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**Russia and Central Asia:
Current and Future
Economic Relations**

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Key Points

- * Following the disintegration of the single economic space of the Soviet Union, the non-competitiveness of the Russian and Central Asian economies was starkly revealed. This was particularly apparent in the state of their trade links.
- * Economic cooperation between Russia and the states of Central Asia is hampered today by the absence of decisive, coordinated actions in the fields of industrial production and transport communications.
- * To achieve competitiveness on the global market, Russia and the countries of Central Asia need to bring the idea of a single economic space to fruition, not only by political declarations but by real action in terms of cooperation in various sectors of the economy. There are, however, many obstacles to progress in this area.
- * One of the main obstacles is the haste with which Russia and some of the Central Asian countries are trying to join the World Trade Organisation (WTO). This could kill off industrial integration between Russia and Central Asia even before it is born.
- * Another obstacle is the complicated geopolitical situation surrounding Central Asia, threatened as it is mainly by the instability of Afghanistan. These factors make it difficult to tap the potential of integration in transport communications in central Eurasia – between Russia, the Central Asian republics and other countries.

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Russia and Central Asia: Current and Future Economic Relations

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Introduction

Politics and economics have been closely intertwined in the rich history of relations between Russia and Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan).¹ Trade between Russia and Central Asia had its origin in the early days of the Great Silk Road. Economic relations between Russia and Central Asia have had special significance since the second half of the 19th century. **These countries have twice been integrated in single economic zones: first that of the Russian Empire, then that of the Soviet Union.**

Russian Empire

When the Central Asian region was under the economic influence of the Russian Empire, from the 1860s to 1917, the countries of Central Asia had good access to Russian markets, and Russian investment flooded into the region. Central Asia began to escape from its economic and geographic isolation. Strong trade links were forged. States formed on the territory of modern Central Asia, however, lost much of their independence, particularly in respect of external economic affairs. As Central Asia strengthened its economic links with Russia, so its links with other countries weakened. In general, when Central Asia was part of the Russian Empire it remained an under-developed and purely agrarian region, functioning mainly as a source of cotton, silk and wool for the Russian textile industry.

Soviet Union

The second phase of Central Asian integration with Russia, which lasted from the formation of the Soviet Union until 1991, also had both positive and negative aspects. On the one hand, the Soviet period was a time of unprecedented economic growth, both for Russia and Central Asia. On the other hand, the countries of Central Asia found themselves confined in the rigid economic (as well as political and ideological) framework of the Soviet system, with its centralised planning and control of the distribution of all resources. The links formed between the Soviet republics sometimes made little economic sense (there was even an official Soviet term: "planned loss-making enterprises").

This exceptionally close integration in the Soviet period has resulted in the economies of Russia and Central Asia (and other CIS countries) remaining interdependent today. The sudden disappearance of the Soviet command system, inefficient though it was, led to economic collapse, as at the beginning of the 1990s there was no alternative (market-based) system to replace it, and one could not be created immediately.

* * *

Today Russia and the countries of Central Asia are faced with the need to enter a new phase of closer economic cooperation – for the third time in history. It would be logical to think that the present economic interdependence of these countries would stimulate and intensify cooperation across a wide range of activities. There are however no signs of this happening.

To explain this apparent paradox, the following three questions need to be addressed:

- what progress is being made today in mutual trade activity between Russia and Central Asia, and what are the dominant trends?
- what are the obstacles to economic cooperation between these countries, given their recent history as components of the integrated Soviet economic system?
- what are the prospects for cooperation between these countries?

This paper attempts to answer these questions, based on an analysis of the facts and main economic indicators – trade statistics for the period 1991-2005.

1. Present state of trade links

The disintegration of the Soviet Union in 1991 had a profoundly negative effect on trade relations between the Russian Federation and the Central Asian republics. The volume of trade between Russia and the countries of the region fell between 1991 and 1992 on average by a factor of 9 - 10, for example:²

- with Uzbekistan – by a factor of 27,
- with Kyrgyzstan – by a factor of 26,
- with Tajikistan – by a factor of 20,
- with Turkmenistan – by a factor of 17,
- with Kazakhstan – by a factor of 5.2.

After the sharp fall in 1992, the annual volume of trade between Russia and Central Asia remained generally stable, albeit at a low level, in the period 1993-2003, from 5.4 to 7.7 billion dollars. An exception was the year 1999, when it fell again to two thirds or even half of this level following the 1998 economic crisis in Russia.

Since 2004 the volume of trade has been increasing. This can be explained by the following:

- an increase in the cost of many goods, especially raw materials, combined with a fall in the value of the US dollar;
- growth in the real volumes of trade, due to an increasing trend to integration between Russia and Central Asia.

In comparison with the average levels for the period 1992-2003 the trade volume is now between 50 and 100% higher.

Throughout the post-Soviet period the trade balance between Russia and Central Asia has been predominantly in Russia's favour, largely because Russian exports to the region have been mainly **finished products** (machinery, equipment, chemical

products,³ etc.) with high added value, while exports from Central Asia to Russia have mainly been **raw materials** (energy resources, ferrous and non-ferrous metals, chemical raw materials,⁴ textile raw materials, minerals, etc.) with low added value.

The trade balance was the other way round only in the years 1997 and 2000. In 2000 this was probably because that was the time when many Central Asian states were repaying part of their debt to Russia and reducing their imports. Because of a shortage of hard currency they paid partly in goods, thus increasing their export figures.

Table 1: Trade between Russia and Central Asia⁵

Year	Volume of trade, \$US millions	Russian exports to Central Asia, \$US millions	Russian imports from Central Asia, \$US millions	Trade balance in Russia's favour, \$US millions
1991	59226	33785	25441	8344
1992	6360	5767	593	5174
1993	6750	4703	2047	2656
1994	6143	3771	2372	1399
1995	7679	4230	3449	781
1996	7244	3920	3324	596
1997	6833	3402	3431	-29
1998	5411	3165	2246	919
1999	3695	1903	1792	111
2000	6469	2730	3739	-1009
2001	5924	3517	2407	1110
2002	5464	3492	1972	1520
2003	7088	4520	2568	1952
2004	10463	6103	4360	1743
2005	13227	7527	5702	1823

The importance of Russia and Central Asia to each other

There is a considerable imbalance in the importance of this trade for the various countries involved. For Russia the trade with Central Asia is not particularly significant. The following figures give the percentage of Russia's overall foreign trade balance contributed by individual Central Asian countries in the period 1992-2005, amounting to a total of between 1.5 and 3.9%:

- Kazakhstan – between 0.9 and 2.9%,
- Uzbekistan – between 0.2 and 0.6%,
- Kyrgyzstan – less than 0.2%,
- Turkmenistan – about 0.1%,
- Tajikistan – less than 0.1%.

In the figures for 2005, none of the Central Asian countries appears in the list of the top ten foreign trade partners for Russia:

- Kazakhstan occupied 11th place (the third highest place among CIS countries, after Belarus and Ukraine);
- Uzbekistan occupied 34th place (the fourth highest place among CIS countries, after Belarus, Ukraine and Kazakhstan);

- Turkmenistan was in the 50s (the sixth highest place among CIS countries, after Belarus, Ukraine, Kazakhstan, Uzbekistan and Moldova);
- Kyrgyzstan and Tajikistan are in the 60s (Kyrgyzstan is eighth among CIS countries, after Belarus, Ukraine, Kazakhstan, Uzbekistan, Moldova, Turkmenistan and Azerbaijan, and Tajikistan ninth).

Russia, on the other hand, has been an important trading partner for the countries of Central Asia throughout the post-Soviet period. In the years 1992-2004, trade with Russia was on average 16 to 26% of the foreign trade of these countries. The proportion of Russian trade to total foreign trade for individual countries was as follows:

- Kazakhstan – between 23 and 29%,
- Kyrgyzstan – between 22 and 29%,
- Uzbekistan – between 15 and 18%,
- Tajikistan – between 4 and 11%,
- Turkmenistan – between 2 and 5%.

In 2005, Russia was the most important trading partner for Kazakhstan, Uzbekistan and Kyrgyzstan,⁶ the second most important (after Ukraine) for Turkmenistan and the second (after the Netherlands) for Tajikistan.

The 2005 figures show some increase in Russia's share of the trade with Kyrgyzstan, Uzbekistan, Tajikistan and Turkmenistan, against a background of Russia's increased trade with all the countries of the region (see table 2).

Table 2: Trade between Russia and Central Asian states, 2004-2005⁷

Country	Trade between Russia and country named, \$US millions		Russia's share of foreign trade of country named, %		Named country's proportion of Russia's foreign trade, %	
	2004	2005	2004	2005	2004	2005
Kazakhstan	8124	9480	29.8	21.5	2.92	2.84
Kyrgyzstan	416	535	29.5	32.6	0.15	0.16
Uzbekistan	1379	2060	15.9	24.6	0.5	0.62
Tajikistan	259	320	10.8	14.3	0.09	0.09
Turkmenistan	285	832	3.9	9.7	0.09	0.25
Total	10463	13227	22.3	19.5	3.75	3.96

This is related mainly to the general strengthening of economic links between all Central Asian countries and Russia, to which the noticeable political rapprochement between Russia and Uzbekistan, Kazakhstan, Kyrgyzstan and Tajikistan has made a big contribution. In the case of Turkmenistan, it is largely due to the dependence of this country's natural gas industry, its main foreign currency earner, on Russia, not only for transportation of the gas but also for equipping and manning the gas extraction plants and local transportation system.

Russia's most important trading partner in Central Asia is Kazakhstan, followed by Uzbekistan. Trade with Kyrgyzstan, Turkmenistan and Tajikistan is still practically insignificant for Russia, being hardly noticeable even within the context of Russian-Central Asian trade links. In the period 1992-2005 the trade between Russia and Kazakhstan accounted for the lion's share,⁸ between 65 and 78% of all the trade between Russia and the Central Asian countries, with Uzbekistan having between

11 and 23%, Kyrgyzstan between 4 and 6%, Turkmenistan between 2 and 5% and Tajikistan between 2 and 4%.

Trade balance between Russia and the countries of Central Asia

In the period 1992-2004 Russian exports to Central Asia exceeded imports from the region by an average of 50% annually. For individual countries this trade balance was as follows:

- Turkmenistan – 160%,
- Tajikistan – 80%,
- Kyrgyzstan – 70%,
- Kazakhstan – 50%,
- Uzbekistan – 30%.

The figures for 2005 continue to show a favourable trade balance for Russia in its trade with the countries of Central Asia. Russian exports to this region increased by 23.3% (\$1.422 billion) compared to the previous year, and imports increased by 30.7% (\$1.342 billion), reaching a level of \$5.702 billion. In the case of Uzbekistan, Russian exports and imports almost equalised, and Turkmenistan managed to reduce its negative trade balance considerably, thanks mainly to its supplies of gas to Russia.

In 2005 Russian exports to Central Asia exceeded imports from the region by an average of 30% (\$1.823 billion). For individual countries this excess was as follows:

- Tajikistan – 130%,
- Kyrgyzstan – 50%,
- Kazakhstan – 40%,
- Turkmenistan – 10%,
- Uzbekistan – practically zero.

Structure of trade between Russia and Central Asian states

Analysis of the structure of the trade between Russia and the countries of Central Asia shows the dominant role of raw materials,⁹ which account for more than 50% of the total trade. Finished products,¹⁰ on the other hand, account for only 30%. The balance (of less than 20%) comprises services.

“Barter” of raw materials

In 2004 the proportion of raw materials in the exports from the Central Asian countries to Russia was about 70% (energy resources – more than 41%, ferrous and non-ferrous metals – about 15%, chemical raw materials – about 10% and precious metals – about 1.5%). This ratio for individual countries was as follows:

- Turkmenistan – more than 90% (natural gas),
- Tajikistan – about 90% (mainly cotton – more than 86%),
- Kazakhstan – about 77% (energy resources – 48.9%, ferrous and non-ferrous metals – 16.7%, chemical raw materials – 11.2%),
- Kyrgyzstan – about 75% (precious metals¹¹ – 42%, minerals – 14.6%, textile raw materials¹² – 13%, ferrous and non-ferrous metals – 5.2%),
- Uzbekistan – about 50% (cotton – 21%, energy resources – 14.6%, non-ferrous metals 10.1%, chemical raw materials – 5.5%).

The proportion of raw materials in the exports from Russia to the countries of Central Asia in 2004 was about 30% (energy resources – about 17%, ferrous and non-ferrous metals – about 11%, minerals – about 1%). The ratio for individual countries was as follows:

Kazakhstan – about 34% (energy resources – 21.7%, ferrous and non-ferrous metals – 12.1%),
Kyrgyzstan – about 23% (mainly minerals – 22.7%),
Uzbekistan – just over 12% (ferrous metals – 10.3%, energy resources – 2.1%),
Tajikistan and Turkmenistan – insignificant.

At the same time, the large volume of raw material “bartering” reflects the continuing strong interdependence, including structural and technological interdependence, in various sectors of the national economies of these countries. This applies particularly to the energy sector.

Energy “barter” plays a significant role in the trade between Russia and Kazakhstan, for example. Petroleum extracted in Kazakhstan (apart from that produced from the Tengiz oilfield) has rather too high a sulphur content to be suitable for refining in Kazakh refineries, as they are designed for refining sulphur-free petroleum. Kazakhstan therefore exports a significant proportion of its petroleum to Russia, receiving in return petroleum which can be refined at Kazakh refineries.

There is also a considerable “barter” trade in coal between Russia and Kazakhstan. Thus coal from the Kuznetsk basin in Russia is delivered to the north-east frontier districts of Kazakhstan, while coal from the Ekibastuz field in Kazakhstan is supplied to the neighbouring Russian provinces. Furthermore there is an extensive exchange of electricity between the northern districts of Kazakhstan and the neighbouring Russian provinces, as the towns (and enterprises) of these areas were all linked to the same electrical supply grid in Soviet times.

It is also noteworthy that the vast majority of Russian investments in Kazakhstan are in the energy sector. The biggest project for Russian companies in this sector is the famous Caspian Pipeline Consortium (CPC), which is intended for transporting petroleum from Russia and western Kazakhstan to the world market via a terminal at Novorossiysk on the Black Sea coast. Total investments by Russian companies over the period of this project could amount to about 1.1 billion dollars.

Another example of the interdependence of Russia and the countries of Central Asia is the purchase from each other of raw materials which are not available in adequate quantities in their own countries. In particular, Uzbekistan supplies Russia with cotton, natural gas, and tungsten and molybdenum concentrates, and receives from Russia aluminium and the raw materials required to support the iron and steel industry.¹³

Furthermore, Russia exports various raw materials to the Central Asian region in exchange for natural gas (supplies of natural gas to Russia are paid for partly in hard currency and partly in various Russian goods, including raw materials).

Without Central Asian gas Russia would be hard pressed to meet both its own domestic requirements and its obligations to supply gas to Western and Eastern Europe. And in the future, Russia will become increasingly dependent on these supplies from Central Asia. On the other hand, the countries of Central Asia can currently export their gas only via the Russian pipeline system and can maintain their gas extraction and transportation facilities only with Russian help.

Trade in finished products

Although the economies of both Russia and the countries of Central Asia are dominated by raw materials, there is a higher proportion of finished products in the exports from Russia to Central Asia than there is in the opposite direction.

The figures for 2004 show that finished products accounted for almost 60% of all exports from Russia to Central Asia (machinery and equipment – about 35%, chemical products¹⁴ – more than 13%, foodstuffs and other products – more than 8%). The finished products proportion (in Russian export) for individual countries was as follows:

- Turkmenistan – almost 100%,
- Tajikistan – about 83%,
- Uzbekistan – about 65%,
- Kyrgyzstan – about 56%,
- Kazakhstan – about 55%.

The proportion of finished products in the exports from the Central Asian countries to Russia was about 13% (machinery and equipment – just over 5%, foodstuffs and other products – about 8%), and from individual countries as follows:

- Kazakhstan – about 13.3%,
- Kyrgyzstan – about 13.1%,
- Uzbekistan – about 12.2%,
- Tajikistan and Turkmenistan – practically non-existent.

In summary, although finished products occupy a bigger share of the exports from Russia to Central Asia than in their imports from the region, the overall picture of raw material-dominated economies of Russia and the countries of Central Asia is obvious.

2. Main problems in economic relations

The current pattern of trade relations between Russia and Central Asian states is evidence of deep-rooted problems in the economies of the countries concerned, mainly related to poor competitiveness. This became especially clear following the collapse of the Soviet Union and is due to both structural and geographical factors.

Problem 1: poor competitiveness of Russian and Central Asian economies

The poor competitiveness of the economies of the Central Asian countries goes back to the Soviet era, when the Central Asian republics were seen primarily as suppliers of raw materials to the other republics, mainly Russia, and rather less as manufacturers of finished products. In the Soviet era, labour was divided between the republics, and the industries of Central Asia still reflect the strong structural and technological inter-dependence which evolved in that period.

There are thus simply no alternatives, in many cases, to the links which exist between the economies of the Central Asian region to the economies of Russia and other CIS countries. This particularly applies in high-technology fields such as mechanical engineering, aircraft construction and electronics. These would be unable to operate without supplies of components, most of which have come traditionally from other former Soviet republics, principally Russia. The Central Asian transport network and energy complex were also developed on a regional basis, or even an all-union basis, rather than a national one.¹⁵

The geographical isolation of the region is another difficulty. The landlocked nature of Central Asia means it is remote from the main flows of international trade and finance.

The poor competitiveness of the Russian economy is due to some extent to the same structural, technological and geographical factors. The Russian economy, however, is far bigger than any of the Central Asian ones, and many Russian enterprises had and still have dependence on domestic links rather than on inter-state ones. The breakdown of the economic system of the USSR has correspondingly caused less pain in Russia than in the countries of Central Asia.

A much more important factor contributing to Russian poor competitiveness is the fact that the country's industrial centres are often in unfavourable locations: severe climatic conditions, vast distances between enterprises, limited access to international maritime trading routes. A further problem is that most Russian enterprises do not use modern energy-saving technologies. All this means that there are considerable energy, material and financial expenses involved in the organisation of any production activity on the territory of Russia.¹⁶

In general, the poor coordination of economic activity between Russia and Central Asia means that their processing industries are unable to function effectively. These countries will continue to have raw material-dominated economies because there are no decisive steps being taken to make their economies more efficient by improving inter-state cooperation in general.

All this also reflects the evident weakness of cooperation between Russia and the countries of Central Asia in the fields of industry and transport communications.

Problem 2: poor industrial cooperation

The weakness of inter-state industrial cooperation is the result of the failure of Russia and the countries of the region to appreciate, or perhaps even to understand properly, the importance of and mutual advantage to be gained by regional integration, especially in high-tech industries such as mechanical engineering, aircraft construction and electronics. As a result, the raw material-dominated economies of these countries looks set to be maintained, contrary to their longer-term aspirations for complex and systematic economic development.

Russia, for example, in its dealings with Central Asia, continues to place stress on the extraction of energy resources and their transportation to world markets: petroleum from Kazakhstan and natural gas from Turkmenistan and Uzbekistan. Plans for cooperation between Russia and Kyrgyzstan or Tajikistan mainly centred on the exploitation of the vast hydro-electric generating potential of these two countries for export of electricity to world markets.

Problem 3: poor cooperation in transport and communications

The Central Asian region is geographically remote from the main foreign trade routes of Russia, which either go westward to Europe or eastward to China and the Asia-Pacific region. Therefore Central Asia for Russia is a bit of a dead end in terms of transportation, and not at all suitable as a freight transit route.

In Soviet times, there was an enormous volume of freight transport between the Russia (then RSFSR) and the Central Asian republics¹⁷ due to the huge output from busy branches of industry based on the division of labour between the republics. These days, with most industrial enterprises in Russia and Central Asia standing idle, the volume of freight transport between them has fallen to a very low level. In

2004, for example, freight traffic between Russia and Uzbekistan was only 3-4% of what it had been in 1990.

At present the Central Asian countries use Russian transport routes (mainly railways and pipelines) for their export and import, but Russia hardly has any need for the transport services of the Central Asian countries for its foreign trade (mainly the export of minerals and energy resources to world markets).

Thus the fragmentation of the post-Soviet economic space tends to maintain the economic cooperation between Russia and Central Asia at its present low level. This is particularly clearly seen in the existence of the numerous trade barriers between Russia and the countries of Central Asia. These barriers have a particularly negative effect on the links between Russia and those Central Asian countries which do not have a land frontier with Russia – i.e. all of them except Kazakhstan. This to some degree explains why the figures for Russian-Kazakh trade are so high a proportion of Russia's overall trade with Central Asia.

3. Main recommendations and possible prospects: theory and practice

The following factors provide a basis for future development of Russian-Central Asian economic cooperation:

- Russia and the countries of Central Asia have long been parts of an integrated economic system, and their economies are still mutually complementary and interdependent;
- it is in the interests of both Russia and the Central Asian countries to reduce the raw material-dominated economies and adapt to the processes of globalisation.

Recommendation 1: cooperation in industrial production

Cooperation between Russia and the countries of Central Asia in many areas of industrial production is vital if these countries wish to improve their competitiveness. **In theory**, this could be achieved by creating joint holding companies, primarily in the processing and high-tech industries. It would be sensible to transfer many technological facilities, especially high energy-consuming ones, to the Central Asian countries as they have their own sources of energy and minerals, more favourable production conditions than in Russia, such as cheaper labour, lower energy costs of production and cheaper construction costs due to the sub-tropical climate.

The most promising areas of activity in which joint Russian-Central Asian holding companies could operate would seem to be the following:

- **textile industry** (in view of the fact that 90% of the materials used in the former Soviet textile industry came from Central Asia);
- **mechanical engineering** (especially production of agricultural machines and machines for the textile industry, but also aircraft construction and electronics);

- **agricultural production** (the Central Asian climate enables some crops to be grown which either cannot be grown in Russia at all, or are grown much less profitably);
- **non-ferrous metallurgy** (Central Asia is the main source in the CIS for many non-ferrous metals, including chromium and manganese);¹⁸
- **nuclear energy** (almost all the potentially-profitable uranium deposits in the CIS are in Kazakhstan and Uzbekistan).

All these areas could be of great economic interest, in view of the much lower production costs in Central Asian countries than in Russia.

In practice, however, there are complications in the way of realisation of this recommendation. These are due to the likelihood that Russia and Kazakhstan will hasten to join the WTO (Kyrgyzstan has been a member of the WTO since 1998, Turkmenistan has not yet applied for membership and Uzbekistan and Tajikistan are not in a hurry to join).

It is likely that Russia and Kazakhstan joining the WTO prematurely would have a negative effect on industrial cooperation between Russia and the Central Asian countries. Joint Russian-Central Asian holding companies would initially need some protection from world competition. While Russia and all Central Asian countries except Kyrgyzstan are outside the WTO, this protection can be provided by measures such as tax and customs duty concessions, but if Russia and Kazakhstan join the WTO it will become more difficult to implement these measures. Russian-Central Asian industrial integration could actually be strangled at birth.

Recommendation 2: cooperation in transport and communications

There are considerable prospects for economic cooperation between Russia and the countries of Central Asia in projects to develop transportation routes towards South Asia. **In theory**, this would enable the communication networks of Russia, Central Asia and South Asia to be linked by the shortest route. This would radically reduce the time required for land transportation of goods from the European parts of Russia and from Central Asia to Pakistan and India. Furthermore, it would also provide Russia and the countries of Central Asia with direct access to South Asia markets, boosting the flow of goods on the route "Russia – Central Asia – Afghanistan – Pakistan – India".

It is clear that the construction of communication routes across Afghanistan would be good for economic links between different parts of the Russian Federation and the Central Asian states and would transform Central Asia from being the transportation backwater it is today to being a major communications hub. Cooperation in this sphere between Russia, Central Asia and South Asia would also make investment in Russia and Central Asia a more attractive proposition for world capital, thus overcoming at least in part the problem of poor competitiveness in Russia and the countries of Central Asia contributed to by their geographical positions.

In practice, however, there are many factors which could obstruct this process. The first of these is the poor transport infrastructure of Afghanistan, and another is the devastated economic position of that country. There are no railways in Afghanistan, and the road network is in poor condition and of totally inadequate

capacity. The main routes between Afghanistan and neighbouring countries are also in very poor condition.¹⁹

Furthermore, there is at present no guarantee of long-term stability in Afghanistan, particularly in view of the rising tensions in the international situation in the Middle East and concerning Afghanistan's neighbour, Iran. There are also other problems which could have a bearing on the implementation of this recommendation, such as the relations between India and Pakistan and between Afghanistan and Pakistan.

Therefore the above recommendations can probably be regarded as a theoretically ideal scenario, but one which could only be realised if many other conditions were met. The analysis of these conditions is outside the scope of this paper.

Conclusions

From the perspective of today it is extremely difficult to forecast how economic relations between Russia and the countries of Central Asia will develop. This analysis has been approached at two levels: the theoretical level (i.e. what ought to be done?) and the practical level (what is actually happening?).

Closer cooperation between Russia and the countries of Central Asia in industrial production and transport communications would enable their economic links to be radically improved, in terms of finished goods, and the trade would increase in volume. This is not only a logical and advantageous step, it is vital for the long-term development of all the countries concerned.

For Central Asia, cooperation with Russia across a range of issues would have the potential to provide the following benefits:

- development of the high-technology enterprises inherited from the former Soviet Union (mechanical engineering, aviation, electronics, etc);
- intensive development of the agricultural sector, which has the potential, with its advantages of climate, to be more competitive, and hence more attractive to investors, than the Russian agricultural sector;
- opening up the vast Russian market to Central Asian countries;
- resolution of the "hidden unemployment" problem in Central Asia, particularly acute in Uzbekistan, Tajikistan, Kyrgyzstan and Turkmenistan.

For Russia there would be the following advantages:

- restoration and redevelopment of many industrial enterprises which are important to Russia but are hardly viable except in connection with the countries of Central Asia;²⁰
- more efficient use of processing plant (e.g. raw material refining);
- solving the shortage of labour resources by mobilising labour from the Central Asian countries to develop zones in Russia such as Siberia and the Far East.²¹

It is thus possible that the improvements in cooperation between Russia and Central Asia seen recently could be the prelude to a more extensive programme of integration in industrial production and transport communications. The combined resources of the energy sectors of Russia and Central Asia could be a driving force for the development of high-technology and processing industries in all the countries concerned.

In view of the history of cooperation between Russia and Central Asia, it can safely be said that further expansion of their economic cooperation is a necessary condition not only for the development of the Central Asian region but also for a radical improvement in the efficiency and competitiveness of the Russian economy. It is noteworthy that in other countries with more competitive economies than Russia or Central Asia, there is much pressure to form regional markets. The positive example of the European Union needs no comment. The United States created the North American Free Trade Agreement (NAFTA) with Canada and Mexico, as long ago as 1994, and they are now trying to promote free trade in the whole of the Western hemisphere. Likewise China is pursuing an active policy to create a common market with the countries of Southeast Asia, and there are increasingly insistent calls for a common currency for China and the ASEAN countries.

Russia and Central Asia should follow these good examples and develop an integrated economic area, not only with political declarations but in real action in terms of cooperation in industrial production and transport communications, within the framework of mutually-advantageous inter-state division of labour.

Endnotes

¹ "Central Asia " here means the area of central Eurasia comprising five countries – Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan – which declared their independence in 1991. In the historical context the terms "Central Asia" and "Russia" mean the states which existed at the time on the territory of the modern Central Asia and Russia.

² Calculated on the basis of data from the national statistics organisations of the Central Asian countries.

³ Highly processed chemical products such as plastics, paints and dyes, synthetic resins and other products of organic synthesis.

⁴ Mineral fertilisers, primary products of crude oil refining, various minerals, gas condensate, etc.

⁵ The volume of trade between Russia and the Central Asian republics is calculated by adding together the bilateral trade volumes, on the basis of data from the national statistics organisations of the countries of Central Asia. The information from 1991 is quoted in Soviet roubles, as at that time all the above-mentioned countries were part of the Soviet Union. In this table they have been converted into US dollars, based on the exchange rate which was quoted by the USSR State Bank on the basis of equal purchasing power (i.e. \$1 US = 0.78 of a rouble).

⁶ According to official statistics of these Central Asian countries. If China's shuttle trade with Kazakhstan and Kyrgyzstan is included (virtually ignored by the statistics organisations of these two countries), China is no less an important trading partner for them than Russia.

⁷ National data: Republic of Kazakhstan Statistics Agency; Republic of Kyrgyzstan Ministry of Industrial Development, Economics and Trade; State Statistics Committee, Republic of Uzbekistan; National Institute for State Statistics and Information, Republic of Turkmenistan; State Statistics Committee, Republic of Tajikistan, 2006. Note: the foreign trade figures from the statistics organisations of the Central Asian countries match those from Russia.

⁸ A major component of Russian-Kazakh economic relations is the extraction, processing and transportation of hydrocarbon, other fuels and energy complex in general.

⁹ Energy resources, ferrous and non-ferrous metals, chemical raw materials, textile raw materials, minerals, etc.

¹⁰ Machinery and equipment, foodstuffs, chemical products, etc.

¹¹ Mainly gold.

¹² Primarily leather and wool.

¹³ The Bekabad Steel Factory relies on scrap metal or imported raw materials, as there are no iron deposits in Uzbekistan which have been industrially exploited.

¹⁴ Plastics, paints and dyes, synthetic resins, synthesised organic products, etc.

¹⁵ For example, the Central Asian gas transportation system was important for the Soviet Union as a whole. It provided gas for industrial and domestic consumers, not only in Central Asia but in many industrial zones in Russia and nearly all the industrial areas in Ukraine. Similarly the electrical supply system was significant for the Soviet Union as a whole, while the water supply system was of region-wide significance.

¹⁶ Vladimir Paramonov and Alexey Stokov. *Russia's new Strategy: Regionalization versus Globalization* (Conflict Studies Research Centre, 2004), pp 3-8.

¹⁷ In 1976 the traffic on the Central Asian (*Sredneaziatskaya*) railway system comprised more than 77 billion freight tonne-kilometres and 5 billion passenger-kilometres. The mean traffic density was about 13 million tonne-kilometres per kilometre (Great Soviet Encyclopaedia, Moscow, 1978, Vol 24. Book 1, page 366). The "Central Asian (*Sredneaziatskaya*) Railway" was the official title of the former Soviet railway administration covering the area of Uzbekistan, Turkmenistan, Tajikistan and the southern part of Kyrgyzstan. This administration had its headquarters in Tashkent.

¹⁸ It has been estimated that ore reserves of commercially important non-ferrous metals (chromium, molybdenum, tungsten, copper, lead, zinc, vanadium, aluminium, manganese, cobalt, nickel, cadmium, mercury, antimony, bismuth, tin and uranium) in the five Central Asian republics amount to about 62% of the reserves in the former Soviet Union and exceed the reserves in the Russian Federation by a factor of 2.2 - 2.5. Vladimir Paramonov and Alexey Stokov, *Ibid.* p 9.

¹⁹ Vladimir Paramonov and Alexey Stokov. *The Economic Reconstruction of Afghanistan and the Role of Uzbekistan* (Conflict Studies Research Center, Defense Academy of the UK, 2006), p.4-5.

²⁰ The textile industry, for example. Russia has practically no textile raw materials of its own, and the climatic conditions there are not conducive to the development of these resources. The raw resources for the Soviet Union's textile industry were produced in Central Asia. But it is not in the interests of the Central Asian countries to operate primarily as a supplier of textile raw materials to Russia, as in Soviet times. That is why the reconstruction and development of the Russian textile industry depends on its technological cooperation with similar industries in Central Asia, based on a mutually advantageous division of labour.

²¹ In view of the present unfavourable demographic situation in Russia, this factor would be vital to Russia's economic recovery.

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