

Strategies for WTO Accession and for Economic Integration of Central Asia: A View from Kazakhstan

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Abstract: This study discusses the roles or contribution of trade liberalization and regional economic cooperation for the sustainable economic growth of Central Asia. The authors then propose economic, institutional, and trade policy related recommendations for national leaders and policy makers in the Central Asia region. An economic research paradigm was used to obtain a macro view of Kazakhstan. In general, factors that enhance regional trade development and regional economic integration include improving doing business environment, increasing trade policy coordination, accelerating trade policy liberalization and increasing economic cooperation. To enhance and sustain economic stability and reduce reliance on state-owned natural resource industries, Central Asia should implement alternative development strategies that promote trade liberalization and regional economic integration. Selected policies and practical implications are identified that facilitate free trade and regional economic integration through enhancing free trade agreements and regional economic cooperation, coordinating WTO accession, and creating an institutional monitoring organization.

Keywords: Central Asia, Kazakhstan, Regional economic Cooperation, Trade liberalization, Cross border trade, Economic growth, WTO

1 Introduction

Central Asia is a vast landlocked region of steppe, desert, and various mountain ranges in the center of the Eurasian. It stretches from the winter freezing Siberia in the north to the summer humid of Pakistan and India in the south, and is bordered on the geographical diversity of China's inland in the east to the Caspian Sea in the west. For most people, Central Asia comprises of the five former Soviet Central Asian republics of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, along with Xinjiang, which is a province in northwestern China. The nations of Central Asia are a conglomeration of people with a combined population estimated to be about 61 million at the end of 2006. The total area is sparsely settled with a population density of about 13 inhabitants per square kilometer.

Central Asia region has abundant supply of mineral resources that include petroleum, natural gas, and rare metals. Kazakhstan, Turkmenistan, and Uzbekistan are the three main oil and gas exporters in the region. Farming, the region's main industry, is in line with the climactic and natural conditions of the area. Cotton is one of the main products for the Central Asian republics. The countries of Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan are the world's top producers of cotton. Livestock and grain industries are important for a number of the Central Asian republics. Most of these republics are in transition from the centrally-plan agricultural production to the market-oriented manufacturing industries.

Since its separation from Russian's control in 1991, the Central Asia's economic transition has continued, and has the gross domestic product (GDP) growth rates on average higher than those in other developing countries. During the period from 2001 to 2006, the average annual GDP growth rate was 8.7 percent in Central Asia

Table 1 Gross domestic product (GDP) growth in Central Asia

	2001	2002	2003	2004	2005	2006	Average
Kazakhstan	113.5	109.8	109.3	109.6	109.7	110.6	110.4
Kyrgyzstan	105.3	100.0	107.0	107.0	99.8	102.7	103.6
Tajikistan	109.6	110.8	111.0	110.3	106.7	107.0	109.2
Turkmenistan	120.4	115.8	117.1	114.7	109.0	109.0	114.3
Uzbekistan	104.2	104.0	104.4	107.7	107.0	107.3	105.8
Central Asia average	110.6	108.1	109.8	109.9	106.4	107.3	108.7
Developing countries average	104.3	105.0	106.7	107.7	107.5	107.9	106.5

Source: Raw data from International Monetary Fund (2007), *World Economic Outlook*.

as compared with 6.5 percent in other developing countries, see Table 1. GDP grew faster, in particular, during 2001 to 2006, due to high oil and gas prices in the world market. The hydrocarbon exporters - Kazakhstan, Turkmenistan, and Uzbekistan - accounted for much of the region's growth. Most of the non-oil exporters also saw higher growth in 2006, benefiting from higher non-oil commodity prices, and from worker remittance inflows.

According to the report of Asian Development Bank (ADB, 2007b), growth will continue despite possible declining prices of oil and non-oil commodities, and will be driven by the region's hydrocarbon producers that are expanding their capacities to meet the larger demand from growing Asian economies, particularly the People's Republic of China (PRC). Foreign direct investments (FDI) in hydrocarbon industries are expected to grow, especially in the region's biggest oil producer, Kazakhstan. Uzbekistan is also expected to see further increases in FDI, particularly by the Russian Federation and the PRC.

The growth prospects of these Central Asian countries have benefited from their efforts to improve the private sector investment climate and doing business environment. In Kyrgyz Republic and Uzbekistan, the tax regime is being streamlined. In Kazakhstan, private companies are benefiting from competition law, and from reforms in business registration and licensing procedures. ADB Chief Economist Ifzal Ali said, "The region has progressed on structural reforms in areas such as small-scale privatization, banking and infrastructure reform. However, in other areas, such as governance and enterprise restructuring, there is need for significant additional reforms."

The 2006 per capita income in most of Central Asia countries is less than US\$ 1,000, except in Kazakhstan (US\$ 5,291), and see Table 2 for details. Based on existing trends, Kazakhstan is looking forward to the possibility of catching up with the middle-income countries within the next decade. In addition to its oil and gas exports, Kazakhstan has steadfastly devoted its efforts to increase intra-regional as well as inter-regional trade and the overall regional cooperation with other Central Asia countries. Therefore, Kazakhstan has created a trade market of significant impact on its economic growth.

Therefore, this paper focuses on answering the following questions:

1. What are factors that can promote trade development and regional economic integration in Central Asia?
2. What are challenges faced by the Central Asian countries in their accession to the WTO and in integrating regional economic growth?
3. Are there possible recommendations for the policy makers of Central Asia to accelerate trade development and economic integration in Central Asia?

2 Factors Promoting Trade Development and Regional Economic Integration

2.1 Improving Doing Business Environment

Potential investors and entrepreneurs in Central Asia face complex regulations, cumbersome licensing procedures, and other institutional obstacles that are often unclear and usually inconsistent with the rules

Table 2 Main indicators of socio-economic development of Central Asia, 2006

Country	(1) Population	(2) Employed population	(3) GNI per capita	(4) GDP growth	(5) Industrial output	(6) Investment in fixed capital	(7) Retail turnover
Kazakhstan	15.4	7.4	5,291	110.6	107.2	111	114
Kyrgyzstan	5.2	2.1	440	102.7	89.8	118	116
Tajikistan	7.1	2.1	330	107.0	104.9	155	112
Turkmenistan	6.7	*n.a.	*n.a.	109.0	122.0	n.a.	126
Uzbekistan	26.7	10.2	510	107.3	110.8	109	108

Notes: *n.a. refers to data not available.
(1) Number of population at the end of the year 2006, million persons
(2) Number of employed population, annual average of the year 2006, million persons
(3) Gross domestic product per capita in USD, 2006
(4) Gross domestic product growth as percentage of previous year, at constant prices, 2006
(5) Volume indices of industrial output, as percentage of previous year, 2006
(6) Volume indices of investment in fixed capital, as percentage of previous year, 2006
(7) Volume indices of retail turnover through all channels of sales, as % of previous year, 2006

Source: Agency on Statistics of the Republic of Kazakhstan (2007)

Table 3 Doing business environment in Central Asia

Country	Starting a business time (days)	Dealing li- censes time (days)	Registering property time (days)	Credit infor- mation index (0-6)	Investor pro- tection index (0-10)
Kazakhstan	20	248	52	4	5
Kyrgyz Republic	21	218	8	3	6
Tajikistan	67	187	37	0	1
Uzbekistan	29	287	97	0	4
Central Asia average	34	235	48	2	3
Singapore	6	129	9	4	9

Data are not available for Turkmenistan

Source: Raw data from the World Bank, *Doing Business 2007*

commonly practiced in the rest of the world. This environment often deters investors and entrepreneurs from participating in business investments because of unnecessarily high operating costs. As shown in Table 3, most entrepreneurs in Central Asia spent close to 35 percent of their time solving problems related to governmental regulations. On average, it took 34 days to start a business and about 235 days to acquire licenses in Central Asia, compared with 6 and 129 days, respectively, for Singapore, the most business-friendly economy in the world.

There are various options to improve institutional environments for doing business in the region, such as a reduction of excessive regulation, simplifying licensing requirements, and removing bureaucratic barriers that impede the normal process of business investments. In addition, a well functioning legal system that supervises the economic process ensures transparency and equal justice is also important in promoting investment and economic growth. Among these Central Asia countries, Kazakhstan is the one country that has strived to improve doing business environments and has achieved a significant progress, see Figure 1.

The numbers shown in Figure 1 range from zero to 180 which is the highest score indicating the most “worseness” state of doing business environment. Kazakhstan as a country had a score of about 60

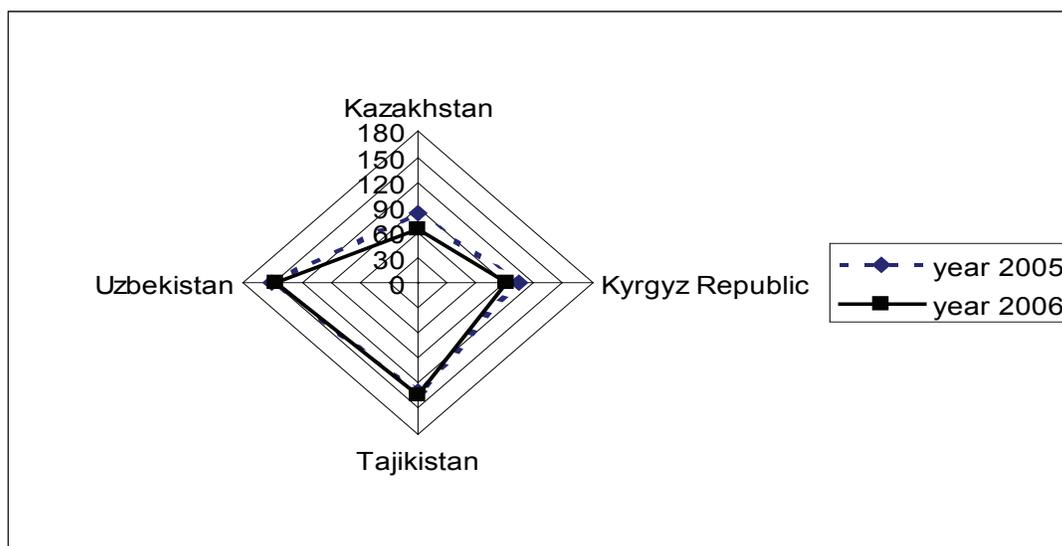


Figure 1 Changes of rankings on the ease of doing business in Central Asia

Source: Raw data from World Bank (2007), *Doing Business 2007*.

for the year 2005 but it worked hard to reduce the measure to about 40 in year 2006. The above graph further indicates that Kyrgyz Republic managed to have the score reduced from about 80 in 2005 to about 70 in year 2006. The scores for other Central Asian countries such as Uzbekistan and Tajikistan remained unchanged between 2005 and 2006. The above figure suggests that among the Central Asian countries, governments of Kazakhstan and Kyrgyz Republic to a large extent have been working hard to improve their doing business environments.

2.2 Increasing Economic Cooperation in Central Asia

After gaining independence in 1991 from the former Soviet Union, Central Asia faced the twin challenges of nationhood building and transition to a market-based economy. These tasks were made particularly formidable by a number of specific long-term development factors characterized by: landlocked location and remoteness from major world markets, small domestic markets, and rational use of complementary resource endowments especially in water and energy. These challenges combined lead to the conclusion that developing regional markets could save large transport costs, take advantage of the economies of scales, and yield gains from trade, including those based on resource complementarities. Joint actions taken by these countries should be able to meet these challenges effectively, to realize such gains, and to raise the living standards of the people in the region. This is the fundamental rationale for regional economic cooperation.

The Commonwealth Independent States (CIS) as a geo-political entity is a confederation consisting of 11 former Soviet Republics: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Ukraine, and Uzbekistan. Since its formation, the member-states of CIS have signed a great number of documents concerning integration and cooperation on matters of economics, defense and foreign policy. The signatories of these CIS charter members seem to clearly believe their goals could be accomplished without sacrificing what was referred to at the time as a 'unified economic space'. Many of these arrangements adopted at the time CIS creation were intended to coordinate monetary, customs, employment, tax, and investment policies. In May 1993, the CIS countries issued a declaration to establish an Economic Union, and signed an Economic Union Treaty in September 1993. The goal was to foster a free trade area, reduce internal tariffs, create common external tariffs, and establish a system for payments and settlements. The treaty was buttressed by a series of impressive sounding but ultimately ineffectual subsid-

itary agreements on free trade (April 1994), payments (October 1994), and customs (January 1995), legal harmonization (January 1996), customs classification lists (February 1996), and railway tariffs (October 1996). In reality, the CIS agreements incorporated little in the way of effective sanctions and enforcement powers. These agreements expressed intentions, but did little to create working mechanisms.

In 1985, the Economic Cooperation Organization (ECO) was originally formed with the three members of Turkey, Iran and Pakistan. In 1992, the organization was expanded to include Afghanistan, Azerbaijan, and the five Central Asia countries: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.

The Central Asian Cooperation Organization (CACO) is an international organization, composed of Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan and Russia. The current member nations, minus Russia and Tajikistan, plus Turkmenistan, formed the CACO in 1991 as Central Asian Commonwealth. Turkmenistan later withdrew from the organization. Tajikistan and Russia joined in 1998 and 2004 respectively. The CACO's objective is to enhance the development of the economic integration in the region, to perfect the forms and mechanisms of expanding the political, social, scientific-technical, cultural and educational relations among the member countries.

The Central Asia Regional Economic Cooperation (CAREC) Program is an ADB supported initiative that seeks to encourage economic cooperation among countries in Central Asia. The CAREC Program was developed in early 1997 in order to promote economic growth and to raise the standard of living in Central Asia by encouraging economic cooperation. Participants in the program include ADB's member countries in the Central Asian region, namely: Azerbaijan, People's Republic of China (focusing on Xinjiang Uigur Autonomous Region), Mongolia, Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan. The operational strategy of the Program is to finance infrastructure projects and improve the policy environment for promoting cross-border activities in the areas of transport, trade, and energy. Therefore, the three underlying strategic concerns are: 1) lessening the economic isolation of the region by the improvements of transport systems within Central Asia, and from the region to other parts of the world; 2) maximizing benefits from resources management by rationalizing and encouraging regional energy trade based on market principles, and rehabilitating existing infrastructure; 3) ensuring a policy environment favorable to trade and traffic within, to, and from the region (ADB, 2007a).

The Eurasian Economic Community (EAEC) was formally created when the treaty was finally ratified by all five-member states - Belarus, Russia, Kazakhstan, Kyrgyzstan, and Tajikistan - in May 2001 and on 25 January 2006, Uzbekistan became the latest member. With the revival of EAEC in 2005 the possibility to implement the Common Economic Space in its original framework has greatly increased. In October 2007 it was announced that a customs union would be formed by Russia, Belarus, and Kazakhstan by 2011 so that other members will be able to join later (Xinhua News, 2007).

The aims of EAEC include:

- Full-scale customs union and common market.
- Harmonisation of customs tariffs.
- Establishment of the general rules of trade in goods and in services and of their access to the domestic markets.

2.3 Enhancing Trade Policy Coordination in Central Asia

The CAREC programs focused on customs modernization and cooperation in order to facilitate trade. CAREC has supported measures to facilitate trade and transport goods as well as people in the region. These measures include the use of information technology for automated customs services and data exchanges; risk management and post-clearance audit; joint customs control and single window practices; and regional transit development (ADB, 2007a). Specific results include: ADB's support for bilateral trade and data sharing agreements, pilot testing of joint-border processing; continued support for regional trade financing from European Bank for Reconstruction and Development (EBRD); United Nations Development Program (UNDP)'s support for trade facilitation under Phase II of the Silk

Road Area Development Program; joint EC/UNDP support for improving the effectiveness of border management through the Border Management Program for Central Asia; World Bank's report on Trade and Transport Facilitation in Central Asia, prepared trade studies on several individual countries of the region.

The Trade Policy Coordinating Committee of CAREC addresses trade liberalization in the context of the World Trade Organization (WTO) and appeals to non-members of WTO to become members. The committee further addresses bilateral and multilateral trade agreements in the region, with a view of minimizing trade-distorting effects. The committee has undertaken assessments of current trade policies and trade policy initiatives including: comparative advantages in trade for Central Asia, regional trade agreements, and barriers to trade in Central Asia and the benefits of removing these barriers.

The April 2004 Senior Officials Meeting (SOM) called for the creation of a Trade Policy Coordinating Committee (TPCC) with needed supports from International Monetary Fund (IMF). On September 12 of 2004, the committee convened its first meeting to draft work agenda for the TPCC and to present the results to the SOM for approval. At the second TPCC

Meeting on 25 April 2005, participants discussed the draft papers on trade barriers in Central Asia (prepared by ADB), regional trade agreements and WTO accession (prepared by IMF) and potential comparative advantages of cross-border trade in Central Asia.

2.4 Accelerating Reforms of Trade Policies in Central Asia

Since June 15, 1997 Kazakhstan has implemented the codes of combined nomenclature (CN) system that conforms to the international unified system of commodity nomenclature (harmonized system: HS 96). Adoption of the system has simplified the procedure of license issuance for export and import of goods. Thus, it provides more favorable conditions for carrying on external trade instead of bring the procedure of licensing intra-regional exports and imports of goods in conformity with international standards and rules. Kazakhstan has embarked on the step-by-step process of creating equal conditions for domestic production and imports' excise taxes by introducing uniform rates for alcoholic drinks and oil. To introduce and foster normal competitive medium, the Kazakhstan government has abolished tax and tariff duties on foreign investors and removing imports of commodity groups to excise taxation. Since 2002, Kazakhstan has undertaken significant trade policy reforms, however, major trade policy reforms by other members of Central Asia, especially in Uzbekistan and Tajikistan, have been continued slowly (World Bank, 2007).

3 Challenges to Trade Development and Regional Economic Integration

3.1 Limiting Cross Border Trade in Central Asia

Cross border Trades can contribute significantly to economic development by improving the balance of payments, attracting FDI, and promoting competition, but Kazakhstan trades minimally with the rest of Central Asia. As shown in Table 4, in 2006 Kazakhstan's exports to the rest of the region amounted to only about 2.2% of the total, and its imports were also low at 2.6% of the total external trade. The major limiting factors for the region's economies include a similar commodity-based structure, restrictive trade policies, high tariffs, heavy transport costs, underdeveloped infrastructure, and cross-border barriers.

The presence of numerous trade barriers pertaining to trade policy in the Central Asian countries has constrained the growth of their regional trade and their trade with other countries. The more significant trade barriers in Central Asia include a complex tariff schedule and relatively high tariffs, in particular Kazakhstan and Uzbekistan, and frequent and unpredictable changes in tariff schedule. Other significant barriers to trade in Central Asia are high transport costs and low quality of logistics services for international shipments to and from Central Asia. Lack of competition is one of the main reasons for the low quality and high costs of transport services.

Table 4 External trade of Kazakhstan with other Central Asia countries (unit: million US Dollars, as % of total)

	Country	2004	2005	2006
Export to	Kyrgyzstan	220 (1.1%)	225.5 (0.8%)	267.8 (0.7%)
	Tajikistan	136.1 (0.7%)	150.6 (0.5%)	157.3 (0.4%)
	Uzbekistan	201.7 (1.0%)	242.6 (0.9%)	384.7 (1.0%)
	Turkmenistan	26.1 (0.1%)	17.3 (0.1%)	20.7 (0.1%)
	Central Asia total	583.9 (2.9%)	636 (2.3%)	830.5 (2.2%)
Import from	<i>Russia</i>	<i>2838.1 (14.1%)</i>	<i>2927.1 (10.5%)</i>	<i>3731.1 (9.8%)</i>
	<i>China (PRC)</i>	<i>1967.3 (9.80%)</i>	<i>2423.9 (8.70%)</i>	<i>3592.5 (9.4%)</i>
	Kyrgyzstan	91.2 (0.7%)	118.6 (0.7%)	138.9 (0.6%)
	Tajikistan	3.5 (0.0%)	17.0 (0.1%)	27.7 (0.1%)
	Uzbekistan	227.6 (1.8%)	254.5 (1.5%)	319.1 (1.3%)
Import from	Turkmenistan	75.6 (0.6%)	50.7 (0.3%)	132.6 (0.6%)
	Central Asia total	397.9 (3.1%)	440.8 (2.6%)	618.3 (2.6%)
	<i>Russia</i>	<i>4812.5 (57.7%)</i>	<i>6591.2 (38.0%)</i>	<i>9072.9 (38.3%)</i>
	<i>China (PRC)</i>	<i>758.2 (5.90%)</i>	<i>1251.8 (7.20%)</i>	<i>1924.9 (8.10%)</i>

Source: Agency on Statistics of the Republic of Kazakhstan (2007)

Heavy reliance on exports of a few primary commodities makes the Central Asian countries vulnerable to the abrupt price swings of these commodities in volatile world market, and that further complicate economic management. Consequently, Central Asia as a whole derives relatively little benefits from external trade in attracting diversified foreign direct investment and in fostering sustainable economic development.

Kazakhstan has the potential to be an engine of growth in Central Asia region if all governments are willing to make the necessary political commitment, invest adequately in their infrastructures, and enforce liberal trade and transit policies. The neighbors of Kazakhstan can benefit from its investment, energy exports, and relatively advanced financial sector. Greater cooperation among the Central Asian countries could provide all of them with significant opportunities for sustainable economic growths. From a broader perspective, greater access to markets beyond the regional ones remains very important. Consequently, the Kazakhstan government has been pursuing accession to the WTO since 1996. A WTO membership for Kazakhstan should improve its exports, enhance competition, promote enterprises' cost-competitiveness, and increase FDI.

Table 5 Doing business indexes of trading across borders in Central Asia

	Documents for export (number)	Time for export (days)	Cost to export (US\$)*	Documents for import (number)	Time for import (days)	Cost to import (US\$)*
Kazakhstan	14	93	2,780	18	87	2,880
Kyrgyzstan	n.a	n.a	n.a	18	127	3,032
Tajikistan	14	72	4,300	10	44	3,550
Uzbekistan	10	44	2,550	18	139	3,970
Central Asia	12.6	69.6	3,210	16	99	3,358
Singapore	5	6	382	6	3	333

* US Dollars per container. Turkmenistan data not available.

Source: Raw data from World Bank (2007), *Doing Business 2007*.

3.2 Slow process of WTO accession among Central Asia countries

In parallel with the development of various regional economic cooperative organizations, the Central Asia countries have pursued WTO membership with a varying degree of success. While the Kyrgyz Republic joined the WTO in 1998, other Central Asia countries are at different stages of the accession process, see Table 5 for details. Among them, only Kazakhstan has made a considerable headway in revising its national legislation in line with the WTO requirements and is at an advanced stage of the accession process with an active program of Working Party meeting in recent years.

To join the WTO, a country needs to implement a broad range of policy and institutional reforms, including liberalizing trade policy and improving the legal and regulatory framework for international trade. Once it joins the WTO, a country must conduct trade with other WTO members in accordance with pre-agreed rules. This means that accession to the WTO can help the Central Asia countries liberalize trade policy at relatively low costs and expand trade rapidly due to improved access to markets in a large number of WTO member countries (In total 151 members as of 27 July 2007). Accession to the WTO can also help the Central Asia countries fully realize their bilateral trade potential vis-à-vis these countries and to diversify their trades in different geographical locations. Furthermore, WTO membership can help the Central Asia countries reduce their vulnerability to possible protectionist measures by trading partners and make trade liberalization irreversible, which makes the policy environment more predictable and conducive to trade, investment, and economic growth.

The potential benefits of joining WTO for the Central Asia countries will increase over time as more and more of their neighbors and trading partners accede to the WTO. For example, the Kyrgyz Republic has not benefited much from its accession to the WTO in 1998. One possible reason is that none of its neighbors and only a few of its key trading partners such as Russia and China (PRC) were WTO members at the time. The Kyrgyz Republic did not effectively coordinate its trade policy with neighboring states and acceded to the WTO with tariff bindings, which were substantially lower than tariffs prevailing in the region. In response, some of its neighbors imposed tight restrictions on imports from the Kyrgyz Republic in an effort to prevent deflection of their trade with other countries through the Kyrgyz Republic. However, the situation has changed significantly since 2001. Most notably, China acceded to the WTO in 2001, and Russia and Kazakhstan are likely to join the WTO in the near future. Continuing rapid economic growth and the attendant increase in important demand in the two large countries – China and Russia - will create an opportunity for the Central Asia countries to boost exports and their sustainable economic growth.

Accordingly, the WTO membership does not and will not preclude regional economic cooperation in trade policies. In fact, Central Asia countries can pursue several options to achieve regional economic cooperation within the multilateral framework. These include concerted but nondiscriminatory trade liberalization, coordination of negotiating positions in the accession process to the WTO, and joint efforts with other developing countries and neighboring countries to push for the elimination of certain agricultural product subsidies in developed countries.

Table 6 Status of Central Asia countries in their accession to the WTO (as of 27 July 2007)

Country	Applied	Working Party Meetings	Member
Kazakhstan	January 1996	8 meetings (1997-2006)	
Kyrgyz Republic	1993		December 1998
Tajikistan	May 2001	3 meetings (2004-2006)	
Uzbekistan	December 1994	3 meetings (2002-2006)	
Turkmenistan has not applied to Accession until 27 July 2007.			

Source: World Trade Organization (2007)

4 Discussion and Policy Implications

The Central Asian countries, after becoming independent from the former Soviet Union in 1991, have made considerable progress in expanding market-based trades with international communities, and are gradually being integrated into the global economy. Their merchandise trade grew rapidly during the 2001 – 2006 period. In comparison, the growth of trade in Kyrgyz Republic, Tajikistan, and Uzbekistan was slower than that in Kazakhstan. However, each of these countries appears to have greater potential for additional growth in individual as well as the overall trade levels. Excluding exports of crude oil and oil products and imports of capital goods for oil sector development, the trade expansion of Central Asian countries has been relatively modest. Therefore, they should implement international trade policies that can provide the industrial sector with an outward orientation and can increase the pressures of international competition in order to bring about a positive supply response and increased efficiency. Many countries, especially developing countries such as the Central Asia countries, continue to practice protective trade policies. These protective policies not only lead to excessive bureaucratic interference in resource allocation and in encouraging non-productive activities but also limit international competition.

Central Asia countries have been involved in multilateralism since their independence in 1991 and experienced the process of economic integration through various economic cooperation and regional trade organizations. Free trade agreements, either bilaterally and/or multilaterally with Central Asia member countries have not been implemented for a very long time and may expect more complications in the future. What effects of Central Asian economic cooperation will have on economic integration of the whole region will likely depend on the individual free trade agreements among the member countries of Central Asia. For Central Asian countries to achieve a comprehensive economic integration, they will have to develop and institutionalize the cooperation framework that accommodates diversity (see ADB's report, 2006; Badykova, 2006; Grafe et al., 2005; Olimova et al., 2006; Paramonov et al., 2006; Parkash, 2006; Zardykhan, 2002). The current regional cooperation has not made any substantial progress in the area of trade liberalization. If full liberalization requires a certain level of institutionalization, then broader cooperation among member countries is necessary so as to strengthen the capacity of the least developing countries.

The potential benefits of WTO memberships for the Central Asia countries are considerable, especially after the WTO accession of China in 2001. These benefits will increase significantly after more Central Asia countries such as Kazakhstan and Russia join the WTO organization. In order to fully realize the full benefits of WTO membership, all Central Asian countries and their neighboring countries are necessary to become members of WTO. On the other hand, the WTO membership does not preclude regional economic cooperation in trade policy. In fact, several options for such cooperation are available for central Asia countries to pursue within the multilateral framework. Of these, nondiscriminatory trade liberalization and joint efforts to WTO accession are of particular important for the Central Asia countries.

Many developing countries including those emerging regional economic blocs are setting up protective trade barriers that make exports by other developing countries more difficult. This should not be the correct way to advance regional trade. One possible solution would be to promote regional economic integration among developing countries (e.g., within the Central Asian region), and then increased regional free trades that should alleviate their dependency on developed countries for exports. For non-WTO members, however, increased regional trade may further intensify the barriers to their international trade. Such a result is in conflict with their efforts towards international trade and free market system. To be compatible with international trade or globalization, regional economic integration should consider how the WTO rules could guide regional trade. The complementary path between regional and international trades relies on a nation's trade policy reforms and its effort in dismantling trade barriers.

Therefore, Central Asian countries can further benefited from full regional economic integration that involves not only preferential trade liberalization but also increased regional economic cooperation in transport, customs transit, and other areas of free trade facilitation. The positive effects of increased regional economic integration in trade development can more than offset the negative effects of pref-

erential trade liberalization. This is more likely to be the case when preferential trade liberalization is accomplished by international trade liberalization resulting in fairly low non-preferential policy toward trade barriers.

Kazakhstan as a country with considerable amount of international trade surplus should not be overly concerned with its regional trade deficit with other Central Asian countries. The larger international trade surplus with countries not in the region provides the basis for Kazakhstan to be the financial leader of the region, to be the engine of regional economic growth, and should be in the forefront to remove and/or to reduce international trade barriers. To do this successfully would play an important role in the Kazakhstan government's decision to open up its own market and to realize the benefits of international trade. Therefore, Kazakhstan has to be a major proponent of the "open markets" agreements that liberalize the markets for international free trade in the region.

The intent of this study and its findings should help Central Asian countries to increase the gains from participation in, and reduce the costs associated with, conducting international trade. To achieve these objectives, the following recommendations are proposed for governmental officials and policy makers:

- Governments should review various regional trade agreements including the analysis of possible relationships and potential conflicts between existing and planned regional agreements among Central Asian countries.
- Intensify what are the best efforts and practices for all Central Asian countries together to join the WTO, and how to further liberalize regional trade policy on a nondiscriminatory basis as part of the WTO accession process.
- Intensify efforts to promote the regional economic integration such as the formation of a common market within Central Asia.
- Seriously consider the possibilities of establishing a mechanism to monitor the implementation of regional trade agreements and regional economic cooperation.

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