

Comparative Analysis of Regional Economic Processes in Central Asia

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ABSTRACT

This article examines regional economic cooperation processes within Central Asia and current trends of regional cooperation among Central Asian countries. Besides, Author analyzed that role of regional and international organization as well as some countries role in developing regional economic cooperation by comparison.

KEYWORD: Regional cooperation, Central Asia, bilateral economic cooperation, investment, regional cooperation perspectives

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In modern conditions, the increasing internationalization and openness of national economies contribute to the development of regional cooperation processes and their transition to a qualitatively new level. The economic role of regional cooperation is great; it expands the economic space and unites the efforts of countries in solving socio-economic problems and determining foreign economic policy towards third countries.

In Uzbekistan's foreign policy, the Central Asian region is a top priority. Recently, there have been positive developments in the region in building dialogue and relations between the countries of the region, undoubtedly the catalyst for which, according to most experts, was the efforts of the President of the Republic of Uzbekistan Shavkat Mirziyoyev.

There is an unrealized potential for regional economic cooperation in Central Asia. According to experts the expansion of cooperation between the Central Asian states in various sectors of the economy would contribute to the growth of the regional gross domestic product in the next 10 years at least twice¹

To study the state of regional cooperation, it is necessary to reveal the concept of economic cooperation – a type of international relations that can take the form of trade, joint entrepreneurship, provision of services, cooperation and assistance, scientific and technological progress, international tourism, etc.

Central Asia is a region that is home to 72.7 million people with a combined GDP of about 271bn USD. Five countries collectively export 81.2 billion USD worth of goods outside the region. Total imports amount to 56.6 billion US dollars. Expert of the Center for Economic Development Y.Yusupov notes: "the size of the population and the size of the economy are key factors that investors and trading partners pay attention to when making decisions about long-term cooperation plans. After all, the larger the size of the market, where investors and trading partners are going to enter, the more opportunities for sales growth and business development".

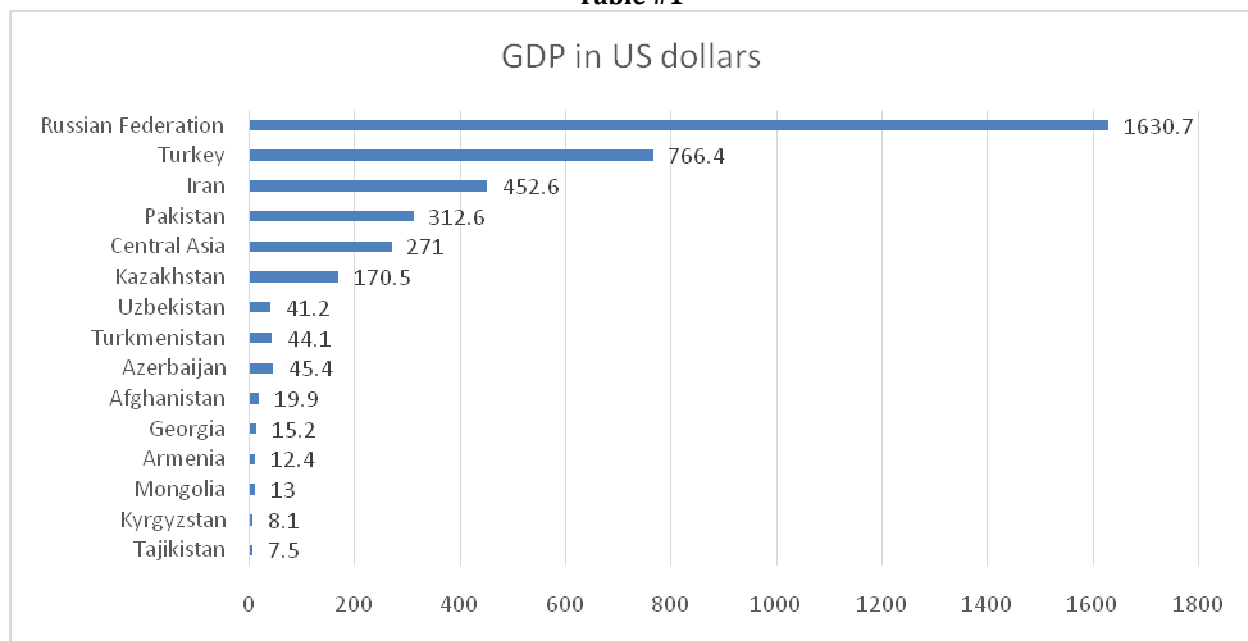
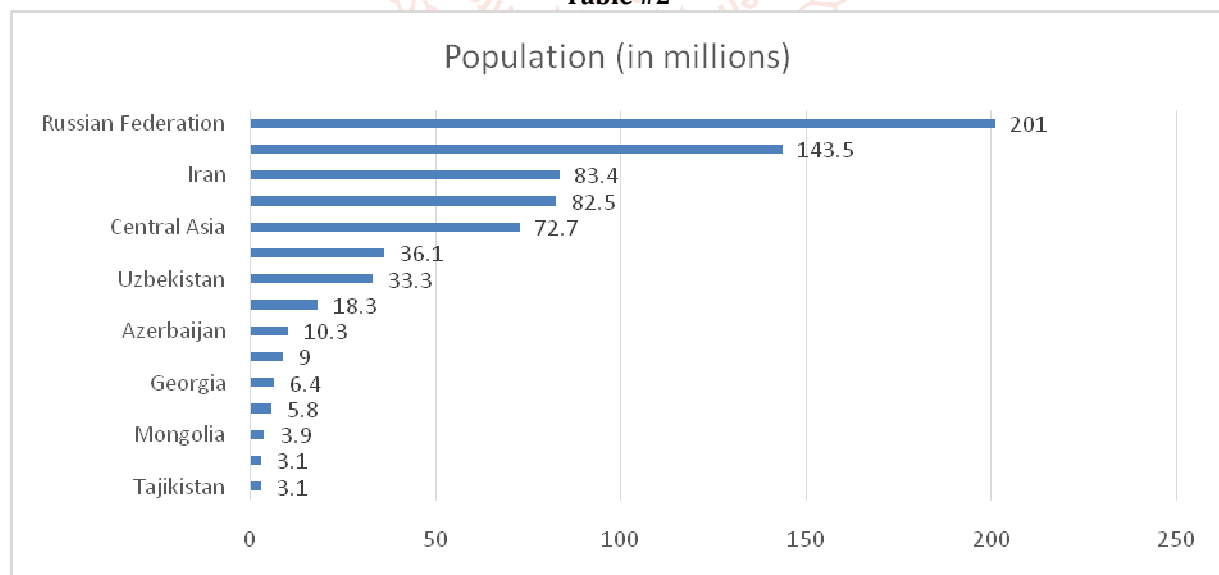
It will probably take several years to achieve full results of the region-wide processes, but bilateral processes are also taking place in parallel, and so far they are proving to be more effective for developing cooperation. Now both countries are determined to develop economic and trade relations. In October 2017, their governments announced that they planned to work to reduce administrative barriers to cross-border trade. In 2018, an intergovernmental

¹ Мирзиёев Ш. М. Критический анализ, жесткая дисциплина и персональная ответственность должны стать повседневной нормой в деятельности каждого руководителя. Доклад Президента Республики Узбекистан Шавката Мирзиёева на расширенном заседании Кабинета Министров, посвященном итогам социально-экономического развития страны в 2016 году и важнейшим приоритетным направлениям

экономической программы на 2017 год// «Народное слово», 17.01.2017 год.

agreement on trade development was signed, which provides for an increase in trade turnover from 2 billion USD in 2017, up to 3 billion USD in 2018 and 5 billion USD in 2020. Also in 2017 Uzbekistan and Kazakhstan have signed commercial agreements totaling over 1 billion USD and established joint ventures in the petrochemical, chemical and food industries. The possibility of building a transport and logistics center (dry port) on the border, which would provide a further increase in the volume of bilateral trade, is being discussed. The resumption of relations between Uzbekistan and Tajikistan in March 2018 can serve as evidence of the improvement of relations between Uzbekistan and Tajikistan. Train traffic on the railway connecting the two countries, which was last used in 2011. Around the same time, bilateral agreements were concluded on the import and export of goods, including the export of electricity from Tajikistan and the import of gas from Uzbekistan. Kyrgyzstan and Tajikistan also intend to intensify economic cooperation and increase the volume of bilateral trade, which was announced in January 2018. The possibility of establishing a Business council between the two countries will be considered, and the organization of a business forum for Tajik entrepreneurs in Bishkek will be discussed².

For comparison, here are the countries that could become competitors of the Central Asian countries for attracting investment. The following chart compares the size of the economies and the population of the region's neighboring countries. China and India are not included in the list due to the scale of the economies of Central Asian countries with these giants.

Table #1**Table #2**

By comparing the statistics of net attracted investments in the Central Asian region, share of FDI in the economies of Central Asian countries is 6% of GDP³, with a global average of 7-10%⁴. The following diagram confirms the thesis of unrealized

²Boston Consulting Group official site accesses on https://www.bcg.com/Images/BCG-Investing-In-Central-Asia-report-RUS_tcm27-212858.pdf

³Calculated by the author on the basis of World Bank Statistics.

⁴World Bank Report

potential. Over the past 10 years, about 159 billion USD has been attracted to five countries in the region, while Turkey's net investment statistics for the same period amount to 139 billion USD. Weak interaction and barriers to trade in the region discourage foreign investors. Statistics on net FDI to Central Asian countries in general and Turkey show approximately equal figures. Over the ten-year period, 5 Central Asian countries attracted a little more than 19 billion USD more than Turkey. However, in 2017, FDI flows in Turkey exceeded 11.5 billion US dollars, which is more than 2.6 billion in Central Asian countries.

Table #3. The volume of net FDI in the countries of Central Asia, 2008-2017, million USD

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
KAZ	16819	14276	7456	13760	13648	10011	7308	6578	17221	4713
KGZ	377	189	473	686	26	612	343	1144	619	-107
TJK	487	149	94	146	242	283	327	454	242	186
TKM	1277	4553	3632	3391	3130	2861	3830	3043	2243	2314
UZB	711	842	1636	1635	563	635	757	66	1663	1797

Table#4

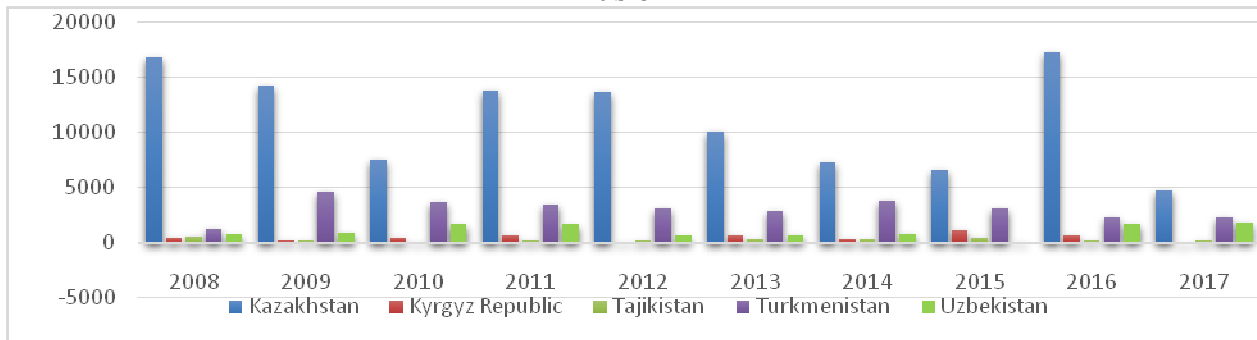
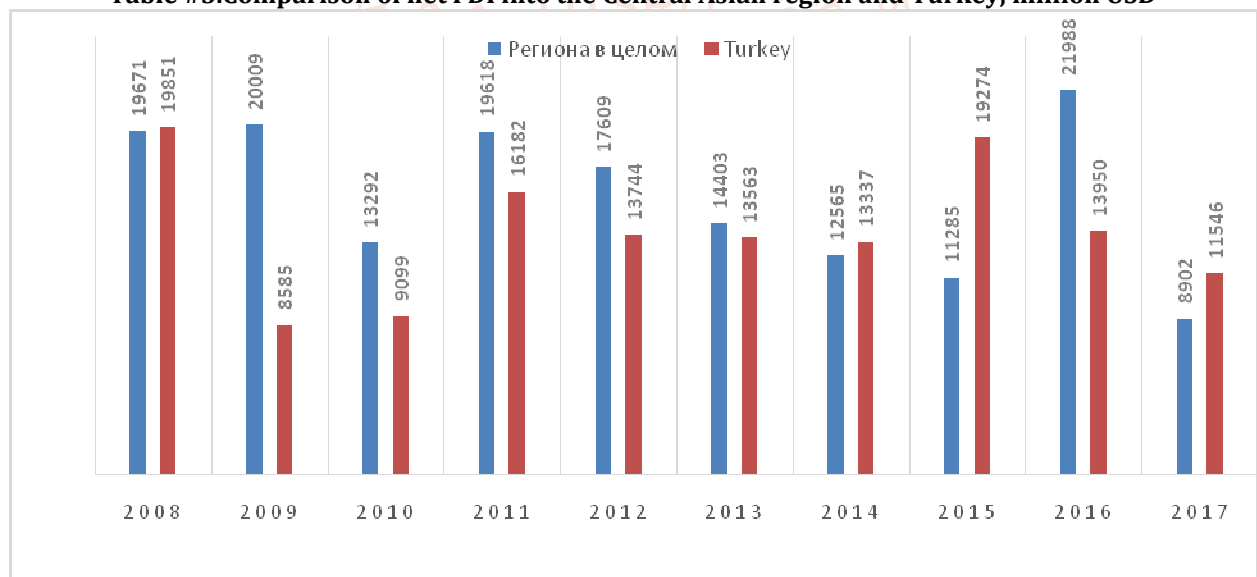


Table #5. Comparison of net FDI into the Central Asian region and Turkey, million USD



Source: www.worldbank.org

As we can see, only by uniting, the countries of Central Asia can compete with the neighboring countries of the region. The merger is understood as a reduction in trade barriers, which will affect the investment attractiveness of the region. Investors around the world are looking for markets in which to sell the released investment product. The size of the market plays an important role in this situation. Since the size of the economies of the countries individually is less attractive, the development of economic cooperation is attractive.

Another obstacle to economic cooperation among the Central Asian countries is the underdeveloped transport and logistics infrastructure. According to World Bank, in the doing business rating of the international trade component, the countries of the region occupy places at the end of the first and beginning of the second hundred. In the logistics performance index, which aims to identify the challenges and opportunities that countries face in trade logistics, Central Asian countries have some of the weakest indicators in the world, which indicates the underdevelopment of this industry.

Prime Minister Abdulla Aripov announced the proposals of the President of Uzbekistan Shavkat Mirziyoyev to the countries of Central Asia on the development of transport systems in the region, speaking at the opening of the international conference "Central Asia in the system of international transport corridors: strategic prospects and unrealized opportunities" which was held in Tashkent. First, the development of a strategy for the development of regional transport corridors in Central Asia with

the assistance of experts from the World Bank, Asian Bank and Islamic Development Bank and other international institutions, and the adoption of a regional program for the sustainable development of the Central Asian transport system on its basis. Secondly, the creation of an integrated transports management system within the framework of the Shanghai Cooperation Organization, in which the countries of the region participate. Third, the creation of the regional Council for Transport communications of the Central Asian countries, which will become a coordinating structure for solving problems in the transport and logistics sector. Fourth, concept for the development of tourist hubs in Central Asia in cooperation with the World Tourism Organization should be adopted. Besides, He stated that important geostrategic position of Central Asia, which connects major international markets, it is of particular importance to unite the efforts of our countries in order to accelerate the integration of our region into the system of transport corridors⁵.

We can see that more and more countries are paying attention to the LPI rating. For example, in Indonesia, the index is officially used to evaluate the performance of the ministry of commerce. The organization for Asia-Pacific Economic Cooperation (APEC) uses the LPI index to measure the impact of the supply chain connectivity initiative. The European Commission uses the index in the formation of the European System for assessing the efficiency of transport, as well as for the assessment of the EU customs union in 2013⁶.

Table #6 Comparative analysis of the international logistics competence index of central asian countries and germany (2018).)

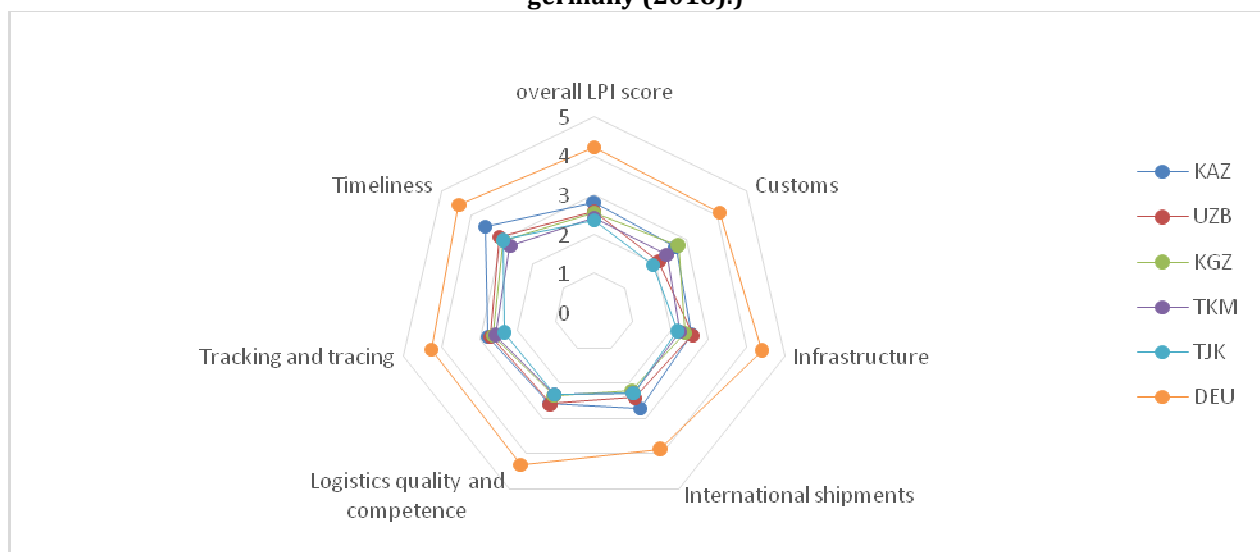


Table #7

	Rank	Overall Lpi Score	Cust oms	Infrastr ucture	International Shipments	Logistics Quality And Competence	Tracking And Tracing	Timeliness
KAZ	71	2,81	2,66	2,55	2,73	2,58	2,78	3,53
UZB	99	2,58	2,10	2,57	2,42	2,59	2,71	3,09
KGZ	108	2,55	2,75	2,38	2,22	2,36	2,64	2,94
TKM	126	2,41	2,35	2,23	2,29	2,31	2,56	2,72
TJK	134	2,34	1,92	2,17	2,31	2,33	2,33	2,95
DEU	1	4,20	4,09	4,37	3,86	4,31	4,24	4,39

Source: lpi.worldbank.org⁷

The analysis of these indicators in the table allows us to identify the weaknesses of the logistics system of the Central Asian countries. The indices of all 5 Central Asian countries are in the range of 2.34 (Tajikistan) and 2.81 (Kazakhstan). The leader of the region in the LPI index is Kazakhstan (2.81-71 places). Next are Uzbekistan (2.58-99th place) and Kyrgyzstan (2.55 – 108th place). The results for the region are lower for Turkmenistan (2.41-126th place) and Tajikistan (2.34 – 134th place). Today, Uzbekistan is much inferior to developed countries in terms of LPI.

Germany's performance is an order of magnitude higher than that of the region's countries in each component. The gap in infrastructure and logistics competence is noteworthy. All countries in the region have rather low indicators for all 6 criteria, which mean that the transport and logistics complex is poorly developed. This requires comprehensive improvements for all countries in the field of transport logistics.

⁵ Узбекистан предложил создать транспортную стратегию Центральной Азии accessed on <https://www.gazeta.uz/ru/2018/09/20/transport/>

⁶World Bank Group <http://www.vsemirnyjbank.org>

⁷World Bank Group accessed on URL:

<https://lpi.worldbank.org/international/scorecard/radar/254/C/UZB/2018/C/TJK/2018/C/KGZ/2018/C/KAZ/2018/C/TKM/2018#chartarea>

To increase this indicator in the World Bank ranking, countries need to implement a number of measures. First of all, it should be taken into account that when calculating the logistics index, the World Bank pays the greatest attention to the conditions for creating end-to-end material flow management in the country, as well as the simplicity and efficiency of customs procedures. Thus, overall 55 questions that allow us to assess the state of the logistics system, of them 20 relate to the efficiency of customs authorities, of them 10 – to the level of logistics development, of them 8 – to the general conditions of trade, of them 5 – to the efficiency of control bodies and of them only 4 questions – directly to the work of transport.

Uzbekistan needs further improvement in raising the efficiency of customs procedures. According to this indicator, the country is 140th in the LPI rating. This requires the introduction of modern technologies, such as electronic document management, which makes it possible to facilitate customs processes, both for customs officials and customs brokers or logistics operators. According to the criterion of international transportation, Uzbekistan ranks 120th in the LPI rating with an index of 2.42. To increase this indicator, the necessary modernization and reconstruction of the infrastructure should be carried out. The indicator of competence and quality of the logistics environment directly depends on the transport service. The small number of transport and logistics companies serving Uzbekistan negatively affects this indicator in the LPI rating (2.59-88th place). However, it should be recognized that a system of roadside service is being established in Uzbekistan, thanks to the program of tourism development in the country.

In Kyrgyzstan, there is a great need for a transport logistics service that meets international standards, on which the value of the basic indicator of the quality and competence of the logistics environment directly depends. According to this indicator, Kyrgyzstan ranks 114th (LPI index-2.36). Therefore, it is necessary to create certain structures in the Republic that allow providing high-quality comprehensive service for the delivery of goods from the manufacturer or seller to the final recipient. These are mainly highly functional logistics intermediaries. Complex of transport and logistic services on delivery of cargoes in the international message, offer their clientele, still not wide enough and is limited, in addition to transportation, services of cargo in transit, organization of transportation process, customs clearance, shipping and other transport documents, as well as the intermediary services in search of goods to the carriers or search the carriers for cargo (according to various estimates, they account for 85 to 95 %).

The problem in Tajikistan within the LPI index is customs procedures. The country ranks 150th out of 163 with an index of 1.92. In addition to the standard bottlenecks, in the form of complexity and cost of export-import operations and weak implementation of IT technologies in the work of customs services are present. All this reduces the basic indicator of the effectiveness of customs procedures.

In countries with high LPI, logistics companies are more satisfied with private customs agents than with public ones. Often in developing countries, inadequate government regulation of logistics and lack of competition lead to corruption and poor quality of logistics services on the part

of infrastructure enterprises. Sometimes the presence of such operators disrupts the customs clearance process and prevents the emergence of component local operators capable of working with international operators.

Central Asian countries need to find ways to solve problems together. At the meetings of the Heads of State of Central Asia, the leaders have repeatedly emphasized this statement. If the countries manage to jointly develop cooperation in the field of transport logistics, simplify customs clearance, abandon the policy of import substitution and start competing with each other, at least at the regional level, this will undoubtedly advance regional trade to a new level and the economy of the region as a whole.

Tourism is another promising area of regional economic cooperation. Tourism is one of the largest sectors of the global economy. The development of tourism for any state means the creation of new jobs, the promotion of exports, followed by the flourishing of the economy. Tourism contains a number of industries that are aimed at developing the service sector and supporting domestic business. Tourism provides an opportunity for the development of many companies involved from accommodation or booking to transportation.

Public and private investments are needed to develop the region's tourism and transport infrastructure. Some projects to improve regional infrastructure are already underway, but much remains to be done. The standards of the sector, especially in the field of customer service, remain low and unstable, and service resources are not sufficiently developed. Investment opportunities open up in all segments of this sector of the economy: hotel, restaurant and tour operator business, information centers, etc⁹.

The analysis of tourism cooperation revealed that tourism accounts for only 1 to 3% of the country's GDP. Despite this, the countries of the region occupy a place in the top ten in terms of the growth rate of the share of tourism in the economy. A great opportunity for the development of this industry is seen in the promotion of the "Great Silk Road" project, but this requires a number of administrative measures that would simplify the crossing of the borders of the Central Asian Republics. Examples are the introduction of a "Single Visa" for the entire Central Asian region or the improvement of transport capacity between cities that are attractive to tourists.

Central Asian countries can benefit greatly from tourism by promoting the region as a macro destination of the "Great Silk Road", but this requires closer cooperation between the states of the region. According to the UN World Tourism Organization, "promoting multiple countries as one destination can be an effective and profitable strategy to attract tourists who would not otherwise consider visiting this destination". This is especially true for tourists from far abroad, who seek to make the most of a long trip by visiting several countries at once. However, in order to implement this regional tourism project, Central Asian countries need to make common efforts to develop transport links, optimize

⁹ Инвестиционный потенциал Центральной Азии – как его видят в Boston Consulting Group accessed at <https://caa-network.org/archives/15858>

the conditions for obtaining a visa (up to the introduction of a "single visa") and jointly promote this tourist destination (marketing and advertising)¹⁰.

Further development of cooperation in the Central Asian region is extremely important for all countries of the region. All countries will benefit from cooperation. The need to develop a strategy for effective cooperation is observed in many areas, in particular, in the field of transport, energy, information and communication technologies. All this will certainly have a positive impact on trade policy and improve infrastructure, since a balanced and coherent regional policy can contribute to greater connectivity in transit transport and ensure improved intraregional trade, common regulatory measures, cooperation between border agencies and coherence in customs procedures to expand regional markets.

The advantages that countries could gain from deepening regional cooperation, including increased competition, benefits from participation in the international division of labor, increased competitiveness of local enterprises through expanding sales markets and economies of scale, increased attractiveness for foreign investors, improved business climate, and reduced negative consequences from remoteness from seaports.

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¹⁰ Инвестиционный потенциал Центральной Азии – как его видят в Boston Consulting Group accessed at <https://caa-network.org/archives/15858>