



REGIONAL ECONOMIC INTEGRATION IN CENTRAL ASIA

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Abstract

*Economic Integration describes how different aspects of economies are integrated across the borders whereas, regional economic integration is a process through which economies within a particular defined geographical region integrates into various facets of economy. Regional economic integration is a prerequisite step for all the central Asian countries due to their land locked situation and dependence on each other for transit to other countries. **This paper argues that regional economic Integration can be a significant step for achieving not only economic development but also to integrate with the world political development of the region.** Although since independence these countries have achieved high economic growth rates yet the development in the socio-economic fields significantly remain poor. In terms of availability of natural resources each country is rich in one or the other way, such as natural gas, oil, uranium etc. High quality cotton is also available in these countries. These resources remained untapped and unutilized due to lack of infrastructure, lack of investment, lack of implementation of policies and non cooperative attitude among one another. It argues that regional integration has the potential to promote inter and intra regional trade that could help to achieve economic development in individual countries of the region. This will lead to stability within the region which is the most essential and foremost required factor for the prosperity of the region. There are number of challenges for example mistrust that explain the failure of the region to exploit possibilities. Inconsistently, the problems themselves provide strong motivation for strengthening cooperation .It is only through more intensive collaboration that these complexities can be focused on and resolved. efficient use of region`s resources through additional economies of scale. Efforts are made to analyze the emerging regional economic initiatives within the region and existing hurdles in its path.*

Key words: *Integration, Economic development, Economies of scale, Investment, regional trade*

INTRODUCTION:

The Concept of Regional Economic Integration

Regional economic integration is a process through which economies within a particular defined geographical region integrates into various facets of economy thereby facilitates cooperation among each other. As the economic integration increases, the barriers of trade decreases. As a result the trade and investment increases across borders, private actors demand elimination of costly barriers. They formally request government to create regional agreements that emphasize liberalization of tariffs and non-tariffs barriers and harmonization of regulations. Lloyd defines economic integration in terms of law of one price, in a global market, common prices prevails everywhere with utility maximizing resources allocation. (Richard, 1997)

Theoretical Aspect of Economic Integration

World's most distinguished economists including Adam Smith, David Ricardo, John Stuart Mill, Alfred Marshall, John Maynerd Keynes, and Paul Samuelson. (Salvatore, 2001) gave their perspective regarding International economics development for more than two centuries with their theoretical contributions The classical source of gains from trade is that global free trade allows consumers and firms to purchase from the cheapest source of supply, hence ensuring that production is located according to comparative advantage. In contrast, trade barriers discrimination against foreign supply, inducing domestic import competing producers to expand even though they have higher costs than do imports. Region wise economic integration is a recent world phenomenon.

Regional economic integration has been emerging in the world in various stages or forms. This has been shown in table no1 with detail examples.

STAGES OF REGIONAL ECONOMIC INTEGRATION

Table 1.1

Regional Integration	Definition	Some Examples
Free Trade Area (FTA)	An area where tariffs and quotas are abolished for imports from area members, which, however, retain national tariffs and quotas against third countries	-In 1992 ASEAN countries launched the ASEAN Free Trade Area (AFTA) plan. On 1 January 2002 six out of ten ASEAN countries reduced internal tariffs on most goods to levels ranging between zero and five percent. The whole ASEAN area is scheduled to become a full-fledged free trade area in the coming years. -The USA, Canada, and Mexico are in the process of completing a North American FTA: many tariffs were eliminated already in 1994, with others being Phased out over a periods of 5 to 15 years
Customs union (CU)	A FTA setting up common tariffs and quotas for trade with non-members	-European Economic Community since 1968 - The MERCOSUR (Southern Common Argentina, Brazil, Uruguay, Paraguay) becoming a fully-CU by 2006.
Common Market (CM)	A CU abolishing non-tariff barriers to trade (product and services markets integration) as well as restrictions on factor movement (factor market integration)	-European Community since 1993 (establishment of the European Single Market). The CM was already set up as an objective under the Treaty of Rome
Economic Union (EU)	A CM with a significant degree of Coordination of national economic policies and/or harmonization of relevant domestic laws	-European Union nowadays
Total Economic integration (TEI)	An EU with all relevant economic policies conducted at the supranational level, possibly in compliance with the principle of subsidiarity. For this, supranational laws need to be in place.	- The euro area (i.e., 12 out of 15 countries of the European Union) can be currently classified Somewhere between an EUN and TEI. Supranational Authorities and rule making were established already with the Treaty of Rome in 1957, and subsequently enhanced.

Regional cooperation and integration may broadly be classified in terms of key economic links such as trade, transport, transit and investments.

Historical View

The central legacy of the Soviet period was that this region was considered as a single economic zone. Integration was forced on them. After the Collapse of USSR, these countries want to protect their independence. Soviet practice imposed from the 1920's until 1991 did in

some ways develop intra-regional cooperation. Central Asia was treated as a single economic subdivision within the "unified economic complex of the USSR." For the most part, then, Central Asian production was run from Moscow for the benefit of the Union, as determined by CPSU authorities. Moscow decided the trade amounts and direction for the Central Asian republics; the USSR Ministry of Foreign Trade and internal supply agencies made these deals on behalf of all the 15 constituent republics, mostly to assure priority industries to make adequate supplies. The system resulted in exceptionally high levels of intra-Union trade—88.2% for Kazakstan's trade turnover, 89.6% for Kyrgyzstan, Tajikstan 83% , Turkmenistan 90.8% and 89% for Uzbekistan in 1991. Moscow's policy was hardly one-sided exploitation for the benefit of Russia. Rather, the Party hierarchy took a long-run view of the benefits for the entire Soviet Union, assuming as they did that it would last indefinitely. Integration of the Central Asian economies into the Soviet system during Soviet Period, even their inclusion in a common administrative region did not, however, create sufficient infrastructure to facilitate their trade with each other. Little had been spent to integrate the national republics within themselves or with each other. For example, Kyrgyzstan lacked direct rail connection from its capital, Bishkek (then called Frunze) its second largest city (Osh) or to its nearest neighboring city, Almaty, (then called Alma-Ata). Kazakhstan's metallurgical and energy base was linked primarily northwards, towards the Russian Republic. Gas pipelines had different pressures, complicating inter-republican supply. The tourist industry was run from Moscow, with flights and hotels were booked by tourist from the Russian capital. Hence, local officials in this important industry, like manufacturers, had little direct contact with foreign decision makers. Through regional cooperation they wanted to integrate. Although the Central Asian region is resource rich and offers considerable trade and investment opportunities, yet due to lack of effective transport routes and relative isolation made it difficult for all countries to access international markets immediately after the independence. Central Asia nevertheless remain closely bound to one another but their interdependence particularly pronounced in the critical network of energy and fuel transportation and communication force them to be Central Asia as a region

Economic Integration in Central Asia

The newly independent republics of Central Asia had no experience of nationhood. They have had to implement strategies for economic development since becoming independent of the Soviet Union in 1991. The question, however, was how to strengthen cooperation in economic sphere within the region as well as with other neighboring countries, without sacrificing their new found sovereignty and independence. The need for regional integration

or regional cooperation arises due to number of factors. The need for regional co-operation is determined by geography, so lacking direct access to the sea, neither Kazakhstan nor Uzbekistan can expect to become major exports of hydrocarbons without close co-operation of their neighbors. But due to lack of effective transport routes and relative isolation made it difficult for all countries to access international markets immediately after the independence. Transit transport routes has become an important pre-condition for the promotion of trade and development.

Literature review:

Srinivasan (1997), International trade generally improves social welfare and stimulates economic growth. Trade enables countries to specialize in line with their comparative advantages and achieve economies of scale that would not be possible without specialization. This improves the allocation of resources and social welfare, improves the quality of goods available to consumers, enhance competition and increases investment in both physical and human capital.

Bakhitiar (2001) Openness to international trade is widely regarded as a necessary, even though not sufficient, condition for any country, particularly a small one to achieve sustainable economic development. It can lead to economic growth and improvements in social welfare in turn, reduce poverty in as much as they raise income and improve the welfare of the poor and increase resources available for social security, primary health care, education, water supply, and other basic services.

Chanachev,(2004) It is wildly believed that the Central Asian countries can increase the gains from participation in international trade through regional cooperation and liberalizing their trade policy, transport, and customs transit. They need to promote trade and closely integrate into the international trading system to achieve sustainable economic development. The main objective of this co-operation has been to develop the economic infrastructure and transportation system within the region. Regional cooperation can become an important factor in the maintenance of peace and security in the region, which are necessary for stable economic growth.

Khan (2006), The transit route for oil and gas exports from the region still is monopolized by Russia and alternative routes through Afghanistan, China and Iran have yet to be developed. Central Asia's land locked location required economic integration with other countries.

Regional economic integration is the key to human development in the five Central Asian republics of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, according to the United Nations Development Program

Salvatore (2001), Trade is said to be greater in natural trade regions because the formation of such trade regions is influenced by geographical proximities, which reduces transaction costs and increases information flows.

W. Andersen, (2003) “No country in the world today not even Turkmenistan can operate a closed market. This is the reality of globalization. Resources like air and water simply can not be controlled individually. We have to depend upon each another for technological advances Other countries domestic policies penetrate our borders and have an impact on our own economy either we like it or not”

UNDP Report, (2005), According to United Nations Development Program Report, “Bringing Down Barriers: Regional Cooperation for Human Development and Human Security,” the five Central Asian republics could as much as double their incomes over the next years by strengthening regional economic cooperation.

ADB (2009) report put more stress on central Asian Economic Cooperation through Trade facilitation and try to develop fast track development with the help of ADB.

ADB (2019) Report emphasizes on the trade that has been defined as a means of achieving the United nations goals. CAREC, s new Trade strategy provides a more strategic approach to these issues of trade policies and trade facilitations.

OBJECTIVES:

- To assess regionalism cooperation and partnership among Central Asian Countries.
- To understand regional trade and investment in the modern technological that would lead to decrease the distances between the countries.
- To evaluate regional integration reduction or complete abolition of government limitation of inter and intra country operation.

RESEARCH HYPOTHESIS:

- **Regional Economic integration can ease trade and investment among central Asian Countries**
- **Regional Economic Integration can lead to increase in growth and living standard of central Asian region.**

Trade integration is one of the main areas of regional concern for Central Asia if it is to achieve competitiveness and integration with the world economy. Since all these countries are land locked, they depend on each other and their neighbors for access to market. For example, liberalization of trade policy by a CAC and its nonadjacent trading partner will boost their bilateral trade as well as their regional trade. If these countries facilitate the movements of transport equipment and goods through connecting countries by the rail road etc, they would be able to access to the world market. It would be beneficial for all the countries. Due to deficiencies of transport infrastructure or restrictive transit systems in these countries, the neighboring countries will do little to closely integrate a CAR into the international trading system if its trade policy remains restrictive. The salient geographic characteristic of the region is its remoteness. The countries in the region including the other participating countries are all landlocked. Uzbekistan is a double landlocked country.

Improved trade, transport and transit, and better water and energy management on a region-wide basis would bring the biggest gains. But cooperation among members are essential to deal with natural resources to utilize efficiently. Work toward more efficient pricing and effective management of infrastructure at the national level as well as international level could be solved by cooperation only.

It is important to distinguish regional cooperation from regional integration. Regional cooperation refers to policy measures jointly undertaken by a group of countries typically located within a geographic area, to achieve a higher level of welfare. The regional initiatives are projected to facilitate or enhance economic integration. Regional integration, on the other hand, is in effect an integration of economies within a geographic region. It may be market-driven integration, or policy-induced integration to action among countries within a region to integrate their economies that is one that results from regional cooperation. Regional integration can vary in intensity. Full economic integration occurs when goods, services, and factors of production can flow freely and financial markets are unified among countries within a region.

Benefits of Economic Cooperation

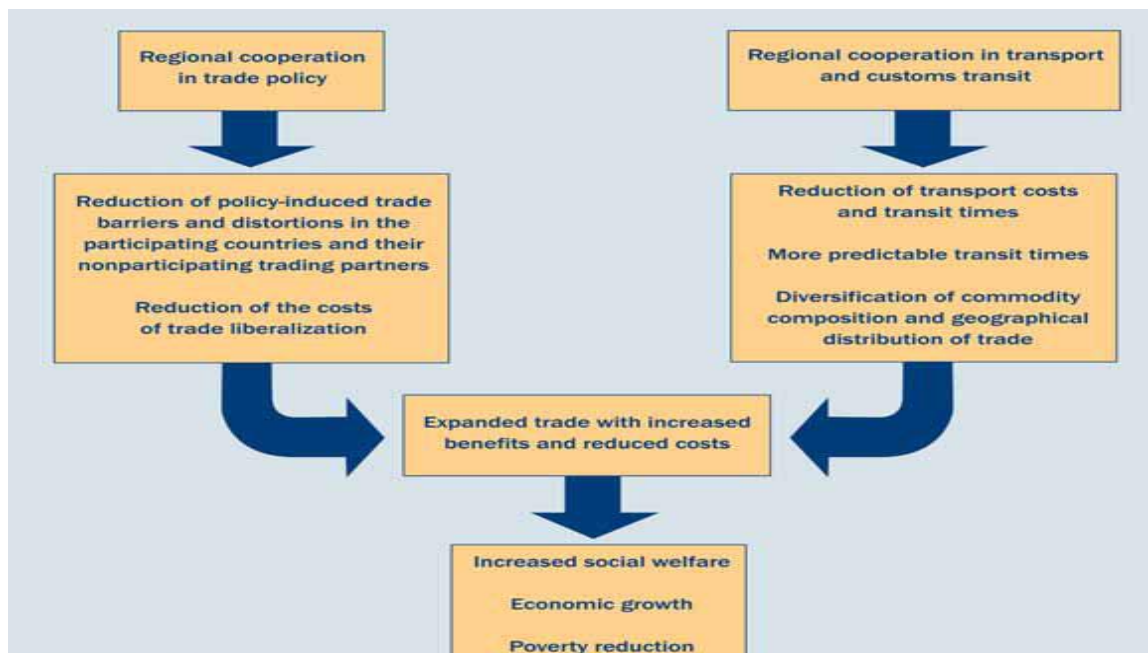
In qualitative terms, the main opportunities and potentials can be defined as

- A well-established energy-trading framework and a competitive market would attract new investors, increase efficiency of current operations, and allow combined investment projects across national borders to capture economies of scale.
- sharing knowledge and development of the knowledge pool on energy efficiency.

- lower unit energy service costs for the whole region and several alternative sources (gas, electricity, oil)
- less investment needed for expansion of electricity generation because reserve requirements will be less (rather than one large station, a number of stations can provide same reserve MW with a lower probability of failure)
- maximum use of existing hydropower capacity to strengthen environmental sustainability.
- increased exports of gas and oil from the region.
- capacity building of regional technical research institutes.
- expanded access to new markets in Europe, South Asia, Russia and Turkey.
- a centralized dispatch system for gas and electricity that can be combined to a regional state-of-the-art energy dispatch center.

Research studies, delegations, expertise, intellectual communities from all over the world observed and shared the vision that regional economic cooperation is a strategic means to reducing poverty, and achieving stability and prosperity in Central Asia. Economic cooperation complements and supports national development strategies. UNDP Administrator Kemal Dervis said that integration of the economies of the five Central Asian republics is an uphill task. Lowering trade barriers and trade facilitation will help them to expand and boost economic growth and employment.

How Regional cooperation in Trade Policy, Transport, and Custom Transit can contribute to Economic development in Landlocked Countries



ADB, (2007) **Increasing Gains from Trade Through Regional Cooperation in Trade Policy, Transport, and Customs Transit , Phillipines ,ADB p 7**

High transport costs and long and unpredictable transit times undermine competitiveness of exports of landlocked countries in world markets, make their imports more expensive and limit their participation in international trade. Landlocked countries find it particularly difficult to export time-sensitive products, such as perishable goods, to compete with coastal countries in manufactured export activities, where imported inputs account for a large proportion of the value of output and profit margins are small. In turn, small volumes of trade make it more difficult for landlocked countries to exploit economies of scale in transport and reduce transport costs. Many developing landlocked countries are, therefore, trapped in the vicious cycle of small trade volumes keeping transport costs high and high transport costs constraining trade, economic growth, and development. Regional cooperation in transport and customs transit can help landlocked countries break this vicious cycle and overcome the disadvantage of their location. Moreover, liberalization of trade policy and regional cooperation in transport and customs transit are closely interlinked for landlocked countries·(UNDP Report,2005)

So far, the Central Asian regional co-operation is concerned four factors could potentially have an impact on the creation of real regional union that are military- strategic considerations, cultural religious ties, economic integration and disposition of all-important water resources. But keeping in mind the limitations of the study this paper put emphasis on the economic integration of central Asia. So apart from the above, additional advantages of stronger economic integration among Central Asian countries can be summarized as follows:

- ❖ The integration would provide a sufficiently large market for reaching an efficient scale of output and greater specialization by pooling markets through the removal of remaining barriers to trade.
- ❖ The countries can substantially reduce the transport and transit costs because of geographical contiguity among members.
- ❖ Capital goods produced within the region may be more compatible to the factor endowment of member states than those imported from developed countries.
- ❖ The increasing competition among the member states would result in technical efficiency in existing industries as marginal firms might be forced to reduce their costs.
- ❖ Economic Cooperation among members states would encourage them to pursue harmonious liberalization policies, resulting in the maximum realization of perceived

benefits. The eliminated artificial barriers to trade within the free trade area may help evening out the price and exchange ratios among members. In trade relations of members with non-members, domestic competition may result in improved terms of trade. Members will also have enhanced bargaining position.

- ❖ Stronger regional co-operation may also pave the way for regional banks with joint ventures which might be influential in promoting regional investment in large projects.
- ❖ As economic ties grow stronger and countries become committed to common economic goals, political problems may recede in their complexity. When economic benefits gain significance, amicable environment may be created for resolving political problems.
- ❖ As the economic ties grow stronger there is a possibility of transparency and the information about each other and possibility of more connectivity.

Since independence various meetings were held with regard to economic integration.

The Status of Economic Cooperation in Central Asia

Although Central Asian countries are important member of the Common Wealth Independent States (CIS), yet CIS has not implemented a custom union or Free Trade Area. Kazakhstan, Kyrgyzstan and Uzbekistan formed a Central Asian Union (CAU) considering economic integration among three countries in 1994. In 1995 they approved free trade among the three countries. In 1998, Tajikistan was also accepted as a member of CAU. Later, in 1998 it was renamed as Central Asian Community (CAC). Russia has become a member of this regional group in May 2004. CAC also granted observing status to Georgia and Turkey. In 1998, CAC again renamed as Central Asian Economic Community (CAEC) and in 2001 it has been transformed into Central Asian Co-operation Organizations (CACO)

ADB started its Central Asia Regional Economic Cooperation (CAREC) Program in 1997, Kazakhstan, Kyrgyz Republic, Tajikistan, Uzbekistan., Azerbaijan, People 's Republic of China, and Mongolia. with early efforts focused on raising awareness of the importance of cooperation. Later on, Afghanistan, Georgia Pakistan and Turkmenistan also become active member of CAREC. The CAREC program has developed into a joint platform for multilateral institutions in support of regional cooperation in the region. The CAREC Program now targets three main areas for development: energy and water, trade, and transport. CAREC has focused on financing infrastructure projects. It focuses on improvements in Region, s policy environment in the priority area of Transport especially road transport and Trade facilitation.

The project is upgrading the badly deteriorated road, built in the Soviet era and modernizing border control policies and facilities. As the first stage of a regional assistance program to promote regional energy cooperation, a loan project amounting to \$90 million was approved in 2002 to provide for the modernization of regional power transmission in Tajikistan and Uzbekistan.

It remains a meaningless phrase if there is not co-ordination of economic reforms, unification of customs, currency, price tax and other spheres of legal regulation in the economy. So, the countries need to coordinate their macro policies like taking into account budget deficits and ways to finance them, fluctuations in the rate of exchange for nations. (Rumer,2003). Due to the fluctuation in policies the intra- regional trade has been influenced since independence. But due to favorable commodity structure among countries it focuses on efficient development in these areas.

Intra-Regional Trade of Goods

To From	Kazakhstan	Kyrgyz Republic	Tajikistan	Uzbekistan
Kazakhstan		Petroleum, coal, wheat, nonferrous metals, chemicals and plastics, machinery	Wheat, flour, petroleum products, tractors	Gasoline, wheat, clothing, chemicals, rubber, copper, wool, meat
Kyrgyz Republic	Electricity, antimony, sulfur, tobacco, ores and scrap, textiles		Asbestos and cement, flour, natural gas	Electricity, meat and milk, coal, ores and scrap, wool, cloth, sugar, medicines
Tajikistan	Aluminum, ore, ethanol, fruit	Electricity, ethanol, ore		Electricity, aluminum, rail services
Uzbekistan	Natural gas, electricity, cotton, consumer goods	Natural gas, fertilizer, fuel oil, gasoline	Petroleum products, fertilizer, cement, fabric	

The commodity structure of Central Asian exports is mainly comprising mineral resources and agricultural raw materials. Central Asian Region is main exporter of oil, steel products

and copper(Kazakhstan) main products are non-ferrous metallurgy, electric energy and machine building(Kyrgyz),, Aluminum, cotton fiber and electricity products (Tajikistan), Gas, oil and oil products and cotton fiber (Turkmenistan) and cotton, gold and energy (Uzbekistan).(see above table)Promoting diversification will require high quality investment by both the public and the private sectors to develop new sources of growth. Promoting the development of small and medium-sized enterprises, which regularly account for the bulk of job creation, benefits particularly from a level playing field and transparent and well-enforced rules. Despite having full potential in the region these countries are facing many challenges

Challenges of Regional Economic Integration

The main Challenges such as huge currency devaluation after independence, low tariff levels, poor collection, lack of financial and management control, absence of a credible regulatory framework, poor dispute resolution, and lack of rule of contractual law are common challenges the region faces. The regional cooperation strategy is about overcoming challenges to cooperation rules, regulations, attitudes, investments and political will that is forcing inefficient decisions on the energy sector at the cost of overall economic growth. Tariffs and specific trade taxes are reasonable by GATT standards, and bribes and other unofficial payments are often in place of tariffs, not in addition. Moreover, there are still substantial non-tariff obstacles to trade. It is indirect impediments to trade which disadvantage commerce. such as poor roads, hijacking, and unofficial police stops.

Key Challenges

- **Different economic reform model:** As they are enjoying political freedom and they are implementing different economic policies, one of the basic challenges is that these countries are pursuing different development strategies in their countries. From the very beginning Kazakhstan opened up its economy and undertook drastic reforms as a means to stimulate its economy. Uzbekistan adopted stepped reforms and continue to carry on the state management techniques of the former Soviet Union. Turkmenistan has adopted the mixed policies. Kyrgyzstan mean while able to got a membership from the WTO but due to less cooperation from neighboring countries are not able to get maximum benefits. Tajikistan is a very small economy and more dependent on

other countries of the region. It has no alternate than to integrate with the region. The most important include the sustaining growth, after the deep recession¹

- **Different political regimes:** The authoritarian natures of the Central Asian Regimes also affect the regional integration process because of their tendency to impose control over society. Thus, borders are tending to be tightly controlled and information restricted.
- **Differ in terms of size-** geographic, demographic, natural resources endowment, social, environmental conditions.
- **Lack of Communication:** Due to lack of information and regulations it restricted the cross-boarder trade and cooperation. Data also proves that the percentage of trade among the region decrease over the past years. At the policy level, the timing of structural and policy reforms envisaged in the outlook could be delayed. These reforms include regional cooperation arrangements in the oil and natural gas sector that would increase revenue and reduce transit taxes as well as general regional cooperation measures to deal with trade and transit bottlenecks and could increased efficiency.
- **Insecurity, threat to independence:** Terrorism is a continuing potential threat to the region, particularly where ethnic tensions could surface. More generally, political instability and poor governance pose considerable risks to the CARs' outlook. There seem to be increasing pressure for democratization in some CARs. Particularly relevant in this vein is the prospect of prolonged political and economic uncertainty in the Kyrgyz.
- **Political will to resolve these issues:** Republic following the sudden change of government, escalating tensions in Uzbekistan in the aftermath of the Andijan events, instability in Kazakhstan in the run up to the presidential election, and a possible resumption of civil strife in Tajikistan. To this list can be added increased tension between Azerbaijan and Armenia. The economic impact of these uncertain political developments is hard to forecast. Moderate political instability would have a relatively modest economic impact Severe political instability, however, would further dampen the growth projections and raise poverty compared to the levels envisaged in Scenario

¹ UNDP,2005,p,45.

Conclusion

Central Asia is just at the earliest stage of initiating several institutions that have the legal standing and potential to further cooperation among the Central Asian Countries for mutual development and growth. From time to time, the respective heads of the Central Asian states meet regularly to discuss bilateral issues and negotiate mutually on drafts dealing with the issues such as railroad and transit rates, immigration, tax integration, customs inspections, joint investment projects, and so forth.

The state obtains most of its revenue from centralized sale of staples, such as cotton, gold, or petro-chemicals. or leases for exploration. High rates of taxation plague petty traders and craftsman to expand their enterprises. On top of that, the corrupt and complex bureaucracy further add woes to the survival of the businesses. The emergence of monopolies under the cloak of state government, competition among different stakeholders remains missing. The prevalence of favoritism and bribes for petty things further slow the development of the region. Due to several such bottlenecks, native entrepreneurs prefer to remain small and mobile, holding their assets in cash, precious metals and jewelry, or real estate.

The major issues that are likely to influence the future course of events and thus have implications for stability and security include the opportunities for political participation, political management by the present-day nationalist (mostly former communist) leaders and their ability to sustain the legitimacy of their rule, socioeconomic issues, especially the distributive dimension, and the role of the external actors, especially the neighboring states.

The respective state government currently has been diversifying from oil and mining and identifying new areas of businesses. It has been emphasized that the maturing industries (mostly private but some also state-owned enterprises) to likely to keep on investing in the neighboring countries to boost up economic growth. The idea behind such positive moves is to improve competition and productivity of domestic companies. Thus, in order to spur growth, the regional cooperation is altogether important for the promotion of cross-border business activities.

In order to work policies effectively CAREC will be implemented through a renewed institutional framework which will promote countries to take active participation. It will help to build strong countries ownership both at senior and technical working levels.

And effective engagement with the private sector, and coordination with other stakeholders Senior Officials' Meeting, the Regional Trade Group (RTG) will be the lead coordinative and consultative body for overarching trade issues. The Customs Cooperation Committee (CCC)

will continue to be responsible for all customs-related issues. Both the RTG and CCC shall closely coordinate and cooperate with each other, supported by expert groups in technical areas as may be established.

Both will also cooperate and coordinate with the CAREC Institute, Research Scholars and research institutions in CAREC countries. In a globalized world This article argues that Regional Economic Integration is a leading factor for sustainable growth and development of the Central Asian Countries. However, such positive steps will be incomplete without the pragmatic practice of the political will of the political leaders of these countries.

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