CENTRAL ASIA: PORTRAIT AGAINST THE BACKGROUND OF THE WORLD ECONOMY

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After the breakup of the U.S.S.R. and the formation of five independent states in the part of its territory now called Central Asia,[1] this region has assumed great importance not only in the system of international relations, but also in the world economy. The interest taken in Central Asia by the major powers is due in large part to economic factors: its vast area, diverse natural wealth, developed key branches of material production, and advantageous location in the path of transit of goods and services between Europe and the Far East and between North and South Asia.

In terms of many parameters of their natural resource and production potential, the republics of the region have a prominent place in the world economy. Unfortunately, information on this score contained in traditional and electronic publications is incomplete and insufficiently systematized, which limits people's knowledge about

[1] Geographically speaking, the name of this region is not flawless, because the northwestern part of Kazakhstan, which is included in Central Asia, is located not in Asia but in the far east of Europe (if we take into account the conventional boundary between them along the Ural River). However, the current name of this region with the inclusion of five countries is generally accepted in world political, geographical and country study literature.

Central Asia, lowers its investment attractiveness, and has a negative effect on the economic development of these countries. The purpose of this article is to furnish information about the potentialities of the Central Asian states in the world economy.

General Information

Central Asia (CA) occupies the central part of the Eurasian continent roughly equidistant from its eastern and western extremities. The total area of its five countries—Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan— is 4 million square kilometers, and its population is over 57 million. Overall, the region has 3% of the world's area and 0.9% of its population, whose density is three times below the world average and 21 times lower than population density in neighboring South Asia. However, in some parts of Central Asia, such as the Ferghana Valley, this figure is many times higher.

Special note should be taken of the landlocked geostrategic position of Central Asia, the only region in the world none of whose countries have access to the World Ocean. The distance from the region's southern borders to the nearest seaports on the Arabian Sea and the Persian Gulf is 2,000 to 3,500 kilometers. The way to these seaports lies through the territory of other states (Uzbekistan and Liechtenstein are the only two countries of the world separated from the World Ocean not by one but by two states). At the same time, the CA republics are geographically remote from the largest and economically most developed parts of Eurasia that are of greatest interest to them as export destinations, in particular, the Far East and the countries of the European Union. Thus, the nearest EU countries lie about 4,000 kilometers away from the inner parts of Central Asia.

At the same time, the benefits of the region's transit position in the path of goods, services and passengers moving in both latitudinal and longitudinal directions are quite obvious. After all, Central Asia's immediate neighbors and countries bordering on them have a population of about 3 billion. These benefits are bound to increase with the completion of new transport routes: roads, railroads and pipelines.

Population and Labor Resources

Central Asia is a region of ancient civilization. Its peoples have made a tangible contribution to human progress, especially in astronomy, medicine, mathematics, philosophy, architecture, handicrafts, irrigated agriculture and other fields of creative and economic activity.

In terms of state structure, modern Central Asia is one of the few regions of the world all of whose countries are republics. Although the earliest states appeared here in ancient times, within their present borders and under their modern names the countries of the region are fairly young.

In view of their relatively low (by world standards) economic development level, the degree of urbanization in the CA countries is below the world average. In four of its five republics there are fewer city dwellers than people living in rural areas. Moreover, in 1990-2005, the proportion of the latter has increased in all the five countries. The typical resident of the region is a young person: the average age is about 20 years in Tajikistan, 22 years in Kyrgyzstan, Turkmenistan and Uzbekistan, and just over 28 years in Kazakhstan. Nevertheless, these republics differ markedly in terms of birth

rate per 1,000 population, with a twofold difference between its annual minimum (16 in Kazakhstan) and maximum (32 in Tajikistan). The sustained excess of births over deaths not only offsets the outflow of people from the CA countries, but also ensures an annual increase in the size of the population and labor resources.

People living in the CA countries have a fairly high (by international standards) education level. In particular, the more than 99% literacy rate for people over the age of 15, the mean years of schooling (10-12 years) and some other indicators characterizing the quality of labor resources are well above the world average. Since the peoples of the region have had to live and work in difficult conditions and to endure many hardships since ancient times (nomadic herding, extreme continental climate, farming on arid, artificially irrigated lands, merchant trade involving the need to cover long distances along the Great Silk Road), they have developed character traits of great value for economic activity, such as endurance, fortitude, capacity for work, industriousness, and thoroughness in decision making. The peoples of the CA countries have other excellent qualities as well: generosity, hospitality, collectivism, respect for elders, and a deferential attitude toward knowledge and skills.

The total economically active population of the Central Asian republics (calculated using the International Labor Organization method) is over 37 million, although the actual number of employed persons is smaller, largely owing to labor migration. Thus, about 1.5 million people from the CA countries, according to published data, are working in Russia alone. Most of their earnings they send back home to their families, so supporting the socioeconomic development of their countries. In Tajikistan, for example, remittances from migrant workers make up about 20% of GDP.[2]

One of the main assets of the CA countries is their higher education level and larger scientific and creative potential than those of countries with comparable per capita income. However, the decline in the funding of the public education system, falling education standards and emigration of researchers, engineers and other specialists caused by the economic recession of the 1990s have brought into focus the strategic task of maintaining the quality of labor resources as the region's intellectual capital and creating conditions for their further development.

Natural Resource Potential

In addition to the advantages of the region's transit location and its adequate and relatively high-quality labor resources, the CA countries have a powerful and diverse natural resource potential, as required for the efficient development of the key branches of industry and agriculture and for ensuring high living standards on this basis. Of course, the CA countries vary widely in terms of natural resource endowments but, given close cooperation and well-considered division of labor, the shortage of certain resources in some republics can be compensated by their excess in other republics.

The countries of the region have at their disposal 1.3% of the world's perennial crops (orchards, vineyards), over 2% of its cultivated lands and over 3% of their most valuable and productive kind, irrigated lands.[3] A comparison of these indicators with Central Asia's share of the world population (0.9%) shows that per capita availability of land—the basic means of agricultural production—is far above the world average. The same is true of pastures, most of which are low-yielding, but their total area is very large.

[2] See: *Central Asia Human Development Report*, UNDP, Bratislava, 2005, p. 10.
[3] See: *FAO Production Yearbook 2003*, Rome, 2004, p. 15.

The situation with renewable internal resources of fresh water is more complicated. The per capita figure for the region (3,600 cubic meters per year) is almost 50% below the world average. Moreover, this valuable natural resource, perhaps more than any other, is distributed between the CA countries very unevenly (with variations of over 50-fold). Nevertheless, given prudent use and fair distribution of water, the region's rivers (most of them cross-border) can meet the basic needs of all the five countries. Let us note for comparison that even Turkmenistan, which has less fresh water than the other four CA countries, has a higher per capita figure (210 cubic meters) than Saudi Arabia, Israel, Egypt or Jordan,[4] countries with relatively well developed agriculture in the main providing their population with foodstuffs.

Wide expanses of agricultural lands (some of them artificially irrigated), warm and sunny weather in flatland and foothill areas in the summer months, and the region's considerable length from north to south make it possible to reap rich harvests of many crops (ranging from barley grown in cool climates to subtropical figs) and to breed various domestic animals (including camels). In fact, forests are the only natural resource of which there is an acute shortage in all the CA countries. The proportion of forest area is six times below the world average. Besides, in view of climatic conditions the region's forests are mostly low-yielding and are not so much of economic as of environmental and recreational importance.

The countries of the region have a wide variety of mineral resources. Many deposits are of world importance, and some have no parallel on the Eurasian continent (such as the Muruntau gold deposit in the Kyzylkum Desert). By international comparison, the region's reserves of energy resources and nonferrous metals are particularly large. According to some estimates, proven recoverable reserves in the CA republics exceed 38 trillion tons of coal, 3.3 trillion tons of oil, and 6.7 trillion cubic meters of natural gas. To this must be added such important energy resources as uranium (whose proven reserves are close to 0.7 million tons) and hydropower (about 500 billion kW per year). But these resources are distributed unevenly: from 85% to 90% of oil and coal is concentrated in Kazakhstan, over 40% of gas in Turkmenistan, and close to 30% each in Uzbekistan and Kazakhstan; Tajikistan has about three-quarters of the region's hydropower resources[5] (there are other estimates as well, such as those given in the U.S. Central Intelligence Agency's *The World Factbook 2005*).

Per capita availability of most energy resources in Central Asia is above the world average. In particular, this is evident from the fact that the CA countries with 0.9% of the world's population have almost 20% of world reserves of uranium and about 4% of gaseous and solid fuel. Ranking 61st in the world in terms of population (among about 200 countries), Kazakhstan is fourth in uranium reserves, eighth in coal reserves and 17th in oil reserves.[6] Turkmenistan, which is not even among the first 100 countries in terms of population, has the fifth largest reserve of natural gas in the world,[7] and Uzbekistan, which ranks 40th in terms of population, is 10th in uranium reserves[8] and 14th in reserves of natural gas.

Metals are the second most important component of Central Asia's mineral resource potential. Their reserves are most substantial in Kazakhstan and Uzbekistan. These two largest CA countries (in terms of population) have globally significant ore deposits of many ferrous, nonferrous, precious and rare earth metals. In particular, Kazakhstan has the world's largest reserves of chrome, 14% of zinc reserves (sixth place in the world) and over 4% of iron ore reserves (eighth place), and Uzbekistan has 5% of the world's gold (fourth place). In addition, these two countries stand out against the world

[4] See: *2005 World Development Indicators*, The World Bank, Washington, 2005, pp. 2146-2148.
[5] See: *Strengthening Cooperation for Rational and Efficient Use of Water and Energy Resources in Central Asia*, U.N., New York, 2004, p. 81.
[6] See: *Biulleten' inostrannoi kommercheskoi informatsii*, VNIIKI, Moscow, No. 13, 2005, p. 31.
[7] See: *Central Asia Human Development Report*, p. 96.
[8] See: *Der Fischer Weltalmanach 2004. Zahlen, Daten, Fakten*, Frankfurt am Main, 2003, S. 1263.

background in terms of their reserves of molybdenum, tungsten, silver and other ores. Two other CA countries are also high on the world list for some metals: according to various estimates, Kyrgyzstan ranks third in the world with 5% to 20% of world reserves of mercury, and Tajikistan ranks fourth with 3% of world reserves of antimony).[9] Even if we take into account the figures for each of the listed countries, we will find that per capita metal reserves in Central Asia are well above the world average, since the region's share of the world population is under 1%.

As regards the third most important mineral resource component—minerals for the chemical industry and other nonmetallic raw materials—here as well the CA republics have a prominent place in comparison with other countries. This applies, first and foremost, to reserves of phosphorites in Kazakhstan and Uzbekistan, bromine, iodine and mirabilite in Turkmenistan, sulfur and asbestos in Kazakhstan, and potassium salts and fluorite in Uzbekistan. The region also has numerous deposits of natural building materials: limestone, sand, gypsum, marble, etc.

Diverse natural landscapes of great beauty, numerous springs of healing mineral waters, etc., are another major component of the CA republics' resource potential, which is important for the development of tourism, recreation, sport and the health resort sector.

Role in World Production and Export

Given their diverse and abundant natural resource potential and their sufficient and high-quality labor resources, the CA countries occupy prominent positions in the world economy, including the production and export of many kinds of industrial and agricultural products. In assessing these positions, one should bear in mind that the countries of the region are predominantly agrarian-industrial ones. This is evident from the predominance of agriculture over industry and construction not only in the employment structure (in all the republics), but also in the structure of gross value added (in Kyrgyzstan, Tajikistan and Uzbekistan). At the same time, in the structure of GDP these sectors have given way to the service sector in all the CA countries (except Kyrgyzstan), and in Kazakhstan the share of the latter (53%) exceeds the total share of material production.[10] Incidentally, faster growth of the service sector as recorded in these republics is characteristic of the world economy as a whole.

Despite a significant decline in industrial production in the CA countries over the past 15 years, they still hold prominent positions in the world economy, mainly in the production of hydrocarbon fuels, nonferrous and precious metals, many types of industrial and agricultural materials, intermediate products, grain, fruits and vegetables, etc. Owing to the support given to strategically important, key industries and fuller use of existing capacity in some lines of production (oil, natural gas, gold, wheat, potatoes, fruits and vegetables, sugar, etc.), the region's share of world production volumes has increased. And owing to sectoral diversification of industry, the CA countries are now listed in world statistics as producers of goods that are totally new for them (the most impressive examples are cars and television sets). Today the CA republics produce over 17% of chrome, 16% of asbestos, 11% of uranium, 8% of manganese, 5-6% of natural gas, gold and silver, about 2% of oil and black coal, 1.5% of iron ore, and a significant part of other minerals produced in all countries of the world.

The list of agricultural products in whose production the share of the CA countries is well above their share of the world population is a long one. It contains not only fibrous materials, including cotton

[9] See: *Biulleten' inostrannoi kommercheskoi informatsii*, 2005, No. 60, p. 15; No. 77, p. 3.
[10] See: *Sodruzhestvo Nezamisimykh Gosudarstv v 2005* (Statistical Handbook), Moscow, 2005, p. 29.

(over 7%), wool and raw silk (over 3% each), but also essential foods such as wheat (about 4%), milk (2%), potatoes (over 1.5%), and also fruits and vegetables such as apricots (4%). The list of processed products is shorter. It is mostly confined to nonferrous metals (2.5-3.5% of refined copper, zinc and lead, over 1% of aluminum), some chemicals (such as sulfuric acid), textiles (cotton yarn), "vitamin" products (raisins, dried apricots, tomato paste), etc.

In some of the above-listed and other goods, the CA countries are among the world leaders. Thus, Uzbekistan ranks second in the production of karakul, fifth in uranium, sixth in cotton and tungsten, ninth in gold, and eleventh in natural gas.[11] Kazakhstan is second in the production of chrome and asbestos, fourth in titanium and vanadium, seventh in magnesium, zinc and manganese, ninth or tenth in silver, coal, bauxites and copper, and is among the world's major producers of ferrochrome. Kyrgyzstan is second among the leading producers of mercury, Tajikistan is fourth in antimony, and Turkmenistan, in raw silk. In addition, the republics of the region have a prominent place in world exports of certain fuels and raw materials, primarily cotton fiber (almost 20% of total world exports), zinc (4%), electric power and copper (3-3.5% each), wheat, gold and silver (over 2% each), oil and natural gas (over 1.5%), aluminum and cotton year (about 1% each).[12]

However, reliance on the region's powerful and diverse natural resource potential as the main source of revenue can result in sluggish development of science-intensive and high technology industries. The record of the world economy in recent decades shows that many countries in possession of abundant natural resources have been unable to use them efficiently and have thus failed to enter the path of dynamic socioeconomic development. Naturally, this does not mean that technological progress and structural shifts can only be driven by limited natural resources (as in resource-poor South Korea, Singapore, Israel, Mauritius and some other countries). A more fitting example for the resource-rich CA republics is the record of Mexico, Malaysia, the Philippines, Saudi Arabia, Thailand, Chile, Costa Rica, Bahrain and the United Arab Emirates, which have used their large export earnings from oil, raw materials and agricultural products to create modern industries and service sectors.

Resource Dependence and Economic Efficiency

Unfortunately, the leading positions of the Central Asian countries are so far mostly limited to the natural resource sector. Although these countries have high technology industries and produce science-intensive, sophisticated products (such as wide-body aircraft, cotton pickers, cars, plastics and synthetic fiber in Uzbekistan, television sets and some other kinds of consumer electronics in Uzbekistan, Kazakhstan and, to a lesser extent, in Kyrgyzstan and Tajikistan), they do not determine the structure of output in the region or its place in the world economy. For passenger cars, for example, the CA countries' share is under 0.1%, and for television sets, 0.4%.

Industries producing products with relatively low (compared, say, to engineering) value added—fuel and energy, metallurgical, light and food—prevail in the industrial sector of all the five countries. The efforts being taken to restructure production and to ensure a higher degree of processing of local raw materials have yielded some positive results, but have not yet led to any radical changes in the sectoral composition of industry that would ensure if not a leading place for engineering, metal-

[11] Calculated from: *Industrial Commodity Statistics 2002*, United Nations, New York, 2004; *FAO Production Yearbook 2003; Biulleten' inostrannoi kommercheskoi informatsii*, 2005.

[12] Calculated from: *UNCTAD Handbook of Statistics 2004*, U.N., New York and Geneva, 2004.

working, electrical engineering, electronics and the petrochemical industry then at least a proportion comparable with those of the natural resource industries.

This also applies to exports. The main export items are fuel and foodstuffs (oil, gas, wheat, fruits), semi-finished products (cotton fiber, ferrous and nonferrous metals) and other low and medium technology products (textile yarn, gray fabrics, oil products). In 2004, for example, crude oil constituted 57% of exports from Kazakhstan; gold, 40% of exports from Kyrgyzstan; and cotton and gold, 49% of exports from Uzbekistan. Cars, electrical and other engineering products, petrochemicals, plastics, synthetic fiber, pharmaceuticals, finished fabrics, etc., still have an insignificant place in their export structure.

The region's largely resource-based economy and foreign trade with a prevalence of low value added goods and services (together with a number of other factors) account for the relatively low socioeconomic development level of the CA countries compared to the world average. This is evident, in particular, from the fact that their share of the world's gross national income (GNI) at purchasing power parity (PPP) (0.35%) is almost 2.6 times lower than the region's share of the world population. Even in Kazakhstan—the country with the region's highest PPP GNI per capita—this figure (according to the World Bank, $6,980 in 2004) is a quarter below the world average ($8,760).[13] Of course, the accuracy of these figures is open to argument, but this can hardly affect the basic conclusion about the relatively low level of economic development and corresponding living standards in today's Central Asia.

One of the reasons for such a state of affairs is the insufficiently effective use of the existing natural resource, technological-production and intellectual potential. The worst situation is with the energy intensity of the economy. The average figure for the CA countries is three times above the world average: while consuming about 1.2% of the total energy resources annually used in the world, the republics of the region produce about 0.33% of world GNI. Another example of the currently low efficiency of economic activity is that 2.5% of the world's cultivated area under grain crops at the disposal of these countries yields 1.25% of all the grain harvested in the world (i.e., a share twice as low).

Cooperation as a Factor of Progress

Apart from natural resource-based production and low economic efficiency, another factor impeding the economic development of the CA countries is the fairly low level of their mutual trade, production and investment cooperation. This is one of the reasons why the share of the total exports of goods and services of the CA republics (0.28% of the world total in 2004) is lower than their share not only of the population, but also of PPP GNI.

The inadequate level of mutual economic cooperation and limited communication routes for export of goods to international markets hold back the inflow of foreign direct investment (FDI). In most CA countries, per capita FDI figures are lowest among the post-socialist countries, with investments mostly confined to a narrow range of industries (fuel, raw materials, low and medium technology products).

It is not right to say, as some commentators do, that the main obstacle to mutual trade, economic cooperation and deeper division of labor in the region is the sectoral similarity of the national economies, including their natural resource orientation and supply of similar goods (energy resources, cotton,

[13] See: *World Development Report 2006*, The World Bank, Washington, 2005, pp. 294, 295.

nonferrous metals) to the foreign market, which inevitably results in competition between them. After all, in some industries the production and foreign trade profiles of the CA countries are different and complement each other. In regional nonferrous metallurgy, for example, Tajikistan is the only producer of primary aluminum, Kazakhstan, of refined lead, and Uzbekistan, of molybdenum and tungsten products. Turkmenistan, Kazakhstan and Uzbekistan are major producers and exporters of hydrocarbon fuel, while Kyrgyzstan and Tajikistan can supply low-cost electricity generated by environmentally clean mountain river plants.

General progress of the CA republics' productive forces could be promoted by concerted diversification of their national economies. New enterprises set up in these countries over the past 15 years (in the production of phosphorites, oil refining, manufacture of passenger cars, etc.) often turn out products already produced in other countries of the region in quantities sufficient to meet their common requirements and at acceptable prices. A coordinated approach would ensure more rational use of investment and prevent the unwarranted creation of excess capacity.

Closer cooperation ties are particularly important for the development of engineering, for cutting production costs and so ensuring more competitive prices. Thus, an arrangement to equip cars produced by the Asaka Plant (Uzbekistan) with rubber tire covers made by the Chimkent Tire Factory (Kazakhstan) would help to save tens of millions of dollars a year. The cost of technological changes for the production of new kinds of tire covers at the Chimkent Factory would be more than compensated by the huge difference in transportation costs (currently these covers are brought all the way from South Korea).

The integration of Russia, Belarus and the Central Asian countries (with the exception of Turkmenistan) within the framework of the Eurasian Economic Community (EurAsEC) does not obviate the need to deepen and diversify cross-border trade in goods and services, investment and production cooperation between economic entities in the region on a mutually beneficial basis.

In the opinion of the authors of the Central Asia Human Development Report, the benefits from reducing trade costs, increasing remittances from migrant workers and more efficient use of water and energy resources could generate a regional economy twice as large 10 years from now. In particular, only by arranging joint management of regional water resources the CA republics could get an additional $1.7 billion (3% of their total GDP), and the overall quantifiable benefits from regional cooperation could amount to 5% of GDP.[14]

Development Prospects

In recent years, the economic situation in the Central Asian countries has markedly improved, largely owing to a business recovery in these countries and favorable world prices for their traditional export products. As a result, economic growth has accelerated, inflation has declined, and the unemployment level has stabilized. Suffice it to say that in 2001-2005 the average annual GDP growth rate in these republics was much higher than in the world economy as a whole (3.6%).[15] At the same time, judging by the data of national statistics agencies, in 2004 only two countries of the region surpassed the pre-reform level of GDP: Uzbekistan (120% compared to 1991) and Kazakhstan (over 116%). In Kyrgyzstan, this index was 87%, and in Tajikistan, about 60%[16] (the data for Turkmenistan are not published).

[14] See: *Central Asia Human Development Report*, Bratislava, 2005, pp. 1, 6.
[15] See: *Country Forecast Global Outlook*, November 2005, EIU, p. 3.
[16] See: *Ekonomika Uzbekistana. Analiticheskii obzor*, TsEEP, Tashkent, 2005, p. 2004.

Despite the difficulties associated with incomplete market reforms, structural adjustment of production and other internal and external factors, the economic development prospects of the CA countries are favorable. According to forecasts by the Asian Development Bank, GDP growth in 2006 is to amount to 8% in Kazakhstan, 7% in Turkmenistan and Tajikistan, 6% in Uzbekistan, and 5.5% in Kyrgyzstan,[17] which is at least twice as high as the world average. The forecasts of U.N. experts are even more optimistic: real GDP in 2006 is expected to increase by 8.5% in Kazakhstan, 7% in Uzbekistan and Tajikistan, 5.8% in Kyrgyzstan, and 5% in Turkmenistan.[18] As a result, overall economic growth in Central Asia will be considerably higher than in the group of seven transition economy countries of Southeast Europe (5.9%) or in the CIS (6.2%); in the group of economically developed countries, this figure is 2.5%.

A consistent solution of existing problems, further deepening of socially oriented market reforms and more active integration processes will help to enhance the production potential of the Central Asian countries, to raise regional living standards, and to improve the socioeconomic positions of these countries and of the whole region in the world community.

[17] See: *Asian Development Outlook 2005*, ADB, Manila, 2005, p. 303.
[18] See: *World Economic Situation and Prospects 2006*, U.N., New York, 2006, pp. 129-130.