Blog

Caucasus and Central Asia – integration or disintegration

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Caucasian and Central Asian regions host ethnically and culturally diverse populations, but the countries have a long history of political and economic integration.

While the Caucasian and Central Asian (CCA) regions host ethnically and culturally diverse populations, and are difficult to traverse due to the challenging geography, the countries have a long history of political and economic integration. Much of the region was ruled by Timur in the 14th to 16th centuries and, after being separated by Persian invasion in Caucasus and Chinese invasion in Central Asia, the Russian invasion in the 1700's brought the two again under a shared rule. Subsequently, the CCA became part of the Soviet Union, and the national borders of today were to a large extent drawn during that era as the borders of the Soviet national republics.

The signs of their long shared history under Russian rule are not difficult to spot: they appear most notably in the form of the Russian language, which is widely used. The shared language effectively prepares the terrain for economic integration, by making it easier for businesses to expand and goods to move across borders, and by paving the way for a common market for labour. In practice, the economic importance of the language factor continues to be large, as witnessed by the fact that remittances from workers from CCA countries in Russia are an important part of the national incomes for most countries in the region.

The shared political and economic history has not, however, been driven by forces from within the region but, rather, it has been largely imposed from the outside, by the conquering powers. In this regard, the break-up of the Soviet Union in the early 1990's created a new interesting setting, by opening for the first time in a long while new possibilities for these countries to seek their own paths. For example, by further enhancing regional integration they could explore economies of

scale and create a vibrant regional market for local goods. They could also strengthen ties with the developed world, or China to better access their vast markets and learn from them to speed up economic and social development.

Thus far, the focus has been predominantly in the latter. Presently, the main export markets for all countries in the region are in Europe with the exception of Turkmenistan, which mainly exports natural gas to China (Table 1). In all cases, the formerly dominant Russian market as well as the combined CIS market have been pushed to minority. While there is some intra-regional trade within Central Asia and Caucasus, trade between the two areas is negligible.

These trade patterns are also reflected in the trade pacts in which the CCA countries participate. At the start of the post- Soviet era, all of them with the exception of Turkmenistan still valued integration with their post-Socialist peers, as witnessed by the high participation rate in the Commonwealth of Independent States agreement (Table 2). However, only three countries from the region joined the Eurasian Economic Union, the latest integration effort within the post-Soviet bloc, which also includes protectionist elements.

At the same time, with their increasing focus on the western markets five CCA countries have joined the World Trade Organization, and all of them have some form of trade pacts with Europe. In the region Georgia has progressed furthest in this regard, and e.g. achieved visa free status with the European Union in 2017. Many CCA countries have also welcomed Chinese investments, loosely grouped in the region under the Belt and Road initiative, and are increasingly linked to Chinese markets via rail and through gas pipelines.

The latest interesting development in this integration tug of war of is the reform drive in Uzbekistan. After the death of its long time ruler Islam Karimov in 2016, the formerly reclusive country has caught many observers by surprise by its apparent strong embrace of economic and political reform and opening. During the relatively short time the new government of Shavkat Mirziyoyev has been in power, it has i.e. already reformed the foreign exchange system, relaxed visa restrictions, and removed barriers of trade and movement of people from its borders. Internally it is making efforts to improve its governance, and internationally it is showing a completely new, co-operative, posture.

Due to its central position in Central Asia, and its large population of over 30 million inhabitants (which is almost twice the population of Kazakhstan and almost half of that of the whole region), the opening of Uzbekistan provides a welcome boost to regional integration. While the keys to long term development of CCA countries may lie in continued integration with western and Chinese markets, regional trade could play a very important role in the immediate development of the small and medium sized firms in the land-locked region.

Table 2.

Status of Caucasus and Central Asia countries in selected trade pacts

	CIS	EEU	WTO	EU
Armenia	X	X	2003	PCA
Azerbaijan	X			PCA
Georgia*			2000	AA, DCFTA, visa free
Kazakhstan	X	X	2015	EPCA
The Kyrgyz Rep.	X	X	1998	PCA
Tajikistan	X		2013	PCA
Turkmenistan				PCA
Uzbekistan	X			PCA

Notes
CIS=Commonwealth of Independent States,
EEU=Eurasian Economic Union,
WTO=World Trade Organization,
EU=European Union,
AA=Association agreement,
DCFTA=Deep and comprehensive free trade agreement,
(E)PCA=(Enhanced)Partnership and Cooperation Agreement;
*Georgia was member of CIS until 2008.

Keywords

BOFIT, Caucasus, Central Asia, economic integration, exports, history