure of the Central Asian States' Trade and the Recent External Shocks*

In the commodity structure, shares of mineral resources and agricultural raw material-based products predominate all Central Asian states' exports. The main exports were as follows: oil and oil products, ferrous and non-ferrous metals, grain in Kazakhstan; gold, tobacco, wool and cotton fiber in Kyrgyzstan; aluminum and cotton fiber in Tajikistan; natural gas, cotton fiber, oil and oil products in Turkmenistan; cotton fiber, gold, natural gas, and non-ferrous metals in Uzbekistan. (This kind of commodity export structure became typical throughout the CIS, e.g., oil, oil products and natural gas are the major exports of Russia).

At the beginning, imports consisted mainly of food products and other consumer goods, as well as oil and oil products (in Uzbekistan, Kyrgyzstan and Tajikistan), plus gas for the latter two countries. The structure of imports in many of them has been changing progressively in favor of machinery and equipment, with diminishing shares for grain and other food products in recent years. However, a rise of imported capital goods' shares, without a proper substitution of production of manufacturing goods for domestic use or for exports has increased the import-intensive character of trade balances. In some countries, this led to chronic and large deficits in their current accounts, and in others excessively compressed imports of consumer goods.

Foreign trade based on primary commodity exports is vulnerable to strong fluctuations of world prices. Prices were more favorable in 1993-1995 for the majority of Central Asian states and their main exports than afterwards. In 1996-1998, the terms of trade reversed and almost all Central Asian countries suffered significant shocks, both to exports and imports. Additionally, external shocks to Central Asian trade resulted from the fact that large foreign trade partners (Russia, South Korea and some other East Asian countries) were hit by the financial crises of 1997 and 1998, as European states entered into a phase of slower growth.

In Kazakhstan, at a time when crude oil and refined oil products have become the largest item of export, accounting for almost one third of the total exports in value terms, world prices plunged by 34.5% in 1997 and did not recover in 1998. Due to weaker demand of the main partners- Russia, South Korea and other East Asian countries, ferrous and non-ferrous metals earned much less than previous years. The share of metals dropped from 47.9% of total exports in 1993 to less than 37.4% in 1998. Despite of the price fall, because of increasing absolute volumes, the share of oil and oil products in this period had grown from 25.3% to 38.7% of total exports. So together oil, oil products and basic metals comprised more than three fourth of exports, and were hit by a sharp price decrease. The grain harvest was lowest for the decade, and grain exports fell by more than forty - two percent in value terms in 1998, compared to 1997. The share of chemicals, machinery and equipment in total exports also dropped because of the devaluation of Russian ruble and diminished competitiveness in Russia, their traditional main market.

On the other hand, cheap imports from Russia, Uzbekistan and Kyrgyzstan created difficulties for many Kazakh producers. Imposition of a twenty percent value-added tax (VAT) on all personal imports (September 15, 1998), mutual quantitative restrictions in trade with Russia (January 1999), and 200% tariffs on selected imports, mainly beverages and foodstuffs, from Kyrgyzstan and Uzbekistan (February 10, 1999) were not effective. On the April 5, 1999, Kazakhstan devaluated its national currency by about thirty percent within a week and achieved better protection of domestic producers against cheap exports from neighboring countries. An appropriate exchange rate policy could be more useful than high tariffs in a country that has such a long border that is currently next to impossible to protect properly against smuggling. However, it will not be easy to reach its first proclaimed main target, i.e. promotion of exports, because exportable commodities have been dollar-denominated and hardly benefited from devaluation of the tenge (the national currency). All these developments in 1998 resulted in the largest, Kazakhstan's trade deficit since its independence. It was the biggest in absolute terms among all Central Asian states. The efforts taken in the first half of 1999 by the government have not brought crucial changes yet.

Kyrgyzstan was also affected by low commodity prices (especially for gold), as well as by the overall worsening terms of its trade with its main partners. A fall of export revenues by almost fifteen percent and an increase of import expenditures by about seventeen percent lead to trade deficit in 1998 comparable with the largest one since independence, recorded in 1996. (But, at that time, it was due to construction of a gold mining and refining joint venture equipped with expensive imported machinery). In absolute terms, the trade deficit increased about fourteen times compared to $15.3 million deficit in 1997. The 1998 official trade data for Kyrgyzstan indicated an unsustainable sharp increase of dollar denominated imports from the highly industrialized countries and a clear fall of exports of gold in value terms because of a drop in world prices. Export revenues for other commodities (i.e., cotton) also dropped to an even larger extent, though its share in exports was not as big as for its southern neighbors.

The share of exports to Russia, both in 1997 and 1998, fell by more than ten percent, compared to 1996. In this period the share of trade with regional partners, especially on the export side, has substantially decreased, as well. Attempts to improve trade with neighbors by increasing re-export of imported consumer goods and beverages have forced Kazakhstan and Uzbekistan to take counter-measures. The former tried to protect domestic producers via a 20% VAT, excessively high tariffs replaced lately by devalued exchange rate of its currency (discussed above), and the latter by raising excise duties and introducing stricter passport controls and additional checkpoints along their common border (April-May, 1999).

The end of the civil war and a peace accord have contributed to a certain amount of economic growth and improvement of the foreign trade balance for Tajikistan in 1997. However, in 1998, the commodity trade deficit increased more than four times, up to $170 million from $39 million in 1997, and this was equal to about one tenth of its GDP. This huge deficit was also connected, first of all, with a sharp worsening of the terms of trade. International prices for major exports, aluminum (38.8% of total exports in 1998) and cotton (18.6%), fell by almost 15.0% and 17.7%, respectively, in 1998. A decline of cotton-fiber exports of to 88,400 tones, or 18.0% compared to 1997, further aggravated the shortage of hard currency earnings. Aluminum, mainly exported to Europe, fell by 7.0% in value terms, despite some growth in physical volumes (187,600 tones). Net electricity exports to neighboring countries were not large and equal to only 3.2% (19.7% of total exports and 16.5% of total imports) of total export revenues. All these factors contributed greatly to an overall 19.0% decrease of export revenues.

On the import side, shocks were connected with the financial crisis in Russia and devaluation of the ruble that promoted a greater inflow of consumer goods to Tajikistan. Aluminum oxide imports from Ukraine, and oil and gas from Uzbekistan accounted for total import expenditures of 1998 – 14.2% and 12.4%, respectively. The share of grain and flour in total imports decreased by 6.8% due to an increase of domestic production. The rise of total imports in value terms by more than ten percent together with a two - fold decrease of exports in 1998 resulted in the second (after Turkmenistan) largest trade deficit in the region in relative terms.

Uzbekistan, the second (after the U.S.) world's largest cotton-fiber exporter and the eighth biggest gold producer, has recently suffered much more than its neighbors from worsening terms of trade. In 1997 and 1998, it exported 978,900 tones of cotton-fiber annually, and its share in the world export of cotton was about sixteen percent. However, international market prices of cotton have continuously fallen since 1996. More than one forth of Uzbekistan's export revenue decline in 1998 was connected with the drop of world prices for cotton.

In 1997, Uzbekistan produced 81.7 tones of gold and yielded only to the seven largest gold producers in the world: South Africa, the U.S., Australia, Canada, China, Russia and Indonesia (*Financial Times,* June 22, 1998). The price of gold, the second largest item of its exports, plunged by more than eleven percent the same one-year period. About ninety percent of cotton and all gold sold in hard currency Western markets were at almost the same volumes as in 1997, and earned much less because of above mentioned changes in world prices. Export revenues for other metals, more than eighty percent of which were sold in developed countries, also decreased by about eleven percent in 1998, compared to 1997. So, the main export commodities, comprising more than two thirds of merchandise goods exports and sold in hard currency markets, were hit by a sharp fall of international prices.

In addition, the volumes of energy (gas and refined oil), machinery and equipment, and chemicals that are mainly sold in the CIS (Russian, Ukrainian and Central Asian) markets decreased. In value terms, gas exports dropped by about two times in one year. A substantial decline of oil prices also affected Uzbekistan, which has become self-sufficient in oil and a net exporter of refined oil products in recent years. As a result, the share of energy in total exports decreased from 14.3% in 1997 to 8.7% in 1998.

Russian markets for exports of Uzbek cars, TV sets, video recorders and other manufacturing goods produced jointly with Daewoo of South Korea became difficult to sustain after the August 17, 1998 financial crisis and the devaluation of Russian ruble. The recent financial problems of Daewoo—the largest single investor in the Uzbek industrial sector, reportedly have complicated prospects for improvement of the competitiveness of the jointly produced commodities and efforts to their sales in the CIS and other countries.

Falling export revenues forced Uzbekistan to cushion the negative effects of external trade shocks, and to make both ends meet, by reducing its imports. For this purpose, the government used both direct and indirect (i.e., hard currency) restrictions to cut consumer goods imports as much as possible, and promoted massive imports of modern machinery and technology to facilitate further industrialization. The latter comprised almost half of total imports in 1998, though in absolute term their value decreased by 19.2%, compared to 1997. The share of food, the second largest item of imports, was substantially down (by 41.3%) in the same period, but still comprised 16.4% of total imports in 1998. Both machinery and food, or about two thirds of registered imports, originated mainly from non-FSU countries. Where the decrease of machinery and equipment was connected with liquidity problems, a large drop of food import volumes was possible because of better grain harvests. The share of chemicals and plastics in total imports was almost the same (12.4%), though in value term this third largest items of imports also fell 28.0%, compared to 1997. A rigid compression of imports, despite a substantial decrease of exports, gave Uzbekistan a positive balance of registered trade, and made it the only Central Asian State that managed to avoid a foreign trade deficit in 1998.

According to official statistics, Turkmenistan had its largest trade deficit since its independence in 1997, equal to $ 476.3 million (26.0% of GDP) and in 1998 $386.8 million (18.4% of GDP). It was connected with sharp decrease of its major export commodity, gas, from 80.9 billion cubic meters in 1990 to 24.3 billion cubic meters in 1996, 6.5 billion cubic meters in 1997, and 1.8 billion cubic meters in 1998. The share of gas exports in GDP decreased from 37.2% in 1996 to 14.9% in 1997 and 3.3% in 1998. An increase of volumes of oil and oil products, and cotton-fiber—two major exports both affected by low world market prices—could not substitute for revenue losses. And in 1998, Turkmenistan's exports were the lowest for the decade. Despite a decrease for all major imports (capital goods, foodstuffs, raw materials and construction materials) by 20.0% in value terms, compared to 1997, it was still much higher than exports. A collapse of output and exports of gas that badly affected both economic growth and trade indicators in 1997 and 1998 was a direct result of external shocks connected with complete dependence on Russian pipelines (discussed more in the next section of the paper).

Thus, as a result of external shocks and the commodity structure of their trade, all Central Asian states had a substantial decrease of the foreign trade turnover in 1998, compared with 1997. Kazakhstan, Kyrgyzstan, Tajikistan and Turkmenistan suffered one of their worst current account deficits since independence. Uzbekistan was better off only because of extra cuts and compression of its imports.

VII. *Alternative Pipelines and Routes: Impediments and Prospects for Regional and Global Cooperation*

Central Asia, the world's largest land-locked region, is resource-rich and offers considerable trade and investment opportunities. But, a lack of effective transport routes and relative isolation made it difficult for all five countries to access international markets immediately after their independence in 1991. Therefore, creating alternative transit transport routes has become an important precondition for promotion of trade and development, strengthening of economic independence and integration with world economy.

Complete dependence on pipelines running through foreign countries made it almost impossible for Central Asian states to access hard currency markets, or define volumes and negotiate prices on the basis of existing international practice and rules (this was especially true for Turkmenistan, and to a lesser extent Uzbekistan for gas and Kazakhstan for oil). For example, Turkmenistan's, choice of importers, price and volumes of gas exports became fully dependent on the monopolistic demands of Gasprom, the Russian Corporation responsible for servicing gas pipelines in Russia.

In 1991-1992, Turkmenistan, according to its agreement with Russia, was permitted to sell 11.3 billion cubic meters annually outside the FSU, and the rest of its gas exports to traditional partners. Since 1993, it has been given a chance to export its gas only within CIS, mainly to Ukraine, and partially to Georgia and Armenia. Due to chronic non-payment for its gas by these countries, Turkmenistan has been forced to decrease production and exports year by year, throughout the whole period since its independence. In 1996, Turkmenistan agreed with Gasprom to sell its exported gas on its border via ITERA, a Corporation registered in the U.S. The volume of gas exports from Turkmenistan increased by 10.0%, compared to 1995. However, non-payment problems remained. Only 17.0%, of deliveries for the first quarter of 1997 were paid. By that time, the total debt of Ukraine, Georgia and Russia was more than $1.5 billion. At the end of March, 1997, Turkmenistan stopped all gas exports via Russian pipelines and refused to resume it at proposed conditions ($32 per 1,000 cubic meters at its border, instead of $42 as it was in 1996, or at least acceptable $40). Unwilling to agree to the monopolistic conditions of Russian Gasprom and continue exports to countries with huge debt that were unable to pay on time, Turkmenistan suspended gas supplies to traditional, their only markets, during three quarters of 1997. It did not resume expots during 1998, either. Gas supplies in 1998 were sent only to Iran via a newly built pipeline, which a Turkmen scholar says, is the first important step in decreasing dependence of Turkmenistan's gas exports from Russia [Badykova (1998, pp. 38-39)].

Agreement was reached in the end of 1998 on deliveries, that started in January, 1999, of

20 billion cubic meters of Turkmenistan's gas by Russian Gasprom to Ukraine at price of $720 million ($36 per 1,000 cubic meters), with forty percent payment in cash. While Ukraine is to pay Gasprom ($68 per 1,000 cubic meters), with sixty percent of the total paid in cash. So, the monopolistic position of Gasprom permits it to extract forty percent of the value of Turkmenistan gas deliveries for transit, the lion's share of which benefits the Russian company. Both Turkmenistan and Ukraine had no much choice, but had to go ahead with the agreement. During January to May, 1999, 8.76 billion cubic meters (worth $ 315 million) were delivered from Turkmenistan to Ukraine. But on May 21, 1999, gas supplies were suspended until later in the year, because of the inability of the latter to pay.

Since Turkmenistan has been exporting less than one tenth of its gas ready for export to potential hard currency markets in the last two years, construction of alternative pipelines is a top issue on the government's agenda. Once constructed, these pipelines could provide fast, reliable and inexpensive alternative transit transport routes and allow for a significant increase of gas and oil exports from Central Asia. According to existing estimates, as of January 1, 1998, Turkmenistan (2.0%), Uzbekistan (1.3%) and Kazakhstan (1.3%)'s joint gas reserves were equal to 4.6% of total world reserves, and together were surpassed only by Russia (33.4%), Iran (15.9%) and Qatar (5.9%). ("Oil&Gas Journal" No 52, December, 1997 pp. 38-39). Some recent estimates argue that these three countries, together with Azerbaijan, have more oil deposits than Kuwait (*International Herald Tribune,* October 5, 1998).

Since 1992, all five Central Asian states, Azerbaijan and Afganistan have joined Turkey, Iran, Pakistan as members of ECO. As Caspian littoral states Kazakhstan and Turkmenistan have formed CASCO, another organization for regional cooperation together with Azerbaijan, Iran and Russia. One of their greatest hope was for construction of gas pipelines from Turkmenistan to Turkey via Iran and from Turkmenistan to Pakistan via Afghanistan, in addition to railway links between Turkmenistan and Iran (1996) that could spur regional trade and increase interdependence. But in 1998, the strategic investor Unocal (a U.S. corporation) pulled out of both projects. The U.S. government announced its full support for the Trans-Caspian oil and gas pipelines and encouraged investors to consider it as a better option.

In April, 1999, the first new 830 kilometers oil pipeline linking Azerbaijan's capital of Baku with Georgia's Black Sea port of Supsa was opened. The $560 million pipeline is intended to diversify transport routes for Caspian Basin exports. The project, to build a 2,000 km, $2.5 billion Trans-Caspian pipeline to transport Turkmenistan's gas via the Caspian Sea, Azerbaijan and Georgia to Turkey (linking with the Turkish pipeline system in the northern city Erzurum) is backed by leading transnational corporations. In November, 1999, Turkey signed an agreement with Turkmenistan confirming its commitment to buy sixteen billion cubic meters of gas (at its border). Azerbaijan and Georgia expressed interest in the Trans-Caspian gas pipeline, which will transit their territories. The pipeline will have an annual total capacity of thirty billion cubic meters, of which 14 billion cubic meters will be destined for European markets. On the other hand, Turkmenistan and Kazakhstan are interested in transporting part of their oil production from the eastern shore of the Caspian Sea via a projected oil pipeline from Baku to the Mediterranean port Ceihan of Turkey.

Whether a compromise on these and other disputed issues between Turkmenistan and Azerbijan, as well as other parties involved in the Caspian game will be reached eventually remains to be seen. Russia and Iran, as littoral states, also have a say concerning construction of pipelines across the Caspian Sea, the legal status of which still is not very clear. Russia and

Iran, as it was mentioned above, have the richest gas resources, possessing together almost half of the world gas reserves, and they have their own plans on how to increase exports of gas to Turkey and southern European countries.

Apart from westward and southward pipeline projects, there is eastward alternative, as well: 6,100 km gas pipeline from Turkmenistan via Uzbekistan and Kazakhstan to the Pacific coast of China. There is general support for such project connecting Central Asia with East Asia by the states involved, but the problem is to conduct feasibility studies and prove its cost-effectiveness, in order to attract strategic investors. At the beginning, in my opinion, it is possible to start with a much smaller project, e.g., to built a gas pipeline along the Andijon (Uzbekistan)-Osh (Kyrgyzstan)-Kashgar (China) route. This is not so easy because of high mountainous terrain and some other factors revealed recently, but still financially less costly.

A similar situation concerns another grandiose project to build an oil pipeline from western Kazakhstan to the East coast of China, with possible participation of U.S. and Japanese companies. Oil is a higher priority to China in the medium term; therefore, it expressed its intention to negotiate separately the construction of a 3,200 km oil pipeline from Aktyuba (western Kazakhstan) to Tumin (north eastern China). A feasibility study for the pipeline to China is to be completed by the end of 1999. Kazakhstan also has plans for a pipeline from Tengiz to Novorossiisk (Russia), which is scheduled to go into operation in mid-2001, and is considering the choice of another Caspian exports pipeline. The route via Turkmenistan to Iran, according to Kazakh government policy announced in August 16, 1999, is also among possible candidates.

Building alternative infrastructures will take time and investment, but will be justified if trade benefits for all countries involved exceed the costs of construction and promote development opportunities of the region through further integration with the world economy. The destiny of such grand projects as alternative pipelines connecting Central Asia with the outside world is not yet clear. Meanwhile, some progress has been made on development of value-added production based on gaz and oil as well as on international road transportation, telecommunications and other new regional frameworks that are also important to encourage their trade with the rest of the world.

In addition to ECO and CASCO, there are other new recent developments. On April 24, 1999, Uzbekistan formally became the fifth member of the Georgia-Ukraine-Azerbaijan-Moldova (GUUAM) initiative. It has been initially drafted as an instrument to restore an ancient trade route between Asia and Europe as an alternative to the ones running through Russia and Iran, but also enlarges the opportunities for the newly independent states' integration to the world economy.

For Central Asia, a land-locked part of the huge Euro-Asian continent, situated almost midway between the Pacific and Atlantic oceans, this alternative route to the West has certain advantages as well. It is the shortest one, and was put into operation on the basis of existing FSU transport regulations, technical standards and administrative practices. With improvement of infrastructure under EU sponsored projects, this route (via the trans-Caspian ferry, then through Azerbaijan and Georgia to its port of Poti, and by Black Sea ferry to Europe) has proved to be more cost-effective as well. The costs of freight from Tashkent to the Black Sea have been reduced by thirty to thirty-five percent, compared with traditional routes. Increasing shares of cotton from Uzbekistan, and oil from Kazakhstan and Turkmenistan have been shipped recently to the world markets through the Transcaucasia.

The search for comparative advantage today and even more in the long run will obviously lead Central Asia to substantially increase links with East Asia, the newest fast growing center of world trade. In this respect, a railway extension linking Kazakhstan to China, and an additional land bridge (both road and rail) project from Andijon (Uzbekistan) through Osh (Kyrgyzstan) to Kashgar (China), now under construction, is quite important. The time required for sending goods from the port of Lianyungang in China to Istanbul in Turkey can be reduced by twenty-five to thirty percent, compared with the sea route through the Suez Canal and Mediterranean Sea.

Optic-fiber cables put into operation in October, 1998 between Shankhai, China, and Frankfurt-on-Maine, Germany, crossed all of Central Asian, as well as both the Iran-Turkey and Transcaucasian routes. They created additional chances for rebirth of the famous Silk Road tradition in trade and business, as well as information and cultural exchanges along these routes on a modern technological basis.

So, for the Central Asian states, new alternative links with Western Europe and East Asia are opening better prospects for trade in the short-and long-term, with the largest trading countries in Eurasian Continent. When the land bridge between East and West, North and South through Central Asia begins operating and becomes more efficient, it will help to restore the importance of the region's Silk Road tradition as main transit points along this route. This can be achieved only through elaboration and implementation of improved comprehensive regional and international cooperation that promotes reduced transport costs and mutually beneficial trade.

VIII. *Conclusions*

From the cradle of their independence, the new Central Asian states are now on their way to integration with the world economy, and face several fundamental challenges and various external shocks connected with the following factors:

1) a sharp disruption of autarchic dependence and an unprecedented fall of trade;
2) an overall worsening of the terms of trade for major exported and imported commodities, as well as the situation in markets of their main trading partners due to Asian and Russian financial crises of 1997 and 1998;
3) a lack of alternative transit transport routes, especially gas and oil pipelines, and complete dependence on Northern routes, with competing companies seeking monopolistic benefits.

Recalculated data for 1991-1993, compared with available statistics for the following period, permits a restoration of trade time series for the Central Asian states since their independence. Analysis of available and adjusted statistical data, as well as empirical evidences, helps to measure the degree of both intra-FSU and external shocks. The main cause of the sharp fall of Central Asian trade, about seven times in seven years in the 1991-1997 period, according to the author's estimates and opinion, is the disruption of the single Soviet state and its extremely high autarchic dependence of subnational units.

These less developed fragments of strong a formerly integrated inside and basically closed economy had specialized on production of primary goods. At the initial stage, some of them redirected their tradable goods to the rest of the world. But the most recent external shocks of

1997-1998 revealed once more both the old and connected new weaknesses in the commodity structure of foreign trade.

First of all, exports were based mainly on primary goods that are very vulnerable to large fluctuations of world market prices. Secondly, import-intensive structures of their external trade that where not always justified have been fraught by chronic large current account deficits. Thirdly, they lacked of experience in development of appropriate trade policies on the basis of market instruments that could protect domestic industries and promote exports of manufacturing goods to hard currency markets. Finally, they still continue to face substantial dependence on monopolistic transport infrastructures (especially pipelines) situated outside Central Asia and traditional partners unable to pay in time.

The key to resolving these problems is regional and global diversification of trade. In the Central Asian context, it includes first of all diversification of trading partners and commodity structures, as well as transit transport routes and choices. These are necessary conditions, but not sufficient without further gradual market reforms and trade liberalization. To make more use of new opportunities to integrate into global markets the Central Asian states must find appropriate solutions to these key issues:

(i) - promotion of entry of private firms and encouragement of enterprise-to-enterprise external trade; (ii) improvement of the infrastructure in support of foreign trade and investments, especially domestic and international payment systems; (iii) reform of exchange rate policies and other restraints preventing foreign trade and investments.

In addition to these general requirements, there are specific demands for proper balance and timing between industrialization based on import substitution and large state-owned enterprises, and export promotion in all enterprises, including private businesses, i.e., small and medium sized firms and farms. More incentives to entrepreneurs, new rural cooperatives and urban enterprises to produce exportable agricultural and manufactured goods and to earn hard currency could be a better option in some cases than huge, expensive industrial estates unable to produce goods of proper quality that can compete in hard currency foreign markets. This could also be instrumental for further diversification of the commodity structure of foreign trade, increasing the share of the value-added goods in the exports, and decreasing the import-intensive character of trade balances. This will be further beneficial if it can reduce the vulnerability to external trade shocks, which create extra pressures on current account balances leading to bigger deficits.

Diversification of trading partners since independence has involved a rapid increase of trade with countries outside of the CIS. Currently, the main trade links for Central Asian states have been shifting from traditional ones to the West European countries and Turkey, South Korea and China. Prospects for the growth of cooperation in trade and investment with Japan and other East Asian countries, based on mutual trust, understanding and economic benefits also looks favorable.

Some improvement of trans-national transport and regulatory access for exports from these countries to markets of fast growing trading and investment partners could enable Central Asians to promote export-oriented sectors and scale back import-substitution policies. It will also lay a foundation for Central Asian states to diversify their trade and to diminish external shock vulnerability. The increase of trade and investments in natural resource development, manufacturing, transport and telecommunications, airports, hotels and tourism infrastructure has good potential, and can be expected to be mutually profitable.

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