CHAPTER-1

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The concepts of region and regionalism occupy central place in the politics and international relations literature. The term ‘region’ may be defined as a cluster of states sharing a common space on the globe. From another perspective regions could be seen as units or zones, based on groups, states or territories, whose members display some identifiable patterns of behaviour.\(^1\) Another approach equates a region to a nation in the sense of an imagined community; states or people held together by common experience and identity, custom and practice.\(^2\)

The importance of defining a region becomes obvious when we move to our central concern regionalism. Regionalism implies a policy whereby states and non-state actors cooperate and coordinate their strategy within a given region. The aim of regionalism is to pursue and promote common goals in one or more issue areas. Understood thus, it ranges from promoting a sense of regional awareness (shallow regionalism), through consolidating regional groups and networks, to pan- or subregional groups formalized by interstate arrangements and organizations (robust regionalism). Here aspects of regime theory are particularly helpful in identifying norms, rules and procedures around which the expectations of different actors converge.\(^3\)

Regionalism can operate both above and below the level of the state. A truly successful regionalist project today presupposes linkages between state and non-state actors: an interlocking network of regional governance structures, such as European Union (EU) and North American Free Trade Area (NAFTA).

This takes one to the concept of regional cooperation. The thesis employs a narrow definition of regional cooperation that follows one of Andrew Hurrell’s typologies for regionalism: regional interstate cooperation.\(^4\) Hurrell notes that this type of cooperation can be more or less formal and may have varying degrees of institutionalization. The purpose of such interstate cooperation is to respond to

\(^{2}\) Emanuel Adler, *Imagined security communities: cognitive regions in international relations*, *Millenium* 26: 2, 1997
\(^{4}\) Hurrell delineates several additional types of regionalism, including regionalization, regional awareness and identity, state promoted regional integration, and regional cohesion. See A. Hurrell, 'Regionalism in theoretical perspective'.

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external challenges, solve a common problem or secure welfare gains. When successful, such cooperation reasserts and extends state authority by enabling it to tackle key challenges.\(^5\)

The focus of this thesis relates to the latter part of Hurrell’s definition: It assesses the issues that local state leaders have frequently defined as major problems, for which they have often recommended common solutions. The key task of the thesis is to analyse efforts at interstate cooperation in the region and to assess how the outcome of such initiatives can best be understood. The thesis is concerned primarily with multilateral cooperation, but will also discuss bilateral cooperation where relevant.

Andrew Hurrell and Louise Fawcett point to an important caution, relevant for research on cooperation as well as regionalism. They note that studies on regionalism tend to slide from description to prescription, whereby regionalism becomes a moral doctrine as to how international relations ought to be organised. This thesis does not put forward a normative argument for cooperation or regionalism in Central Asia. It merely assesses instances where the Central Asian states themselves have identified the need to work together, but have not been able to achieve the desired results.\(^6\) The focus is not on how this cooperation could be successfully resurrected, but on analysing the issues that arise from an understanding of why it has been such a difficult goal to achieve.

The concept of ‘new regionalism’ constitutes an important backdrop to the thesis.\(^7\) New regionalism attempts to capture the rise of regional institution building since the end of the cold war.\(^8\) Much of the enthusiasm for regional groupings as key aspect of ‘new regionalism’ that exist in many parts of the world can also be found in the rhetoric adopted by the foreign policy elites of Central Asia. Indeed, state leaders in Central Asia often make explicit reference to such regional initiatives as

\(^{5}\) Ibid. Also see R. O. Keohane, After hegemony: cooperation and discord in the world political economy, Princeton University Press, 2005, p. 12.

\(^{6}\) Fawcett and Hurrell, Regionalism in world politics.

\(^{7}\) The term ‘new regionalism’ has been used by several writers, including Norman D Palmer, in The new regionalism in Asia and the Pacific (Lexington Books, 1991). Andrew Hurrell notes that there was a previous wave of regionalism in the late 1960s, discussed by among others J. S. Nye Peace in parts: integration and conflict in regional organization (Lanham: University Press of America, 1987)

\(^{8}\) Bjorn Hettne places regionalization directly in the context of globalization and argues that the new approach sees regionalization as ‘part of a global structural transformation, or globalization, in which also a variety of non-state actors were operating at several levels’. R. Falk ‘Regionalism and world order’, in Soderbaum and Shaw, eds., Theories of new regionalism: a Palgrave reader (Houndmills: Palgrave Macmillan, 2003), pp. 70-71.
the European Union or the Association of South East Asian Nations countries in explaining the rationale for regional diplomatic initiatives.\(^9\)

Regional cooperation can not succeed until two conditions are satisfied. One, every state has to get convinced that its national interests are served better through regional cooperation rather than without it. Two, every state has to rest assured that regional cooperation will not in any way compromise its sovereign identity and rights. However these are only necessary and not sufficient conditions for regional cooperation. Favourable conditions for regional cooperation require the fulfillment of certain other prerequisites.

Regional cooperation is more likely when there is more symmetry or economic equality among potential member states.\(^10\) Joseph Nye hypothesizes that, for developing countries, lower the per capita income of the area, greater homogeneity in size of the economy must be in place for the integration process to succeed. Central Asian states were the least developed among the former Soviet republics, and their underdeveloped economies are more or less similar in terms of obstacles, quality and size.

Another precondition of cooperation is interaction among the entities aiming to integrate. On this count, although Central Asian states were completely isolated from the rest of the world, particularly their southern neighbours during the Soviet era, Moscow theoretically promoted interdependency among its Republics.\(^11\) Although the economies of all post-Soviet republics are in transition, many existing patterns of interaction among Central Asian states are still preconditioned by their Soviet past. Thus, Central Asian states, which have little experience in trading at the international market, share many of the economic and trade characteristics of the developing world, especially those countries that are raw material and commodity producers.

Finally, two other conditions fundamental to the process of integration are widely shared values and presence of a common threat. Both factors are also present among most Central Asian republics, which share cultural and ethnic ties among

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\(^9\) N. Nazarbaev *Kazakhstan na puti uskorennoi ekonomicheskoi, sotsialnoi i politicheskoi modernizatsii*, (Speech in Astana, 2005)


them. Fear of Russian hegemony and implications of the rapidly growing Chinese and American interests in the region are identified by them as a common threat.

In spite of the above mentioned phenomena and the fact that Central Asian states exhibit the features of ‘new regionalism’, this thesis also highlights an important limit of its reach, since Central Asia is a region where substantial cooperation still remains elusive. The Central Asian states projected the image of cooperation, and established institutions to initiate regional cooperation efforts, but little real cooperation ensued. This thesis tries to understand both why there were such extensive diplomatic efforts at generating ‘regionalism-like’ phenomena, and why the global trends of regionalization did not fully take hold in Central Asia.

1.1 International Relations Theory: Approaches to Understanding Regional Cooperation

Regional cooperation can be assessed with reference to varying levels of analysis in international politics. There are five different approaches to understand the comprehensive patterns of regional cooperation in Central Asia. These include realism, neorealism (power distribution), hegemonic approach, functionalism (interdependence), constructivist theories and domestic political explanations.

Realism and Neo-realism

In order to understand the implications of realism for Central Asian regional cooperation, let us begin with, what realism stands for? The most fundamental conviction of classical realism is that states are, and ought to be, governed by an overriding concern for ‘national power’. Adequate national power is the only guarantee of national security. A state must commit its resources to attaining and maintaining national power. It follows as a logical corollary of this conviction that states do not, and should not allow themselves to be lured by considerations of economic gain if such considerations will, in their assessment, compromise their political and strategic power.


There also exists a somewhat different position, known commonly as neo-realism or structural realism, which abandons none of the basic concerns of classical realism but introduces in the perspective a few modifications and qualifications. Of these, there are two that should concern us the most. The first has to do with the realization that states do not enjoy complete autonomy in their pursuit of power. They have to work within the constraints imposed, and demands made, by the international structures of power. Second, it holds that economic resources are not merely means to the end of power; they are an effective basis of exercising power by themselves.\(^\text{14}\)

Neorealist theories also known as theories of power distribution, make a number of assumptions about international politics, such as states are unitary, rational actors, the world system is anarchic, and the distribution of capabilities among states is a primary determinant of state behaviour. Traditionally neorealists have tended to de-emphasise both cooperative efforts among states and the importance of international institutions.\(^\text{15}\) They have, however, specified some conditions under which international cooperation is likely to emerge. Treating all forms of interstate cooperation like military alliances, they believe that small states will collaborate in the face of common, preponderant threats. In such a situation, inter-state rivalries become pointless and unity is preferred.

The applicability of this notion should be clear with respect to Central Asia. All these states live in the shadow of Russia, and fears about potential Russian expansion or intervention make them uneasy. Therefore, according to the neorealists, the rational action would be to work together to counterbalance the common threat. This logic works for those Central Asians who advocate stronger regional structures.

Neorealists also argue that weaker states may use multilateral institutions or integration as a means to counterbalance potential intra-bloc threats, which is in a sense bandwagoning with a bigger power by locking the larger state in to the structure that can contain it. They consider the formation of European Union (EU) as

\(^\text{14}\) John Baylis and Steve Smith (eds), The globalisation of world politics, Oxford, 2001.
\(^\text{15}\) Kenneth Waltz, Theory of International Politics, 1979.
an effort by smaller states to limit German power, since the EU mechanism will give them greater opportunities than other alternative arrangements.\textsuperscript{16}

This neorealist argument can be applied to Central Asia. Although there is no clear dominant power in the region, Uzbekistan is in a position to become the ‘anchor state’ in the region.\textsuperscript{17} It has the largest population among the five Central Asian states, enjoys central and strategic location, and has the only substantial army that is a usable arm of state policy. Moreover, because of the Uzbek diaspora, it can make territorial claims on its neighbours. Perceived threats of Uzbek expansionism diminish the desire of other states to entangle Uzbekistan in regional institutions.

Scholars view Central Asia as an arena for great-power competition. A widespread version of this approach is the notion that the region is returning to the dynamic of the historical ‘Great Game’ of the Central Asia in the 19th century and the associated geopolitical competition between outside powers.\textsuperscript{18} This Great Game approach is based on the premise of realism which says that the international system is anarchic and states are concerned with their survival, which introduces competition and rivalry between states. The Great Game approach is underpinned by a central geopolitical postulate: spatial dispositions of continents and oceans and the distribution of natural and human resources are central to the way the international system is structured.\textsuperscript{19} States with the greatest material capabilities are the ones most likely to survive in the international system. This system triggers competition for resources on a global scale by the powerful states. It follows that great powers like Russia and the US have natural, conflicting interest in controlling the territories and resources of Central Asia.\textsuperscript{20} Moreover, since the outside states are enormously more powerful than the local states, their struggle and strategies matter most in determining political developments in the region — including patterns of cooperation. In other words, outside competition drives the international relations of the region.


\textsuperscript{17} Kadir Alimov, ‘Uzbekistan’s foreign policy. in search of a strategy’, in Roald Sagdeev & Susan Eisenhower (eds), \textit{Central Asia: Conflict Resolution, and Change} (chevy chase, MD, 1995).

\textsuperscript{18} Great Game approaches dominate the English as well as Russian and Chinese academic literatures on Central Asia. See R. Vassiliev, ‘Caspian Oil – the new Great Game’, Jamestown Monitor Prism, 12 January 1996; Z. Brezezinski, The grand chessboard; X. Xu, Oil and gas linkages between Central Asia and China: a geopolitical perspective (Houston: James A. Backer III Institute for Public Policy, 1998).

\textsuperscript{19} J. A. Agnew, \textit{Geopolitics: re-visioning world politics} (London: Routledge, 2003)

\textsuperscript{20} Harold Mackinder noted in a 1904 essay that domination of the Eurasian Heartland was essential for states aiming to control world affairs, H. J. Mackinder, ‘The Geographical pivot of history’, \textit{Geographical Journal}, vol. 23, 1904.
intra-regional cooperation fails, this – as all other international relations of the region – is ascribed to great power competition.\textsuperscript{21}

Barry Buzan and Ole Waever’s ‘Regional Security Complex Theory’ provides some conceptual tools to understand this approach.\textsuperscript{22} Buzan and Waever argue that the international system encompasses several regional security complexes.\textsuperscript{23} Central Asia may constitute one such regional security complex. External powers can re-define the power structure in a region by supporting particular states, whether militarily or from economic point of view.\textsuperscript{24} Buzan stresses that the greatest effect of external power is on the underlying distribution of power in a region (structure), and that there is less impact on the pattern of local hostilities (process).\textsuperscript{25} Cantori and Spiegler have also found that ‘in general the experience of intrusive power has been that it is easier to impose conflict than cooperation upon members of a subordinate system’.\textsuperscript{26} In other words, penetration by outside great powers may act to amplify structural divisions within a region, thereby making cooperation difficult.

The only condition under which outside penetration by great powers would not enhance structural divisions in the region is one of ‘overlay’ by one power.\textsuperscript{27} Overlay by one power bears resemblance with hegemony and it provides fertile grounds for cooperation.

There is an alternative realist approach that stresses the importance of local powers and their rivalry, rather than the role of outside powers, as the key to explaining patterns of interstate cooperation in Central Asia. In this approach, local small states have leverage over and, to some extent manage great-power intervention in the region.\textsuperscript{28}

\textsuperscript{23} Buzan defines a regional security complex as ‘a group of states whose primary security concerns link together so closely that national securities can not realistically be considered apart from one another’. B. Buzan, \textit{People, states and fear: An agenda for international security in the post– Cold War era} (New York: Harvester Wheatsheaf, 1991), p.190.
\textsuperscript{24} Ibid. pp. 212-13.
\textsuperscript{25} Ibid. pp. 214-15.
\textsuperscript{27} B. Buzan, \textit{People, states and fear}, pp. 214-15.
Assuming that local states hold sway in the affairs of the region, they may still compete among themselves according to a realist logic. Classical realism in the version propounded by Hans J. Morgenthau offers a useful starting point. Morgenthau argues that countries and their state leaders ‘act in terms of interest defined as power’. The struggle for influence and control is central to international politics. Since state is a rational actor, in pursuing a rational foreign policy, a state will attempt to minimise the risks and maximize the benefits in order to entrench its power in the international system. Cooperation between states is not impossible, according to Morgenthau, but most states still act in a rational manner to maximize benefits that serve national interests. Realists, both classical and neo-realist, are generally skeptical about the prospects for cooperation. If there are issues that call for cooperation, states might engage—but a key premise of realist approach is that attention to state interests supercedes all other concerns. When inter-state cooperation militates against this aspect, states are likely to disengage from cooperation. The fear of losing sovereignty in cooperation schemes subsumes all other concerns on the part of state. In a realist perspective, state survival is the primary concern, and any initiative that might lessen sovereignty could be viewed as threat to the continued existence of a state.

The central premise of realism, that states maximize benefits and pursue national interests, is also shared by neo-liberal institutionalism. However, the key difference between the two is that realists argue that states are likely to disapprove of relative gains by other states and this can easily halt cooperation efforts. Neo-liberal approaches portray states as striving for the greatest absolute gains from cooperation, with little concern about whether or not other states gain relatively more in cooperative relationships.

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30 Ibid. pp. 7-10. Here Morgenthau's stress on 'rational' behaviour is interesting: the rise of rationality as a starting point unites classical realism and neo-liberalism. The neo-liberal perspective holds that certain forms of cooperation may be the most rational way for states to accommodate national interests and that maintaining cooperative relationships and regimes become part of a state's long term interest because this path best mitigates transaction costs. See R. O. Keohane and J. S. Nye, Power and interdependence: world politics in transition (Boston: Little, Brown, 1977); D. A. Baldwin, Neorealism and neoliberalism: the contemporary debate (New York, Columbia University Press, 1993).
31 Morgenthau, Politics among nations, p. 29.
33 Keohane and Nye, Power and interdependence; Baldwin, Neorealism and neoliberalism.
This approach which emphasizes the rational pursuit of national interest helps in understanding the patterns of inter-state cooperation in the spheres of water, trade, and security in Central Asia. Here realism may offer a coherent approach, in which slow progress in regional cooperation is attributable to profoundly conflicting state interests or an unwillingness to allow counterparts to obtain absolute or relative gains. In security issues, concerns for survival and loss of sovereignty, might act to undermine cooperation.

**Hegemonic theory**

Another theory to explain the process of regional cooperation is hegemonic stability theory. Presence of a powerful state in the region provides fertile grounds for cooperation. Several works in international relations literature on hegemony focus on cooperation. Robert Keohane notes that hegemony is likely to foster cooperation, and also that hegemonic rule benefits from increased cooperation between subordinate states. In brief, this theory suggests that the presence of a state with a preponderance of resources is necessary to establish and perhaps even sustain international cooperation. This ‘privileged actor’ or ‘external federator’ is able to overcome collective action problems by assuming the cost of establishing international regimes or other forms of cooperation. In contrast to neorealist theory, this theory predicts that states will join hands with a preponderant power in the hope of receiving benefits from the more powerful state.

To Keohane, a hegemon is a state that is powerful enough to maintain ‘the essential rules’ governing inter-state relations. In Central Asia the only candidate for regional hegemon is Russia, which is formally outside the region but casts a very long shadow. Though China also harbours hegemonic ambition in Central Asia, it recognizes the region as Russia’s sphere of influence. In his assessment of cooperation in Central Asia, Roy Allison holds that there is a ‘legacy or presence of Russian regional hegemonic influence’, and that this legacy has had important implications for regionalism in Central Asia. Allison is not the only analyst to refer to the condition of hegemony in Central Asia; other analysts have also used

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hegemony as a conceptual tool to understand the patterns of regionalism in Central Asia. Simply defined, a hegemon is a state with predominant power in the international system, measured in terms of GDP or other material resources.\textsuperscript{39} If one uses the context of Central Asia in the 1990's as a starting point, then Russia fits into this description. In terms of material resources, it had predominance over the other successor states.

Hegemonic stability theory would predict that Russia would take the initiative in promoting inter-state cooperation in the region. Formation of Shanghai Cooperation Organization (SCO) in June 2001, and increasing role of Russia within the CIS vindicate the above point.

**Functionalism**

Functionalist theory which emerged in 1940s also strives to explain cooperation among states. Known as interdependence theory, this theory analyses regional cooperation in sharp contrast to realist ones. Their basic premise is that growing economic interdependence, the diffusion of new technology and ideas, and awareness of common transnational problems diminish the importance of borders and create transnational actors and a demand for international cooperation.\textsuperscript{40} The functionalist thrust in the regional cooperation theory concerns itself with many objectives. It is a characteristic phenomenon of the post-world war period. This theory is based on the premise that states can no longer solve a number of issues through unilateral action. Common problems demand a pooling of resources mainly with economic and social aspects of regional cooperation activities. In simple terms, it means that regionalism is a collective action at regional level to achieve national objectives and institutions to help sustain cooperation. It is possible because nations in the same region may share a variety of concerns, possess similar cultures and social structures, and have greater contact with each other. In the context of functionalism, Central Asian states share a variety of concerns, some of which, such as environmental degradation in the Caspian and Aral seas or water resource management demand an intraregional response. Others, such as transport and economic restructuring and modernization, could be facilitated by multilateral

\textsuperscript{40} Robert Keohane and Joseph Nye, Power and Interdependence, Boston, 1977.
cooperation. Security concerns are also linked together, and this could be approached through regional institutions. It is especially true for energy and transport infrastructure. Since the Soviet times all countries in the region are members of the Central Asian Interconnected Power Grid through which substantial exchange of energy may be carried out. The centre of the grid is located in Tashkent and is responsible for coordination and monitoring of sustainable energy transmission across the region. During the last decade, however, the system has deteriorated; electricity lines are barely meeting growing consumption needs of the growing economies, while regular losses of power during its transmission have become a regular practice in recent times. As a result, some countries currently face not only a deficit of energy resources for domestic needs, but also suffer from its underdeveloped export potential in the given field. What is being argued is that energy infrastructure of Central Asia is regional in nature and the states could be interested in pushing forward and defending their interests together within the framework of functionalism. However, as the experience of African states demonstrates, common problems often are not enough to produce well-developed cooperative efforts. Moreover, some of the interdependence in Central Asia is more potential than real, since these states were more closely integrated with Moscow than with each other.

Constructivist approach

Constructivist theories of integration focus less on structural conditions and more on subjective feelings of regional awareness. This derives from social communication, common principles and norms, and changing material incentives. Their focus is not on the rational state actor but on the dynamics of identity formation within collectivities and the growth of transnational civil societies. Cooperation is predicated upon feeling of mutual sympathy or even a transfer of loyalty to a broader community beyond the state.41 This theory may have some relevance for Central Asia. In an effort to bolster a sense of regional identity, state leaders agreed to rename the area ‘Tsentral’ naya Aziya’, scrapping the old Russian label of ‘Srednyaya Aziya i Kazakhstan’. Though mere semantics, this change also

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reflects a statement of unity, a belief that the region shared a common fate.\textsuperscript{42} This subjective feeling has also taken hold of opposition of regional integration based upon a supposed common identity, and this movement often is viewed as some sort of inevitable, historical conclusion.\textsuperscript{43} However, the common identity of being a Central Asian is still a naïve one, as there is no consensus on what a Central Asian ‘is’. Debates involving competing definitions or visions of Central Asia could easily weaken interaction efforts.

However, the above mentioned approaches to understanding the patterns of regional cooperation in Central Asia only represent ideal types. No single approach can capture the phenomenon in its totality. The process of regional cooperation in Central Asia represents a complex reality and can only be comprehended in its totality by a combination of more than one ideal type as the following chapters will illustrate. In the given context, some questions may also arise with regard to the true rationales behind the intentions to ‘regionalise’ in Central Asia. All the regional states are seeking to integrate into the world community and favour multilateralism in their foreign policies. Equally, however, they are also members of many regional unions. Hence, under these circumstances, how the region is going to act and what will be the impact of these steps, both political and economic are important issues on regional cooperation to be considered by these Republics. In search of some answers to these questions, it is necessary to explore the general features of the creation and emergence of such regional blocs across the world in the past.

1.2 History of Regionalism: Lessons for the Central Asian Republics

It is recognized view that a significant impetus to the trends of the first regionalist wave across the developing world was given by the process of Western European integration. The initial wave of the regional unions was widespread during the entire 1960s-1970s. In Latin America, it was the Latin America Free Trade Area (LAFTA) and the Central American Common Market both established in 1960. Later, disagreements in LAFTA led to the emergence of the Andean Pact in 1969. In

\textsuperscript{42} Martha Brill Olcott, 'The Myth of Tsentral' naia Aziia', Orbis, 38, 4, 1994, p. 549.
\textsuperscript{43} Abdurakhim Pudat, 'Turkestan po puti k integratsii' Tsentral'naya Aziya, 1995, 1, p. 12.
1980, LAFTA itself was replaced by more flexible and less binding Latin American
Integration Association.\footnote{R. Pomfret, The economics of regional trading arrangements, Oxford University Press, 2001, pp.98-104.}

Although far-reaching trade and political goals had been declared, it became
soon clear however, that the prospects of these regional efforts remained vague. The
countries were able neither to increase their share in the world trade which, on the
contrary, had diminished; nor to cope with the declining volumes of intra-regional
trade too. The idea of regional success had reportedly failed. In the Latin American
case, the source of these developments was the wide range of size and the level of
development among its members, with small Bolivia and Paraguay and larger Brazil,
Argentina and Mexico. The process of industrialization caused by the regional
emphasis on the import-substitution manufacturing sector development, led to the
further expansion of the gap between small and larger economies. In addition, some
disagreements over the redistribution of benefits from highly protected regional
industries, and over the costs of the higher prices on domestic markets were the

Another reason of the differences between the European integration and a
poor performance of regionalism in the third world, particularly in Africa, was seen
in the local conditions which had existed in the less developed economies. Natural
resources endowment, retention of a common colonial legacy, in addition to high
political orientation towards former metropolis states long after independence
resulted in emerging non-diversified commodities-based local economies and slow
or the absence of any economic progress.\footnote{Ibid.} \footnote{Ibid.} In many respects, as a result of such
orientation in foreign trade, the structure of merchandise exports among these
countries made no significant differences and subsequently gave a little impetus to
the development of intra-regional relations.

It needs to be underlined that the level of industrialization, as a mirror
reflection of the commodity orientation in foreign trade, serves as an important pre-
condition for the intensification of foreign trade. This was certainly absent in the
developing countries at the time when they had decided to set up regional unions.
Therefore, for such countries regionalization in forms of various unions ended with
no tangible benefits than expected at the outset of such a process. On the other hand, the goals of those countries looked more ambitious as compared to true domestic and external environment. Emboldened with the elusive political dreams about regionalism, the countries seemed to set a too high tempo of integration which was later perceived to be unattainable in view of the inadequate and so far not formed political and economic potential. At last, the vulnerability of the young states due to the high dependence on the world commodity markets made them the first targets of instability in the world economy. It was especially seen during the oil and energy shocks in the 1970s. Although these were resource-rich countries, who suffered more, the subsequent slow-down in global economic growth resulted in tumbling demand for commodities and the lower prices on the main exports from these countries to the developed economies. It happened at the moment, when developing countries, especially relatively poorly endowed with natural resources, had to confront with the de facto high and unsustainable amounts of foreign debt. This eventually undermined all the efforts on sustainable regional development.47

Later on, the next wave of regionalism started spreading across the world during the 1980s-1990s. As so called “new regionalism”, it could be characterized as “an attempt to find answers to the challenges coming out from global structural crisis and strengthened international competition exacerbated by financial instability in the world.”48 NAFTA (North American Free Trade Association) and Mercosur (South American Common Market) are the cases of regional unions during the second wave of regionalism in the world. The peculiarity of these unions is that their birth was connected not only to purely economic reasons.49 Mercosur was the most important of the Latin American initiatives in terms of the size of the economies involved (Argentina, Brazil, Paraguay, and Uruguay), and called for a common market from January 1995 with free movement of goods, services, labour, and capital.50

At this moment, some differences were in place between the first and second waves of regionalism. The approach of bringing forward common interests as a

49 Ibid. p. 99.
group was believed to be a more or less efficient way to defend national interests in negotiations with the rest of the world, especially on multilateral agreements. The policy orthodoxy itself was shifting during the 1980s from import-substituting industrialization towards more outward-oriented and market-friendly development strategies. Developing countries became increasingly willing to accept the obligations of GATT members (as to more liberal trade policies) and simultaneously seek the rights of such membership (in the form of legal guarantees to market access). Given the greater importance of US, EU, and Japan’s domestic trade policies for developing countries, GATT became the principal multilaterally negotiating forum in which developing countries began to play an active role for the first time ever. 51

Conclusion of the most long-lasting Uruguay Round multilateral trade talks was to some extent successful in assuaging the regionalism-versus-multilateralism issue by favouring free trade globally. 52 The reform of dispute settlement procedures and the establishment of discussion panels in the newly organized system of multilateral trade within WTO on the basis of the former GATT limited the potential for unilateralism from developed countries, and thus helped the developing economies to negotiate trade on more equal footing. 53 The WTO relieved some restrictions on the establishment of regional blocs in the world under particular conditions, as well as introduced a special clause on regional unions between developing countries. 54 With these opportunities, developing countries were keen to set up various regional unions with and without supranational structures. The latter were regarded as a tool to contribute to both a policy-making process in response to global trends and international trade on the one hand, and to the simultaneous protection of national interests through the step-by-step promotion and

52 Some authors note, however, that it was just the loss of momentum in the multilateral trade negotiations during the GATT Uruguay Round which caused the rising interest to regionalism in the 1990s. See: M. Micic, International Trade, St. Martin’s Press, New York, pp.523-528.
54 Ibid. pp.352-355
reinforcement of regional competitiveness on the world markets dominated by industrially developed countries.\textsuperscript{55}

In addition, contemporary trends in regionalism are supported by the mutual reinforcement of economic and political rationales. In terms of the established economic and trade relations among countries, total volume of regional trade is higher than that of the rest of the world. Economic linkages tend to reinforce which in turn secures more active collaboration in political dimensions. Such patterns pertain to the South East Asian regionalism (ASEAN), and Asia Pacific Economic Cooperation (APEC) under the slogans of regional cooperation and integration in a pragmatic and gradual way. Its main feature is that these processes may happen before institutionalization and the strong adherence to the binding obligations which is not regarded as an indispensable condition. Moreover, modern regionalism is driven more by the ideas to strengthen key positions in international relations through the mergers with the previously formed regional unions (Latin America), the expansion of membership by admitting new members or directly through bilateral negotiations to comprise new aspects of regionalism (South East Asia),\textsuperscript{56} or emergence of biregionalism.\textsuperscript{57} The following table summarizes the importance of regional bloc trade in different parts of the world.

\textbf{Table 1}

\textit{Share of Intra-regional Trade in Total Trade, various regions, 1928-2003}

(all figures are in per cent)

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* Mexico is included in Latin America


\textsuperscript{55} South America trade bloc expands, BBC News, 08 July 2004; South America blocs in trade deal. BBC News, 19 October 2004; South America launches trading boc, BBC News, 09 December 2004.  
\textsuperscript{56} China in landmark pact: a landmark trade agreement between 10 South East Asian countries and China has been signed at a Summit in Laos. BBC News, 29 November 2004.  
To sum up, the efforts and willingness to set up regional blocs in various parts of the world in the past was influenced by a number of specific economic and political factors. In the developing world, the given process seems to require another, most probably longer timeframe for objective reasons, such as lack of sufficient funds, dependence on foreign capital and international donors, absence of transnational corporations capable to implement such investments. The regionalism in the world in the past took various forms which differed by their nature. But there should be links between the waves of 1950s-60s and 1980s-1990s which reflect in that this regionalism was substantially provoked by national trade policies of the USA, Europe, and Japan towards each other and towards the third parties. For the latter, it is thus believed to be “difficult in terms of being secluded from the gravity of industrial countries. The terms of both national and regional policies are drawn up in the world of industrial countries; the IMF-led international financial system, World Bank, WTO. Neither regional blocs, nor single countries are able to get isolated from the world markets. It thus leaves only some medium way between a defenseless openness, and a voluntary or forced seclusion... When moving forward this way, the regional spaces (blocs) may be useful, but only on the provision that political value added could be turned into an extra economic potential through sound economic policies.”

What can be learned from the experiences of European Union (EU) and Association of South East Asian Nations (ASEAN) is that success of regional cooperation has been achieved in those regions because of gradual and pragmatic sequencing that involved modest initial steps with cohesion among the lead participants. Secondly, strong external support and incentives combined with light and flexible institutional structures can bring Central Asian states together even after a recent history of conflict. However, in the end the Central Asian states will have to define their own approach to regional cooperation and integration due to specific historical circumstances.

1.3 Central Asia: Historical Background

Inter-state relations in post-Soviet Central Asia reflect distinct regional and historical contexts, which influenced the ways states entered into cooperative

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arrangements. For centuries, there have been three common themes in Central Asia's march to civilisation. The first relates to the intensive contact and communication among people from many countries, cultures, languages and religions. Today's five Central Asian republics incorporate people from different historical dynasties, Khanates and clans that have come together. The second theme is the region's historical economic interdependence. Central Asia lies at the centre of intersecting trade routes, and for centuries has supported and relied on the flow of goods and people. The third theme is cultural integration. Central Asia has been a locus for advanced study in religion, science and the arts. The flow of artisans, techniques and tools along the Silk Road allowed the flourishing of arts and ideas in the ancient cities of Central Asia and spread their influence far beyond.

Bordering China, India, Russia, Europe and the Middle East, Central Asia has been a geographical and political hub around which nations have fought battles, and traded their valuables. The region has had numerous names and identities. To the ancient Greeks it was Transoxiana, the region between the Amu Darya and Syr Darya rivers. In later centuries, it became Turkestan, 'the land inhabited by Turks'. In the 19th century, the Western world dubbed it the 'back of beyond', and it became the setting for noted political geographer Mackinder's heartland thesis. Today, the history of the Central Asian region is primarily associated with the great Silk Road, which once stretched from the edges of the Roman Empire to the gates of China.

Beatrice F. Manz notes that at the beginning of documented history the population of Central Asia was Persian. However the region's modern history can perhaps best be traced from 651 A.D., when the Arabs invaded from the South, defeating a Turkic ruler at the city of Merv in today's Turkmenistan. The conquerors rebuilt Merv, and it became an important centre for Islamic art and study. By 705 AD, the cities of Bukhara and Samarkand were captured, destroyed and the people of the region were converted to Islam. Islam's tradition of study and learning, combined with the region's own cultural wealth, prompted artistic development and scholarly knowledge. As Islamic rulers supported trade and private enterprise and provided a unifying force, they encouraged the Silk Road's continued expansion.

In the early 13th century, Genghis Khan and his armies drawn from nomadic tribes in Mongolia destroyed Bukhara and many other famed cities in Central Asia that resisted the advance of his horsemen. Within a year the Mongols had conquered all of Central Asia, swept through what today is Russia and reached as far as the edge of present day Western Europe. With the encouragement of trade during Genghis Khan’s rule, as well as a tolerant attitude towards different religions and cultures, the Silk Road continued to flourish, resulting in the economic integration of Eurasia.

Power shifted back towards the sedentary tribes of Central Asia with the rise of Timur (or Tamerlane), whose statue stands today in the heart of Uzbekistan. Timur was born near Samarkand in 1336. While claiming to be a descendant of Genghis Khan, he overthrew the remnants of the Mongolian empire, established the Timurid dynasty and continued to conquer land from Baghdad to Moscow. Under the artistic and intellectual leadership of his grandson and heir, Ulugh Beg, Samarkand and Bukhara became “the seat of all learning in the decorative arts, architecture, poetry, philosophy, painting and astronomy”. In the 1500s, a regional tribe called the Uzbeks defeated the Timurid dynasty and overthrew Babur, Tamerlane’s heir, and ultimately formed three separate khanates based in Khiva, Bukhara and Kokand.

At about this time, the Russians made their presence felt in the region after Ivan captured Kazan in 1522 from the Tatars, descendents of the Mongol tribes. The Russian influence continued to extend into Central Asia for the next 400 years. Under Peter the Great, the Russians moved into the Caucasus and began establishing forts and towns throughout northern Kazakhstan. Aside from a general push to the East, the desire for the cotton of Central Asia and the fur and land of Siberia drove Russian expansion. From the mid-1800s, Russian forces set out on outright military campaigns to take the cities of Central Asia. Tashkent fell into Russian hands in 1865 and Samarkand in 1868.

Under Soviet rule, Central Asia was firmly and fully integrated into the Soviet political and economic sphere, even as Communist collectivization and Stalinist terror brought severe famine and hardship to the region. World War II, while very painful in terms of Central Asian lives lost on European soil, in the end

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had a long-term positive economic impact for the region. Large-scale industrialization and modernization significantly advanced the region’s economic development as Stalin forcibly relocated hundreds of factories and millions of workers into Central Asia. Subsequently, the population of Central Asia rapidly grew due to high birth rates and the often forced migration of Russians, Koreans, Germans and others.

Stalin’s rule also left a legacy of inter-republican borders in the region drawn up by Moscow. Today, this legacy still affects the Central Asian republics and the relations between them. The centrally located, fertile and very densely populated Fergana Valley sub-region has been the most severely affected by the puzzled course of the new national borders that cut back and forth across the valley.

The region’s primary contribution to the Soviet economy was producing 90 to 95 percent of the Soviet Union’s cotton. This highly labour-intensive produce demands great quantities of water. Soviet engineers diverted the huge rivers of Central Asia, the Amu Darya and the Syr Darya, for irrigation of vast new cotton growing areas in what was previously desert. However, it resulted in the long-term environmental disasters which are dealt with in chapter four of the present work.

Despite the growth of industry in Central Asia, especially during World War II, the region’s economy remained predominantly based on agriculture and natural resources, with relatively low productivity even by Soviet standards. Because of high transfers from the Central Government and artificial price supports, Central Asia was able to maintain a higher level of development than its productivity would have supported, even as its standard of living indicators were the lowest in the Soviet Union.

1.4 Central Asia as a Region (Convergences and Divergences)

Historically speaking, ‘Central Asia’ is an amorphous concept’. However, for the purpose of this research, Central Asia is defined as five countries that lie to the east of the Caspian Sea, namely, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan and were part of the Soviet Union prior to its break-up. These states are regarded as constituting a natural region. With common political and economic history, these countries are also geographically contiguous, and they

have been linked for centuries by strong ethnic, cultural and linguistic ties. In Soviet times, the Kazakh Soviet Socialist Republic was considered part of the broader Russian regional compact which also included Belorussia and Ukraine. The four other countries were commonly referred to as Middle Asia (*Sriednaya Asia* in Russian Language).

In another sense since the borders between the Central Asian Republics are now much more porous, one could also define the Central Asian region in a broader way to include the geographically, ethnically and economically linked regions of the neighbouring countries. Among these are Western China with its Turkic Uighur population, Northern Afghanistan with its ethnic, water resource and trade links; and Azerbaijan with its Turkic ethnic and Islamic religious background and energy and environmental links across the Caspian Sea.

At the same time, within the Central Asian region defined as five Republics, some sub-regional linkages are stronger than others. The cross-border linkages within the Fergana Valley have traditionally been very close. In contrast, high mountain ranges divided the territory of Tajikistan into smaller sub-regions that have traditionally had stronger economic and ethnic ties with neighbouring countries in Central Asia than with each other. Similarly, it can be argued that Kazakhstan’s northern and western regions are more oriented towards Russia and China than their Central Asian neighbours.

Despite these ambiguities with regard to what constitutes the Central Asian region, the five Central Asian republics as shown above constitute the area of principal focus in the present work. This region exhibits significant point of convergences and divergences.

The political, economic, social and cultural environment of the five former republics of the Soviet Union has been shaped by more than 70 years of communist policy. The experiences from the era of the Soviet Union still remain the basis for the future societal and economic development of the countries of Central Asia. In addition to common historical preconditions for fostering regional cooperation and integration, there are other factors that encourage Central Asian states to strengthen multilateral cooperation. These states have inherited a social infrastructure whose reconstruction and modernization requires a regional approach. Moreover, there is a significant structural interdependence in the water-energy infrastructure. There is a need to harmonize legal standards in the areas of finance, trade, transport, and
communications to overcome the segmentation of national markets and increase the regions attractiveness for the foreign investors.\textsuperscript{63} Another significant point of convergence is underlined by the need to develop regional transport networks to minimize Central Asia's geographic disadvantages and broaden access to large neighbouring countries.

Most of the challenges and threats posed by pollution, soil degradation, trafficking in drugs, weapons, and human beings, and the expansion of religious extremism and terrorism etc. require a regional response.

Russian is the common language which is read, written and spoken in all countries of this region. The absence of communication problems greatly facilitates cooperation within Central Asia.\textsuperscript{64} However, all countries of this region have shown noticeable tendencies towards promoting their respective native languages, representing the beginning of a cultural disintegration process that will make future cooperative efforts more difficult unless these policies are revised. Some other features also incline these states toward common approaches. For instance, which national legislation has been separately adopted in each countries, it tends to be drawn from models developed in Russia. As a consequence, legal and regulatory practices tend to be uniform throughout the region. In addition all the Central Asian States also tend to be uniform in stressing a highly paternalistic and hierarchical political culture.\textsuperscript{65}

From an economic perspective, despite significant individual differences, the Central Asian countries are in comparable positions. There is no reason to expect that the integration process would lead to a significant decrease in wealth for some states with one-sided benefits accruing to the remaining states. However, with the turn of new millennium, the gap in the development levels among the Central Asian states has increased with other states lagging far behind Kazakhstan and Uzbekistan. With the adoption of divergent economic policies, this gap is only going to increase in coming years.\textsuperscript{66}

\textsuperscript{64} Kobler, 1993, pp.26-27.
\textsuperscript{65} Gregory Gleason, 'Inter-state cooperation in Central Asia: from the CIS to Shanghai Forum', \textit{Europe Asia Studies}, vol. 53, no. 7, 2001, p.1082.
Despite a certain amount of industrial production, the Central Asian economies are very much dependent on primary goods and their export. The building of the capacity to process these raw materials, at least in an initial production stage, would greatly facilitate the transformation processes within the individual countries.\(^{67}\)

The attempts at integrating Central Asia are also based on the countries' common heritage. The concept of establishing a united state of all Turkic peoples within Central Asia ('Turkistan') dates back to the time before czarist rule\(^ {68}\). Turkistan as a political entity did, in fact, exist during the second half of the 19th century, at which time a Governor of Turkistan had been appointed. During the early years of the Soviet Union, Central Asia was governed as the 'Autonomous Soviet Republic of Turkistan' till 1925, when it was divided into separate republics\(^ {69}\).

The economic basis for regional integration in Central Asia has been significantly shaped by the economic heritage of the Soviet Union. In the former USSR, the supply of row materials, particularly cotton, represented one of Central Asia's primary economic functions. Furthermore according to the World Bank's classification, all countries within the Central Asia fall into the category of 'lower-middle income' states. Only Tajikistan, which has been paralyzed by its civil war, has been classified a 'low-income country. The gap between the per capita gross national products of the three states of Kazakhstan, Kyrgyzstan, Uzbekistan is relatively narrow. Kazakhstan's per capita national product is only twice as high as that of Kyrgyzstan. By comparison to other integration projects in classical developing countries, e.g. in South-East Asia, this provides a significant advantage. The development differential among the countries involved is not too great.\(^ {70}\) A further indication of the relative homogeneity of the Central Asian economic region is the comparatively large share of agriculture in the gross national product (GNP) of all countries. Only Kyrgyzstan stands out as a country that is somewhat more dependent on agriculture than the others.

\(^{67}\) Marnie and Whitlock, 1993, p.40
\(^{68}\) Marnie & Whitlock, 1993, p.39.
\(^{69}\) Ibid.
Despite these convergences, there also exist significant divergences among Central Asian states.\textsuperscript{71} While there are aspects of a common culture and identity, Central Asia is also an ethnographic mosaic of a variety of people. Leaders in these states are also trying to carve out their own space in case of boundaries, and also in terms of internal political legitimacy and economic development, which limit the prospects for regional cooperation. The new states faced serious economic challenges after independence and the collapse of the Soviet planned economy. Each of the five developed their own approach for dealing with the crisis, and their own ways of making the transition to a market economy and independent statehood.

Kazakhstan

Kazakhstan is a pro-reform country, which undertook a rapid and ambitious privatization programme from 1994 onwards. Although it suffered hyper-inflation of 3,126 per cent in July 1994, it made its currency, the tenge, convertible in 1996.\textsuperscript{72} Starting from 1995, Kazakhstan maintained a strict fiscal policy and cut government spending. This approach curbed inflation but also entailed major delays in the disbursement of wages and pension, as well as reducing public investment in infrastructure. According to the Economist Intelligence Unit, the country suffered one of the worst economic contractions among the former Soviet republics in the early 1990s.\textsuperscript{73} Unlike Uzbekistan, Kazakhstan did not seek to protect uncompetitive industries. Part of the rationale behind its privatization programme was the goal of ridding the government of loss-making enterprises and spurring enterprise restructuring or closures. Kazakhstan liberalized consumer prices and removed most export taxes in the early 1990s. Virtually all subsidies on consumer goods were lifted in September 1994 and many industrial subsidies were phased out before the end of that year. The country moved quickly to create a stable legal and regulatory structure for commerce, adopting a progressive Civil Code, establishing the framework for commercial transactions and property rights. Kazakhstan adopted a modern banking system, a securities exchange system, bankruptcy legislation and a system of public utilities management. It established the framework for a new system of government fiscal management, with a modern system for managing

\textsuperscript{72} EIU Country profile Kazakhstan 1997, (London: Economist Intelligence Unit, 1997).
\textsuperscript{73} Ibid.
public external date, a new tax code and a new system of tax administration. At the critical juncture following the collapse of financial markets in Russia, when many Central Asians were arguing for the adoption of a statist ‘Asian path’, Nazarbaev held firm to Kazakhstan’s reform programmes, pledging ‘to continue the promising advances toward an independent, open and free market economy’.

Kyrgyzstan

Kyrgyzstan also has a pro-reform strategy. In May 1993, Kyrgyzstan left the Russian rouble zone and introduced its own currency, som. The new currency became convertible for most current account transactions shortly afterwards. Like Kazakhstan, Kyrgyzstan too launched an ambitious programme of privatization, cut government subsidies and liberalized prices. It retained only three export taxes – on hides, wool and cotton fibre. But Kyrgyzstan’s economy lags far behind that of Kazakhstan.

Tajikistan

Tajikistan is committed to the reform path, but its capacity to carry out reform is limited. President Emomali Rahmonov’s reform strategy is dependent upon improved cooperation with the Central Asian neighbours. Tajikistan’s recent history, economic isolation, mountainous geography and poorly developed physical infrastructure make it one of the world’s most remote and difficult to integrate economies. Because of the 1992-97 civil war, Tajikistan’s economic reform strategies were slower and more muddled than those of Kyrgyzstan and Kazakhstan. The country introduced its new currency in May 1995 and liberalized prices on consumer goods in the same year. Since then, most other industrial and agricultural prices have been liberalized as well. In 1996, trade was partly liberalized and export tariffs reduced.

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75 EIU Country profile Kyrgyzstan 1997.
76 Ibid.
78 Ibid.
Uzbekistan

Uzbekistan adopted an economic strategy radically different from those of the above mentioned other three countries. The state made every effort to protect its industrial sector in order to avoid a contraction in the economy and large-scale industrial unemployment. Uzbekistan's strategy is often referred to as Import Substitution Industrialization (ISI), but it should be stressed that even if Uzbekistan clearly aimed to increase domestic industrial production, a considerable segment of its economy was already industrialised by 1991.\(^{79}\) Industrial protection was as much part of ISI as was industrial expansion. ISI complemented the regime's strategy of ensuring full economic self-sufficiency for Uzbekistan. Uzbekistan's economy in 1991 entailed a diverse mix of industry, natural resources and agriculture, which provided an economic setting fairly conducive to this strategy. Moreover, with its population of 27 million, Uzbekistan had a large domestic market to draw upon. Still, politics seems to be key factor underpinning this choice. Uzbekistan faced several serious threats to its stability in the early 1990s. ISI made it possible for the regime to avoid the potential social and political strains associated with rapid economic reform.\(^{80}\) Uzbekistan's policy of maintaining an overvalued currency has played a key role in forcing border constraints in Central Asia. In July 2000 Uzbekistan took the unusual step of adopting an additional level of visa controls, stepping out of the 'unified Soviet visa regime' – which previously made it possible for all former Soviet citizens to move from country to country with passport alone – by requiring that Kyrgyzstan residents apply for a visa to cross into Uzbekistan.\(^{81}\) Uzbekistan lies at the hub of the region's infrastructure networks. Regional improvements in transport, energy use, sustainable water policy, communication, currency, the trade environment and the movement of people hinge upon policy decisions in Uzbekistan.

Uzbekistan's strategy of self-sufficiency had two important pillars, namely, expansion of the oil and gas sector and enhancement of wheat production. The former experienced considerable success: by 1995 Uzbekistan had increased its


\(^{81}\) Uzbeks, Kyrgyz Agree to Visa Deal for Security', Reuters, 3 July 2000.
extraction rates to the point where the country was self-sufficient in energy. However, it proved considerably more difficult to step up wheat production.

Import Substitution Industrialization in Uzbekistan embodied a complex set of policy measures. High trade barriers on imports were introduced alongside export taxes. The government continued to set the prices of consumer goods and maintained subsidies on important items like fertilizers. Currency regulations were also crucial components of the state’s economic management strategies. Uzbekistan maintained a multiple exchange rate system from 1994 to 2003, when its som finally became fully convertible. Until 2003, Uzbekistan had an official exchange rate and a commercial bank rate that were kept artificially strong, but to which only priority firms, mainly in the industrial sector, had access. In this way, the state subsidized imports of needed ‘capital goods’ and attempted to restrain imported inflation. Alongside these official rates, a weaker ‘bazaar rate’ or free-market rate co-existed illicitly. This informal exchange rate diverged from the official one by over 50 per cent from 1996 onwards; by 2000 the spread between the two rates had widened to 411.9 per cent. In effect, Uzbekistan used centrally controlled export income from the cotton sector and gold mining sector to maintain its official exchange rate as well as a range of other subsidies to the industrial sector, thereby giving a temporary boost to uncompetitive domestic production.

Turkmenistan

Turkmenistan has a status quoist orientation. Turkmenistan has embraced commercial relations but has done so without market reform. Turkmenistan’s former president, Saparmurad Niyazov devised domestic and foreign policies with little influence from major domestic political constituencies. Turkmenistan’s vast natural gas resources – the country possesses over 100 trillion cubic feet of proven reserves – give Turkmenistan the luxury of independent decision making. Niyazov exercised complete monopoly on political power. Domestic political constituencies have been largely isolated and excluded from the political process. Passage of a law exempting

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83 Ibid.
84 Ibid.
85 Ibid.
86 Ibid.
Turkmenistan from term limits allowed him legally to remain in office until his death.

Turkmenistan has sensitive border issues. The imperative of maintaining good relations with Uzbekistan is dictated by the division of the Amu Darya river. Major trans-Asia ground transport routes pass from Turkey and Iran, through Mashad to Ashgabat and Tedzhen in Turkmenistan before going on to other major Central Asian capitals and the Far East. But Turkmenistan puts less emphasis on Central Asian regional cooperation and puts more emphasis on its relations with the Caucasus, the Middle East, Iran and Caspian egress routes.

As a result of these policy divergences, notion of a unified Central Asia remains, in the words of a prominent Kazakh poet and political figure, a 'paper construct' and if implemented will only lead to 'unpleasantness'. Another observer noted that very little stands behind the 'gestures' of cooperation displayed by the leaders of the Central Asian Republics from time to time.

Another source of problems is the economic structure of these states. Some claim that Central Asian states have highly diversified and complementary economies that could facilitate trade and greater economic coordination. There is a mixture of agriculture and industry in the region, and these states also possess vast stores of fossil fuels and industrial minerals. Yet it would be a mistake to claim that this region could be a viable and cohesive economic unit. These states lack diversification and a dense network of economic ties, the preconditions for export specialization (as in the Middle East) or huge investment resources from one of the partners (as in the case of NAFTA). They also continue to depend upon other states, especially Russia, for many essential goods. Although there has been some reorientation since 1991, trade with Russia still accounts for over half the total to and from the region, whereas intra-regional trade constitutes less than 10%, far lower than the 60-70% intra-bloc trading found in the European Union. Moreover, since 1991 the absolute volume of intra-Central Asian trade has plummeted, as old

87 Olzhas Suleimenov, 1995, 1, p. 10.
ties among the republics were severed and leaders chose to protect domestic markets. Intergovernmental trade targets, one of the primary steps taken to develop common economic ties, have not been met. Moreover, 'because the infrastructure is so linked together that as of now, continued integration with Russia holds more prospects than any Central Asian common market. However, in future all the Central Asian republics are likely to drift together in matters of foreign policy as they have more points of commonality than points of difference as shown by the following analysis.

1.5 Imperatives of Regional Cooperation

There are numerous imperatives that make sustained multilateral cooperation among Central Asian states an attractive option and there are structural forces pushing them towards cooperation and possible integration. All these states face a number of problems that seriously threaten their future. These include ethnic turmoil, the need to restructure and modernize the economy, state-building from scratch and severe environmental and public health problems. In addition their security environment is also unstable, largely due to uncertainty over the continued volatile situation in Afghanistan. Each of these states is weak and has an uncertain future. Together, either in a more formal union or through multilateral cooperation, they could solve their common problems and create a more stable and secure environment.

During the Soviet era, the Central Asian republics were largely isolated from the external world. There were almost no direct communications or transport links with neighbouring countries. All foreign relations were handled through Moscow. Consequently, with the exception of a handful of senior officials and eminent academicians, very few Central Asians had any first hand knowledge of life beyond the Soviet borders. At the same time, direct cooperation between the Central Asian republics was also limited, since the planning and organization of regional projects was directed from Moscow.

Under these circumstances, the need for regional cooperation in Central Asia is commonly recognized. The weak states of Central Asia need to cooperate at regional level in the face of preponderantly common threats. Growing economic

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90 Primbetov, 1994, pp. 262-263; and Rumer (ed), p. 44.
interdependence and awareness of common transitional problems have reduced the importance of national boundaries and created a demand for international cooperation at the regional level. The newly independent states of Central Asia cannot solve their numerous problems through unilateral action. Common problems demand a pooling of resources and creation of institutions to oversee cooperation. This naturally takes place at regional level, for states in the same region share a variety of concerns, possess similar culture and social structures and have greater interaction.\textsuperscript{91}

The necessity of integration and regionalization is also well defined by Uzbek President Islam Karimov when he notes, “In fact there is a series of initial conditions and prerequisites for the integration of the Central Asian republics. They imply an equal starting level of economic development, similarity of social and economic problems, unified transport and energy supply, communications and water resources, Apart from this, there exist common threats to security of all the states that inhabit this region. Among them are the drying of the Aral, drugs and arms smuggling, emerging terrorism and religious fundamentalism, threats to escalation of tension and instability that comes from Afghanistan and a number of other factors. Such threats despite their apparent disparity are unifying factors, because none of these threats may be surmounted autonomously, relying on one's own forces. There are grounds to look forward with optimism to the future of the Central Asian Commonwealth.\textsuperscript{92}

Thus regional integration is the way for the newly independent states of Central Asia to overcome the common Soviet inherited economic structure. The regional integration of Central Asian states is an objective and a natural process conditioned on the national interests of the countries of the region. In many respects, the necessity of regional integration is based on the deep-rooted interdependence and mutual economic complementarities of the countries of the region. The joint rational use of water and power resources is necessitated by the existential reality of the region. The priority of regional cooperation in this direction is explained by the fact that Central Asian states are connected by the common river pools of Syr Darya and


Amu Darya. In addition they have a uniform ecological system and common line of the gas pipelines Gazli-Bukhara-Tashkent-Shymkent-Almaty.

Problems related to sharing of river waters are the biggest challenge confronting the region. These problems can be resolved through regional mechanism in the sphere of hydro-economics. Today the Central Asian region is marred by common problems, such as, general deficiencies of water resources, absence of uniform legal base, frequent ignoring of the interests of the neighbouring countries, non-compliance with the existing principles of water distribution by the riparian states, and defaults in compensatory deliveries. Compensation to Kyrgyzstan for water from Toktaghul reservoir as deliveries for heating and power resources is a perennial cause of regional discord.

There are a number of barriers to mutual trade relations between the countries of the region. As a result of which smuggling of goods across borders flourishes causing a direct loss to the economies of the region. The analysis of dynamics of trade between Central Asian countries in the last few years shows that the volume of mutual trade tends to decrease as a whole, despite some revival in the late nineties. For instance, the trade between Kazakhstan and Uzbekistan in 2000 declined to almost half in comparison to 1995 (from 422 to 212 million US $). The trade between Kyrgyzstan and Kazakhstan decreased from 202 to 90 million US $ in the corresponding period.93 Same trend continued even in the succeeding years, despite the fact that, after the initial slump (1991-96), economies of the individual countries have shown smart recovery since 1999.

The decline in trade relations between Central Asian countries shows the existence of many unsolved problems, which can only be resolved within a regional framework. Any progress in this direction calls for harmonization of customs and tax laws to the extent necessary for effective functioning of a free trade regime. They also require unification of custom rules and procedures and prevention of unilateral actions restricting imports of goods from the countries of Central Asia.

Regional Cooperation in the areas of trade and investment can make a major contribution to human development and human security in Central Asia. Cooperative efforts have the potential to raise the productivity levels, employment generation and boost the economic growth. Regional Cooperation has been proved

effective in reducing the probability of political conflicts between the countries of a region elsewhere. It is therefore pathetic that the Central Asian countries' trade and investment performance has been less than satisfactory by international standards.

If the republics are to breach their geographic isolation in the middle of Eurasia, they need to stop drifting further apart in terms of policies, and economic and human relations. They will have to find ways to cooperate with each other in order to overcome the legacy of disintegration and their mutual suspicions, and to forge closer economic, natural resource, social and institutional links with each other. However, it is important to note that the Central Asian republics have not been oblivious to the benefits of cooperation and they have taken a number of steps in this direction, which will be analysed and explored in the following section.

1.6 Regional Cooperation in Practice

Central Asian countries have undertaken diplomatic efforts at initiating co-operation. The states stressed early that inter-state co-operation and multilateral solutions were crucial to their strategies for tackling the regional challenges they faced. The following chapters will take up the specific details of these initiatives and demonstrate that the overwhelming majority of these diplomatic initiatives could achieve only mixed results. The purpose of this section is to give an overview and also highlight the considerable scale of the efforts.

Multilateral co-operation among the Central Asian states can be divided into five phases:

- co-operation among the Soviet Central Asian Republics during Soviet times;
- the search for multilateral co-operation formats, 1991-1993;
- the agreement on and early efforts at developing a Central Asian common market, 1993-1998;
- the inclusion of Tajikistan and continued development of plans for economic integration, 1998-2000;
- the shift towards greater focus on security co-operation and re-naming of the organization, 2000-2003.

In Soviet times, co-operation among the Central Asian republics was co-ordinated from Moscow. Nevertheless, the late Soviet period saw some inter-republican agreements between Central Asian states – notably water agreement (14

Still, there was no multilateral co-operation in any meaningful sense until the USSR was facing its demise. In reaction to Boris Yeltsin’s meeting with Stanislau Shushkevich (Belarus) and Leonid Kravchuk (Ukraine) in the ‘Belovezhskaya accords’ in early December 1991, the five heads of state in Central Asia met in Ashgabat (Turkmenistan) to discuss a common response.95 Two policy options were debated to endorse the ‘belovezhskaya accords’ and press for the inclusion of Central Asian states into the new CIS structures; or opt out of a joint CIS structure and form a close-knit Central Asian union. The leaders chose to enter the CIS, which in turn paved the way for the CIS Almaty Declaration of December 1991. Alongside the CIS, however, the Central Asian states still continued to search for ways of institutionalizing their own co-operation. Some analysts see the Ashgabat meeting as a ‘fact of recognition and moment of creation of regional community’.96 In 1992 the five Central Asian states formed the regional organization Central Asian Regional Co-operation Organisation (Tsentral'no-Aziatskoe Regional'noe Sotrudnichestvo, TsARS) but both Turkmenistan and Tajikistan soon withdrew.

The landmark event in regional co-operation came with the agreement on the formation of a common market in 1993, signed first by Uzbekistan and Kazakhstan in Tashkent January 1993 and Kyrgyzstan in February 1993, and then later jointly by all three countries in 1994. The agreement spurred intense efforts at establishing institutions and legal framework for co-operation and the facilitation of a common market. In 1994 the states agreed to form an Inter-State Council consisting of heads of states from the three countries, which was to serve as the main forum for decision-making. A council of prime ministers, a council of defence ministers and a council of foreign ministers were formed to supplement the Inter-State Council. The three states also established a permanent implementing committee (Ispolnitel'nii komitet) first located in Almaty, and later on rotational basis in the capitals of the

95 The initial step towards the abolition of the USSR was taken by Stanislau Shushkevich (Belarus) Boris Yeltsin (Russia) and Leonid Kravchuk (Ukraine) in the ‘Belovezhskaya accords’ in early December 1991. See Gleason, The Central Asian States: discovering independence.
member states. The implementing committee had four representatives from each state, and was tasked with organizing and co-ordinating the work of the organization, developing analyses, generating and disseminating information related to integration and maintaining control over expenditures of the organization.\(^{97}\)

In the same period, the member states decided to establish the Central Asian Development Bank (Soglashenie ob uchrezhdenii Tsentral'no-aziatskogo Banka Sotrudnichestva i Razvitia, 8 July 1994, Cholpon Ata) and adopted an extensive five-year plan for the realization of the common market (Odobrena programma ekonomicheskoi integratsii mezhdu Respublikoi Kazakhstan, Kirgizskoi Respublikoi i Respublikoi Uzbekistan do 2000g. i pervoocherednie investitsionie proekti, 14 April 1995, Shymkent).

The fourth phase of regional co-operation, from 1998-2000, was marked by a reaffirmation of the goals of 1993 and 1994 and an attempt to develop implementation mechanisms. In 1998, the member states adopted a programme of action for the formation of a common market and a programme of action for the integration of the member countries of Central Asian Regional Co-operation Organisation.\(^{98}\) In the same year, Tajikistan joined the organization and it was renamed Central Asian Economic Community (Tsental'no-Aziatskoe Ekonomicheskoe Soobshchestvo, TsAES).

From 2000 onwards diplomacy within TsAES became more focused on security-related issues. The Taliban seizure of Kabul in 1996 had spurred considerable worry as to the external security of the region (in addition to concerns over Tajikistan), but security issues assumed real urgency after the incursions of the Islamic Movement of Uzbekistan into Kyrgyzstan in 1999, and into Kyrgyzstan and Uzbekistan in 2000. In April 2000, the states signed the Agreement on Fighting Terrorism, Extremism, and Transborder Organised Crime, to facilitate intelligence-sharing, covert operations and co-operation among their armed forces. The turn towards security was codified during the Tashkent meeting in December 2001 and a subsequent meeting held in Almaty on 28 February 2002: TsEAS was officially transformed into Central Asian Co-operation Organisation (Tsentral'no-Aziatskoe Sotrudnichestvo, TAS). The change also entailed a major re-structuring of the

\(^{97}\) G. G. Rakhmatulina Dinamika razvitia integracionnykh protsessov v gosudarstvakh SNG i perspektivy formirovaniia edinogo ekonomicheskogo prostranstva (Almaty: Kazakhstanskii Institut Strategicheskikh Issledovanii pri Prezidente Respubliki Kazakhstan 2004).
\(^{98}\) Ibid.
organization. The executive committee, which had consisted of 16 staff members, was abolished in favour of four national co-ordinators. One Kazakhstan-based observer has noted that ‘the liquidation of the whole apparatus of the implementing committee... did not fully correspond to the tasks given of strengthening control over the realization of the inter-state agreements...’

Despite the shift towards security issues, efforts towards economic integration continued. In 2000, at the Dushanbe summit the heads of state adopted a strategy for integrated development for the period 2000-2005, while in 2002 President Islam Karimov of Uzbekistan threw his weight behind new plans for a common market. Uzbekistan has since taken the lead in developing a concept for three-stage realization of a common market, to be completed in fifteen years. In parallel with this process, President Nursultan Nazarbaev of Kazakhstan initiated a re-launch of the 1998 consortium plans. Donors like the Islamic Development Bank, the World Bank and the Asian Development Bank were invited to assist in the development of three consortia: on hydropower, transport and food production. These bodies were meant not only to serve as forums for inter-state co-operation on these specific issues, but also as a means to enable participation by the private sector – especially in the cases of the food and hydropower consortia. However, work on establishing the consortia had not moved beyond the planning stages by 2004, with the partial exception of the consortium on transport. It is certain what synergy there could be between the consortium plans and Uzbekistan’s common market proposal.

Even though these co-operation initiatives did not prove very effective, they do reflect the existence of shared norms and commonly agreed procedures of state behaviour. In this way the cooperation efforts as outlined above, in spite of failing to yield practical results, are indicative of regime like features in the inter state relations of the region.

The Conference on Interaction and Confidence-building Measures in Asia (CICA) was another co-operative framework that emerged from within the region. In 1995, Kazakhstan took the initiative to form CICA. According to President Nazarbaev, it was intended to serve a similar role to that of the OSCE, by providing a forum for discussion of political and security issues in Central Asia and the larger

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99 Ibid. p.95.
region. Leaders and policymakers voiced hopes that the region’s states could coordinate responses to drugs trafficking, arms trafficking and illegal migration. In June 2002 Kazakhstan hosted a forum attended by state leaders or high-level representatives from the member states, including both President Pervez Musharraf of Pakistan and Prime Minister of India Atal Bihari Vajpayee. Aside from providing a forum for discussions, however, CICA launched few concrete initiatives, and its future viability and necessity would appear open to question.

1.7 Challenges to Regional Cooperation

In the immediate aftermath of their independence, the Central Asian states embraced the idea of regional integration as a vital strategy for development and the consolidation of economic independence. This perception was strengthened by the realisation that there were many common social and environmental problems that could only be solved by concerted joint action. It was argued that the economies of the Central Asian states, taken separately, were too small and weak to be of interest to foreign investors; only by uniting to create a larger economic space would they attract much needed investment. It was also stressed that training programmes and other forms of technical assistance would have greater impact, and be more cost effective, if a regional approach was applied.

However, it soon became clear that there are many obstacles to integration. Firstly, the newly independent states, acutely sensitive in matters of national sovereignty, are reluctant to cede powers of decision-making and control to multilateral institutions. Secondly, there are issues of national dignity and honour that impinge on attitudes to socio-economic issues. Thirdly, there is a lack of confidence in regulatory instruments which engenders a deep sense of insecurity. These problems are exacerbated by asymmetries between the five states. They differ greatly in size of territory, population, defence capability, resource endowment, and access to transit routes. The smaller states like Kyrgyzstan and Tajikistan feel vulnerable in negotiations with their larger neighbours. They are apprehensive of the

100 President of Kazakhstan, Nursultan Nazarbaev, launched the CICA initiative at the 47th session of the UN General Assembly. *CICA: prospects of the process* (Astana: Ministry of Foreign Affairs, 2005).


102 Ibid., p. 55.

fact that 'collective' goods will not be distributed equitably and that in cases of extreme discord, their territorial integrity will be threatened.

Other factors that inhibit integration include the role played by state officials. Many are young, with relatively little administrative experience. Those of the older generation, who worked in the Soviet bureaucracy, often find it difficult to adapt to new conditions. The result is that institutions for inter-state cooperation may be in place, but frequently they do not function effectively. Another adverse factor is the weak tradition of regional cooperation. There is little practical understanding of how to plan and manage multilateral projects. Consequently, such skills must be acquired almost from scratch.

Yet the most serious potential obstacle is the polarization of the two larger states, Uzbekistan and Kazakhstan. The leaders of these states have adopted very different stances on regional cooperation. Kazakh president Nazarbayev has consistently advocated alignment with Russia within the framework of a Eurasian alliance. Uzbek President Karimov, meanwhile, has distanced himself from Russia. However, it is not clear whether this posture is motivated by strategic considerations or whether it is an attempt to bolster personal authority and reputation. He has adopted a critical view of the various regional organizations, whether Uzbekistan is a member or not. Some such complaints may be justified, but at the same time they reveal little desire for constructive engagement in any form. By contrast, Kazakhstan has pursued a more measured and consistent approach, working steadily towards establishing itself as the central pole of attraction. Undoubtedly this internal dissension weakens prospects for Central Asian integration. Till date, Tajikistan and Kyrgyzstan have avoided taking sides and thereby prevented further fragmentation. However, under pressure, the situation could well deteriorate, resulting in serious regional rifts.

In the early 1990s, regional alliances in Central Asia were regarded primarily as a means to achieving economic development. However, as local conflicts became increasingly violent, it was clear that without stability and security there could be no genuine regional cooperation. There was a frightening rise not only in outright fighting, but also in conflict-related problems, such as the mass movement of refugees; trafficking in drugs and arms; and extra-territorial support for rebel groups.

104 President Karimov's Interview to Uzbek TV First Channel, reported in Turkestan Newsletter, 18 June 2001.
This in turn fostered an upsurge in terrorist attacks, often linked to extremist Islamic slogans and separatist movement.

Contrary to many predictions, the civil war in Tajikistan (1992-97) did not trigger a 'domino effect' of conflict throughout Central Asia. However, there was a spillover effect of lawlessness and violence that continued long after the signing of the peace agreement. In 1995-96, the rise to power of the Taliban, a militant and ultra-conservative Islamist group, in neighbouring Afghanistan added to the volatility of the situation. Trans-border criminal cooperation intensified. The smuggling of drugs and arms increased dramatically. So, too, did the flows of refugees, with all the attendant social and economic costs. Towards the end of the 1990s, a long and severe drought caused further problems. Throughout the region, consecutive years of poor harvests intensified popular discontent and anger. This, too, prompted uncontrolled population movements, particularly from Afghanistan into neighbouring countries.

With deterioration of socio-economic conditions, militant Islamist groups, propagating an uncompromisingly anti-government agenda, have become more active in the Central Asian states. Allegedly, they are linked to organized crime and are responsible for acts of terrorism. Uzbekistan has been the main target for such activities, but Kyrgyzstan and Tajikistan, too, have suffered from insurgencies. Separatist ethnic movements, particularly of Uighurs in Xinjiang, have also been linked to criminal incidents. Official sources insist that they receive assistance from expatriate groups, particularly from trans-border communities of the same ethnic origin.

Nevertheless, given the transnational nature of the primary security threats – drugs and arms smuggling, militant religious extremism, and separatism – there is a consensus that such problems can only be addressed within a regional framework. Regional alliances not only multiply resources, but also, for the smaller states, they diminish the threat of an abuse of power by the larger states. Thus, in the narrow context of the region, Tajikistan and Kyrgyzstan share the perception of being exposed to pressure from Uzbekistan. In a wider context, the 'core' states have similar concerns about Russia and China.

Three of the Central Asian states have recently joined two separate, but overlapping, regional security organizations: the SCO anti-terrorist centre (China, Russia, Kazakhstan, Kyrgyzstan, Tajikstan and Uzbekistan) and the CIS anti-terrorist centre (Russia, Kazakhstan, Kyrgyzstan and Tajikstan). How these two bodies are to interact, either on a political or on an operational level is not clear. Yet there are a number of potential advantages. Firstly, this duplication is in itself a means of containing and balancing the influence of China and Russia. Secondly, it reduces the possibility of the ‘core’ Central Asian states forging an intra-organizational axis with one of larger power and thereby gaining a tactical advantage over its neighbours. Thirdly, it raises the possibility if competition between the larger states in providing resources, which could very well be turned to the advantage of the smaller states. Last but not least the most significant challenge to regional cooperation emanates from the economic constraints in the region. By retaining the elements of common economic space in the immediate aftermath of the disintegration of former USSR, these states believed in the possibilities of speeding up economic processes through the organizational and political methods. These measures though essential in the long-run, plunged them into deep economic crisis in the initial years after their independence. Subsequently the economic factors begun to exert deep influence on interstate cooperation in Central Asia leading to divergences in their approach to economic reforms and development, which are analyzed in the next chapter of the present work.