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## **Development of Transboundary Trade and Economic Relations in Central Asia: Challenges and Solutions**

### *Perkembangan Perdagangan Lintas Batas dan Hubungan Ekonomi di Asia Tengah: Tantangan dan Solusi*

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#### **Abstract**

This article will cover a wide range of key issues in the economies of the Central Asian countries, the extent of their development and opportunities for trade and economic relations. The aim of the study is to analyze trends and opportunities for improving trade and economic relations between the countries of Central Asia. The objectives of the study are: - to analyze the volume and tendency of GDP of Central Asian countries for 2000-2018; - analysis of the GDP per capita in the countries of Central Asia; - Comparative analysis of export and import volume, structure of export and import of Central Asian countries; - to study the relations of Central Asian countries with international organizations and to find mutual interests; - Identification of political, economic and social problems that impede the development of trade and economic relations in Central Asian countries. The results are as follows: - the main focus of improving trade and economic relations between the countries of Central Asia on the border of two or more countries is the Free Economic Zone; - Diversification of the economies of Uzbekistan and Kazakhstan in relation to other countries in the region can be a key factor in the development of trade and economic relations; - Expanding the role of regional organizations and integration in improving trade and economic relations between Central Asian countries. - The practical result of the establishment of transboundary free economic zones in Central Asia.

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## Introduction

In the context of globalization, trade and economic cooperation between countries is an important factor in enhancing competitiveness.

Central Asia is a region of economic and resource potential on the Asian continent, which includes Uzbekistan, Kazakhstan, Kyrgyzstan, Tajikistan and Turkmenistan, which emerged as independent states on the world political map after 1991.

Development of trade and economic relations between countries with different economic development, although these countries are historically close to each other, but are not well-established trade and economic relations, and economically unrelated, the high share of non-CIS countries in the economies of the region. the second part of the problem.

## Methods

Research methods were used effectively in comparative analysis, observation, analysis and synthesis. The comparative analysis was used to analyze the per capita GDP, GDP and the volume and structure of exports and imports of Central Asian countries.

The comparative analysis shows the relative importance of Kazakhstan and Uzbekistan in economic growth through the above-mentioned macroeconomic indicators. Through monitoring, the trends in political, trade and economic relations between Central Asian countries were studied.

The method of analysis and synthesis has been used to study and re-summarize the indicators that represent the economies of Central Asia.

## Result and Discussion

The trade and economic cooperation of Central Asian countries has been well studied by the region's scientists and other major foreign scientists.

The research by Uuriintuya Batsaikhan and Marek Dombrowski analyzes the history, geography and politics of Central Asian countries, their trade and economic integration, the country's reforms and socio-economic indicators.

The analysis shows that, despite the fact that Central Asian countries are rich in natural resources, they still represent the remnants of the socialist regime in economic and political terms.

The article is comprehensive and shows the political and economic situation in Central Asia. Analyzes the relationship of the countries of the region with international organizations and other countries, but does not focus on the trade and economic cooperation between Central Asian countries and their prospects. [1]

In a study by Liu Jiansu [2]. It is about energy diplomacy in Central Asia. The use of external energy markets through international investment has become an important strategy to address energy risks and optimize energy distribution. With its significant geographical location and diverse resources, Central Asia has attracted the attention of the international community and has become a place for foreign investment. However, the risk of corruption is a major concern for foreign investors, especially in the energy sector. As a respondent, the share of corruption in international investment arbitration with five Central Asian countries is up to 75% in the energy sector. In these situations, choosing Central Asia as a place to invest is a decision made after considering both opportunities and risks for resource-intensive investments. Against this background, the document is intended to exert political influence on governments, policy makers and foreign investors. It is proposed to amend the bilateral investment agreements, establish a legal framework for the countries of Central Asia, take measures to encourage investment, strengthen the system of self-defense and self-defense of investors, and strengthen the system of investment guarantees. .

This conclusion drawn by Chinese scientists can be seen in the work of many other scholars. Cooperation of the countries of the region, not only in the energy sector, but also in many other areas, including trade, economic, transit, customs and border taxes, is one of the major challenges facing Central Asian countries in the 21st century.

The volatility of exchange rates is closely linked to capital market prices and also affects the volume of import-export and foreign investments in the real economy [3]. Risk of changes in exchange rates between multiple cross-country countries using a VAR index-based approach learned.

It is argued that domestic interactions in the Central Asian foreign exchange markets are weak, and that the

currency of Kyrgyzstan plays an important role throughout the region. Kyrgyzstan also has a World Trade Organization. But regional countries such as Kazakhstan and Uzbekistan do not take into consideration the role played by foreign trade.

GDP of Central Asia, GDP per capita, geography and structure of exports and imports, and trends of change are important indicators of the economies of developing countries and allow analyzing the dynamics of foreign trade [Table 1](#).

2000 y.	2005 y.	Growth compared to 2000	2010 y.	Growth compared to 2000	2015 y.	Growth compared to 2000	2018 y.	Growth compared to 2000
Uzbekistan	24,1	31,3	130	46,7	194	66,9	277,6	78
Kazakhstan	66,8	109,5	164	148	221,5	186,3	278,9	204,1
Kyrgyzstan	3,2	3,8	118,7	4,8	150	6	187,5	6,9
Tajikistan	2,6	4,1	157,7	5,6	215,4	6,1	234,6	9,8
Turkmenistan	10,7	13,8	129	26,2	245	37,2	347,6	44,7

**Table 1.** GDP of Central Asia for 2000-2019, billion dollars (at constant prices) [4]

Although Kazakhstan has the highest GDP in Central Asia (See [Table 1](#)), growth rates in comparison with 2000 are high in Turkmenistan, Tajikistan, and Uzbekistan in 2018, with relatively slower growth rates in Kazakhstan and Kyrgyzstan.

One of the main factors of economic growth was the increase in the share of foreign investment in the economy of Turkmenistan and Uzbekistan and the significant expansion of strategic goals and objectives.

The GDP per capita is one of the key indicators of the HDI and is one of the most important indicators of living standards, welfare and living standards.

In terms of GDP per capita in Central Asia (See [Table 2](#)), Kazakhstan was the leader in both 2000 and 2018, at \$ 9,812. In Turkmenistan this figure was US \$ 6,967, while Uzbekistan's GDP per capita in 2018 was US \$ 1,532.

Although Kyrgyzstan and Tajikistan have a tendency for growth, they are less than other countries in the region.

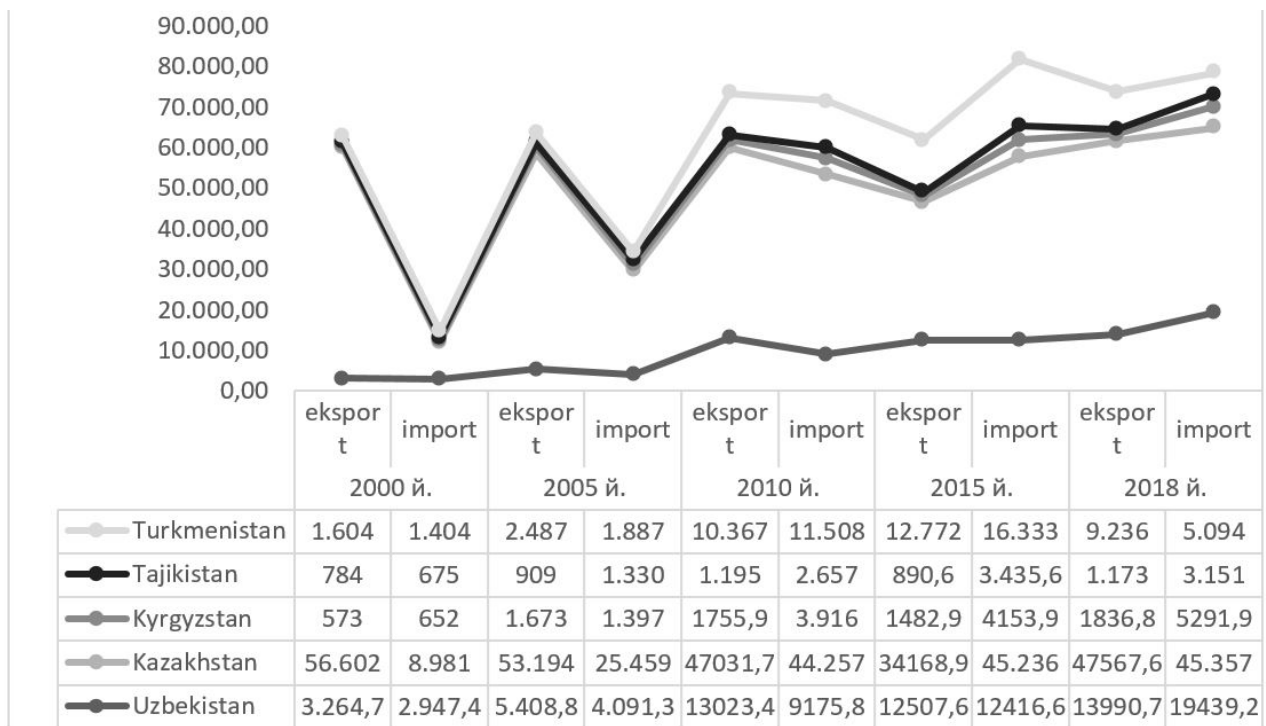
2000 y.	2005 y.	2010 y.	2015 y.	2018 y.
Uzbekistan	558,2	546,7	1 634	2 615
Kazakhstan	1 229	3 771	9 070	10 510
Kyrgyzstan	279	476	880	1 121
Tajikistan	138	340	749	929



Turkmenistan	643	1 704	4 439	6 432
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**Table 2.** GDP per capita, in current prices, dollars [4]

Like other macroeconomic indicators, Kazakhstan is the leader in the region in terms of exports and imports (See ???), but the foreign trade balance remains uneven. For example, we can see the positive in 2000-2010 and the negative balance in 2015-2018. This testifies to the growing share of foreign investments in the country's economy.



**Figure 1.** Export and Import Volume in Central Asia [4]

Turkmenistan had a negative foreign trade surplus in 2005-2015, and a positive trend in 2018. But in 2018, there was a decline in foreign trade.

Kyrgyzstan has a negative balance in 2010-2018, which can be seen as the impact of WTO accession to foreign trade.

Tajikistan's foreign trade since 2005 has a negative balance, which may be explained by the fact that oil and gas, as well as other resources, flour and wheat have a significant share in the country's imports.

After 2016, the foreign trade balance of Uzbekistan will show a negative balance. The main reason for this is liberalization of foreign economic relations of the country.

Despite the fact that the Central Asian countries have the same export and import structure, in the post-2016 period we can see the increase in trade between the countries of Central Asia and their share in the total turnover. This is a positive trend, of course, and will increase integration opportunities during globalization.

Kazakhstan, Kyrgyzstan, Tajikistan and Turkmenistan are among the top 20 trade partners of Uzbekistan and exported goods worth \$ 10 billion 800 million in January-July 2019 (Aniq.uz, 2019). Tajikistan exported 1.6% of its products.

Uzbekistan is one of the 10 largest partners of Kazakhstan, with wheat, fruit and vegetables, gas and semi-factories dominating the trade turnover between the two countries. If Uzbekistan prevails in the trade with Kyrgyzstan and Tajikistan, the statistics with Kazakhstan and Turkmenistan will show. Uzbekistan imports oil and semi-oil products from Kazakhstan and Turkmenistan, and exports its gas to Kyrgyzstan and Tajikistan.

Kazakhstan, Uzbekistan and Tajikistan are among the 10 largest trade partners of Kyrgyzstan.

Two of Tajikistan's five major partners are Central Asian countries - Kazakhstan and Uzbekistan, while Kazakhstan exports flour and wheat to Tajikistan, while Uzbekistan and Tajikistan occupy a high share of automobiles and aluminum.

Uzbekistan	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan
UN (UN, 2019)	member	member	member	member
UNCTAD (UNCTAD, 2019)	member	member	member	member
WTO (WTO, 2019)	observer	member	member	member
CIS	member	member	member	member
Shanghai Cooperation Organization (Albert,2019).	member	member	member	member
Eurasian Economic Cooperation (Centon,2018)	not a member	member	member	not a member

**Table 3.** Cooperation of Central Asian countries with international organizations \* As of December 2019

All five countries in the region are members or participants of international organizations and integration, with an open policy for foreign trade and economic relations.

All five countries are also members of the United Nations and a member of UNCTAD, which conducts advisory conferences on trade and economic relations.

The World Trade Organization is the legal and institutional basis of the multilateral trade system. It sets out the principles of contractual obligation to governments to determine how to develop and implement domestic trade laws and regulations [5].

In Central Asia, Kazakhstan, Kyrgyzstan and Tajikistan are equal members of this organization and have an open trade relationship with 164 countries. However, Turkmenistan is not a member of the organization, but Uzbekistan has observer status and is investigating the possibility of joining the WTO.

Membership in the WTO not only enables trade relations with the WTO member countries, but also requires that the domestic market comply with international standards and WTO standards. Some countries meet the requirements of agriculture, industry, trade and customs policies within 1-5 years with WTO requirements, and some others are less than 10-25 years. Compliance with WTO requirements depends on the country's participation in the international division of labor, internal and external competitiveness of the economy.

The Commonwealth of Independent States is a comprehensive organization that combines economic, social and political cooperation. There are 2 economic integration activities within the organization. One of them is the CIS Free Trade Zone, established in 2011. Kazakhstan, Kyrgyzstan and Tajikistan are equal members of this integration, while Uzbekistan is a member state and Turkmenistan is not a member of this integration.

The Eurasian Economic Community is a regional economic integration established in 2014 and will operate from January 1, 2018, according to the Customs Union. Kazakhstan and Kyrgyzstan are equal members of this integration.

Trade turnover between Uzbekistan and Kazakhstan is the largest among Central Asian countries and amounts to almost US \$ 2 billion.

Overall, trade between the two countries in 2018 was \$ 2.5 billion, or 25.3 percent higher than 2017, including \$ 1.6 billion in exports, 31.6 percent and imports 0.8 percent. billion and increased by 14.8%.

The bulk of exports (38.7%) was for animal and vegetable products, food products (\$ 635.4 million in 2018, \$ 473.9 million in 2017). The increase was 34.1%.

The second most important (30.8%) are metal and metal products (\$ 505.5 million in 2018, \$ 364.3 million in 2017). The increase was 38.8%.

The exports also accounted for 22.5% of the mineral products, which amounted to \$ 369.1 million in 2018 (\$ 335.7 million in 2017), an increase of 10%.

The volume of trade between Uzbekistan and Kyrgyzstan is also US \$ 75 million (2018).

However, the trade volume between Kazakhstan and Kyrgyzstan and Tajikistan also exceeds \$ 750 million, which indicates the development of trade and economic relations between the countries of Central Asia.

These positive indicators were the establishment of joint ventures in Central Asia with the participation of Central Asian countries.

In 2017, 50 companies with Uzbek capital and 16 enterprises with Tajik capital were operating in Kyrgyzstan, and 49 companies with Kyrgyz capital in Uzbekistan [6] (Sultanova, 2019). Cooperation between industrial enterprises of Uzbekistan and Kyrgyzstan is mainly concentrated in the field of textile and construction materials production. Specifically, in April 2018, Signature Uzbek-Kyrgyz JV was launched in Osh to produce metal windows and doors. The business circles of the two countries plan to establish industrial cooperation in the textile and clothing industry, including joint production and export of finished products to the markets of third countries. Given the status of Kyrgyzstan's VSP + universal system of privileges, it gives Kyrgyz producers the right to export up to 6,000 goods to Europe at zero rates, while the joint production and export of finished products through Kyrgyzstan facilitates Uzbek producers' access to European markets.

In 2017, Uzbek investors invested \$ 5.4 million into the Tajik economy. The investments are directed at the development of agriculture, poultry and horticulture. There are 9 enterprises with Uzbek capital in Tajikistan, and 25 enterprises with Tajik capital in Uzbekistan [7], which deal with light industry, food, construction materials, fruit and vegetable processing. Six trading houses of Uzbekistan were opened in Tajikistan in 2017, and from February 2018 Tajikistan Trade House started operating in Tashkent. The Uzbek-Tajik Business Council was established to promote the development of relations between economic entities of Uzbekistan and Tajikistan.

In early 2019, two more Uzbek-Tajik joint ventures were established. In particular, in Dushanbe Artel founded a joint venture Artel Avesto Electronics, whose main activity is the production of home appliances under the Artel brand. Uzagrotechsanoatholding and Orien Invest have established a joint venture for the production of agricultural machinery in Tajikistan, Orien Uzagro. The company produces a variety of tractors, including loading and transportation equipment, special equipment. Currently, the Tajik Aluminum Company (TALCO) operates an Uzbek-Tajik enterprise, TALCO-CRANTAS, which specializes in joint construction and installation of special utility and construction vehicles.

The region has political problems that impede the development of economic and trade relations, and without it the countries of the region cannot improve trade and economic relations. Including:

## 1. Unresolved problems of enclave territories in Central Asia

One of the central problems in Central Asian countries is the transhumance of the enclaves and the inhabitants.

The Sarvan-Sarwak enclave, legally subordinated to Tajikistan: Originally, these lands were Uzbeks, which were leased to Tajikistan, where Uzbeks lived. The Tajik Soh enclave has been handed over to them by Sarvan and will be decided on its own.

The enclaves of Soh and Vorukh are home to about 100,000 Tajiks living in Kyrgyzstan.

Tajikistan and Tajikistan and Tajikistan can carry out population exchange. Half of Tajikistan's mountainous Badakhshan province, Karagul, is home to Kyrgyzs, the same as the number of Tajiks living in Tajikistan.

In this way, the problems of the enclave between Kyrgyzstan and Tajikistan will be solved.

On August 14, 2018, it was decided that the Barak enclave of Kyrgyzstan will be located on the territory of Uzbekistan and given to the government of Uzbekistan.

In return, Kyrgyzstan will receive a section of Uzbekistan's border area. In other words, the border will be slightly altered, but the land belonging to another country will be lost within Uzbekistan. However, the final solution to the problem of the Central Asian enclaves is long overdue. The presence of enclaves is one of the main reasons for the ongoing difficulties of border demarcation and local border conflicts.

There are four enclaves in Uzbekistan: two small, one large and one non-category - Sarvak. The smaller enclaves Arnasai and Barak belong to Kazakhstan and Kyrgyzstan, respectively. The problem with Arnassay has long been resolved, and the authorities have announced that the Barak problem will be resolved soon.

The final, fourth enclave in Uzbekistan belongs to Tajikistan. It is the territory of Sarvak or Sarvan and was transferred to Tashkent in 1935 by the neighboring republic. The lease was then extended on a regular basis. The last lease was extended until 1990. Nevertheless, in 1991 the land was given to Tajikistan. It is interesting that some of Sarvak's population are ethnic Uzbeks and some of them have Tajik citizenship.

There are four enclaves in Uzbekistan, all located in Kyrgyzstan. The largest of them is Soh, with a population of about 74,000. Administratively, the enclave is Soh district of Fergana region.

Relations between Soh residents and border guards remain tense, and open conflicts sometimes occur. The possibility of creating a special corridor from Soha to Uzbekistan in 2001 was discussed, but these plans were never implemented. However, because of the large enclave, his life cannot be extinguished. On the contrary, the population of the enclave is increasing. And this creates a new problem: people are crowded in a limited area.

The second largest Uzbek enclave in Kyrgyzstan is Shahimar, which, according to various estimates, has between five and ten thousand people.

The other two Uzbek enclaves are classified as small. The Chon-Gara enclave, the Northern Soh, is part of the Rishtan region of the Fergana region of Uzbekistan.

The solution of the problem of regional enclaves plays an important role in the development of cross-border trade.

## 2. Transboundary rivers

The two transboundary rivers of Central Asia - the Amu Darya and the Syr Darya - have long since served the hydrological, social and economic development of the peoples of the region. Therefore, effective and rational approach, responsible attitude and joint efforts are required in the context of regional cooperation in water resource management and conservation.

According to the information provided by Uzbekistan, one of the main strategic goals is to achieve the regional agreement. There are upstream and downstream states, and rivers are only two - the Amudarya and the Syrdarya. In the use of transboundary rivers, each state must have specific rights and obligations.

International dispute resolution and compensation mechanisms can be used to resolve problems. In particular, the UN Regional Center for Preventive Diplomacy in Central Asia presented two conventions on Syrdarya and Amudarya to all countries in the region, including the US, Russia, the European Union and the World Bank. The project must also be delivered to China.

The initial familiarization with these conventions suggests that there are sufficiently reasonable approaches to address these complex issues. We hope our neighbors will also pay attention to the UN proposal and we will be able to initiate a constructive dialogue [8].

## 3. Divergence of Central Asian Countries.

The level of development of the Central Asian countries varies widely. The main reason for this is the economic policy the Central Asian countries have chosen over the first years of independence.

The level of development of countries influences their trade and economic relations. In particular, in Kazakhstan and Kyrgyzstan, WTO member countries have a wide range of consumer goods and lower consumer prices than other Central Asian countries, the diversification of the economy in Uzbekistan, and the consumption of national products by the majority of the population. The low standard of living in comparison to other countries in the region reduces regional trade opportunities. Such factors may lead to contradictory interests in the conduct of mutual trade. In particular, the import of consumer goods from Kazakhstan and Kyrgyzstan, in the example of Uzbekistan, contrary to the interests of national producers, etc.

## 4. Unity of membership and interrelationships in international organizations and integration

Central Asia's policy of one-sided abolition has developed over the last 3-4 years, but it is difficult to overcome the 20-year consequences in this short period.

In the early years of independence, the Central Asian countries' foreign policy and cooperation principles and principles differ from each other in the principle of "trust only in themselves." That is why Kazakhstan and Kyrgyzstan, which have been making good use of economic support from Russia and China, are members of international organizations such as the WTO, the Eurasian Economic Community, and in Turkmenistan, which has protected itself from various foreign political forces. causing serious problems in foreign economic activity.

Uzbekistan, which has launched a new foreign policy trend in the past three years, is considering joining organizations and integration such as the WTO and the Eurasian Economic Community.

## Transboundary FEZ

Despite its independence in 1991, the relationship between Central Asian countries has not been established. In other words, regional trade norms are not uniform. Establishment of cross-border territories among countries that have not yet integrated but would like to develop trade relations is one of the key decisions in the global trade and economic relations.

It is also possible to create such zones in the border areas of two or more countries in Central Asia.

For example, the Chirchik-Sariagash Transboundary Free Economic Zone

An important factor in the growth of investment attractiveness of Uzbekistan. Taking into account the fact that Kazakhstan is a member of the Eurasian Economic Community, it provides a great opportunity for us to get cheap imported raw materials and to export our national products abroad.

Both cross-border and cross-border FEZs play an important role in regional and integration formation.

In addition, the creation of a "transit" logistics center in Uzbekistan, which will create a transit and transit zone, will allow safe and fast transportation of goods through the transit area, and the establishment of warehouses and wholesale stores will work in these free trade zones. It allows you to organize

Given the fact that Kazakhstan produces 1.82% of world oil, the possibility of increasing oil exports to Uzbekistan within the FEZ will also increase.

Another important aspect of the FEZ is the fact that consumer goods prices in Uzbekistan are lower than those of Kazakhstan and China, including food differences, suggesting that imports of foodstuffs (rice, eggs, meat) from Uzbekistan to Kazakhstan are cheaper than Chinese products.

It is desirable to establish one of such regions in Samarkand region of Uzbekistan and Soghd region of Tajikistan. In other words, Urgut and Panjakent districts are selected as transboundary. The positive side of the issue is the fact that Uzbekistan's FEZ "Urgut" is located in the region and has experience in creating a free economic zone, which is a problematic aspect of the fact that these adjacent territories are located in the mountainous area and the main vehicle is the vehicle. If Urgut-Panjakent cross-border FEZ is to be established, it is advisable to conclude agreements after developing transport and production infrastructure in the region.

Another important alternative is the establishment of a transboundary EEU in the border areas of Uzbekistan in Andijan and in the Osh region of the Kyrgyz Republic. Andijan region has the following transport infrastructure:

1. The length of automobile roads is almost 2.5 thousand km;
2. Flights from Andijan region to all CIS countries;
3. Availability of railways running through the region to the Andijan-Tashko'mir, Andijan-Jalalabad / Osh and other local areas.

The presence of large heavy and light industries in the Uzbek province of Andijan also facilitates the establishment of a transboundary FEZ in the region [7].

However, a transboundary FEZ cannot be established until a single decision is made on the enclaves of Uzbekistan and Kyrgyzstan.

One of the border areas of Uzbekistan with Central Asian countries is the Khorezm region of Uzbekistan and Dashaguz provinces of Turkmenistan. During the visit of the President of the Republic of Uzbekistan Shavkat Mirziyoev to Turkmenistan, the governments of the border areas of the two countries, including Khorezm region and Dashoguz province of Turkmenistan, agreed on cooperation in trade, economic, cultural and humanitarian spheres. In particular, a system of participation in international fairs, exhibitions, seminars and conferences was planned to facilitate the mutually beneficial cooperation between enterprises and organizations, the establishment of joint ventures and the joint use of the tourism potential of both regions (Vokhidova, and others. 2019). In addition, Turkmenistan is a seaside country, and the establishment of a trans-border FEZ at the time of the opening of the Uzbekistan-Turkmenistan-Iran-Oman transport corridor will improve trade and economic relations between Uzbekistan and not only Turkmenistan, but also Iran and the Persian Gulf. The major partners of Uzbekistan such as China and Russia are also interested in this agreement.

Analysts at the Canadian Center for Globalization Studies say that given the geostrategic location of Uzbekistan and its huge potential in the labor market, the reforms will make the country a locomotive of the region.



Changes in Uzbekistan's foreign policy indicate a comprehensive approach to addressing the problems that the country's president has accumulated.

Reforms in foreign policy of Uzbekistan have become an important indicator of strengthening the cooperation of Central Asian countries. The region is increasingly seeking cooperation from the divide. In the future, we can witness more radical processes. Consequently, the region is united by common values, culture, religion and history. In this regard, the region has the opportunity to present itself in the international arena in a new way, to improve its image and to attract more foreign investment. These will serve the interests of all countries [9].

## Conclusion

Transboundary free economic zones are important for Central Asian countries, where trade and economic relations are developing. In particular, for Uzbekistan, which has limited access to the sea, such zones provide the following opportunities:

1. Transboundary zone established on the border of Uzbekistan with Khorezm and Dashaguz provinces of Turkmenistan Uzbekistan will increase access to sea, improve trade and economic relations with Persian Gulf countries through the Uzbekistan-Turkmenistan-Iran-Oman corridor and export consumer goods produced in Uzbekistan to the Turkmen market. capacity increases;
2. The establishment of cross-border FEZ in the border areas of Andijan and Osh regions of the Kyrgyz Republic is an alternative option for the joint textile and knitwear companies and their infrastructure, taking into account the entry of Kyrgyz goods into the European market for more than 6,000 commodity items is considered
3. Creation of the Chirchik-Sariagash Transboundary Free Economic Zone of Uzbekistan and Kazakhstan will allow the development of trade and economic relations with China and Russia along with the effective use of four transport corridors of Uzbekistan.

However, the economic policy of the countries is also important in establishing such free economic zones. For example, given that Kyrgyzstan and Kazakhstan are members of the WTO and the Eurasian Economic Community, there is a risk that Uzbekistan's high-cost commodities will be less competitive and that food and machine industries in Uzbekistan will be at risk.

The creation of a transboundary free economic zone in Central Asia is relevant until the economic integration of Central Asian countries is established.

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