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Central Asia Human Development Series



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Abstract

By increasing GDP and creating new income- and employment-generation opportunities—particularly for vulnerable communities—international trade can promote human development. Both trade theories and national experience point to potential pro-poor outcomes for low- and middle-income countries that specialize in the production and export of labour-intensive goods and services. UNDP's 2005 [Central Asia Human Development Report](#) therefore called for a more pro-active approach to trade (and transport and transit) in the region. In light of new developments and trends now unfolding in the region—concerning global and regional integration, migration and remittances, and the unbundling of global value chains—this paper builds on UNDP's 2005 report by updating the case for policies and programming that can help global and regional integration promote human development in Central Asia.

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Foreword(s)

UNDP's 2005 [Central Asia Human Development Report](#) described the many benefits—for people, as well as for states and economies—that deeper cooperation in the region could bring. It also proposed concrete initiatives, policies, and programming directions in which governments, businesses, civil society, and the international community could work together to create “borders with a human face”. Increased cooperation on trade and transit, as well as on water and energy management, disaster preparedness, and other issues, were explored—both for the region and for its neighbours.

Developments in the subsequent decade have been mixed: more and better cooperation in some areas has been accompanied by less progress in others. Global and regional economic integration are among the areas in which important changes have occurred in the last ten years. In contrast to 2005, the vast majority of Central Asia's trade today falls under policy frameworks that are compatible with the principles of the World Trade Organization. Thanks to the Eurasian integration project, many obstacles to the free movement of goods, services, and people along Kazakhstan's northern border with the Russian Federation have disappeared. Large migrant labour flows from Central Asia's low- and lower middle-income countries to the Russian Federation have led to the deep integration of these countries' labour markets. They also generate billions of dollars in remittances annually, which are essential to the external balance of Tajikistan and the Kyrgyz Republic, as well as provide critical support to vulnerable households across the southern parts of the region. Billions of dollars of foreign investment from China, the Russian Federation, and elsewhere have co-financed government investment programmes to upgrade the region's transport infrastructure and develop its extractive sectors.

While much research has been devoted to the economics, political economy, finance and sectoral dynamics of these developments, their human dimensions are often overlooked. While economic growth is lifting many boats in Central Asia, only about half of the region is employed, and the numbers of individuals working in “decent jobs” are smaller still. Although migration and remittances are helping to reduce poverty, their social side effects—for children, families, and communities—may be quite troubling. Moreover, the production of the energy, metals, minerals and cash crops that dominate Central Asian export baskets often poses significant burdens on the region's delicate ecosystems. Meanwhile, high transit costs (only some of which can be explained by the region's landlocked character) continue to impede the export of labour-intensive manufacturing and services (like tourism) that can boost job creation.

Written with support from the Government of Finland's Wider Europe Initiative, this paper investigates the human development side of these questions. It assesses the important poverty, social, and environmental implications of the global and regional integration trends now unfolding in Central Asia, by taking a people-centred approach that focuses on how integration is affecting (and could affect) the sustainability of the region's natural, human, and social capital. UNDP hopes that the ideas and analyses contained in this paper will help policy makers, development professionals, and Central Asianists to better see the people behind the trade and migration numbers, as well as develop the trade and migration policies and programming needed to put people first.



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1

Executive
summary

- Two decades after independence, the Central Asian economies continue to rely on the export of a small number of primary products. Except for Kazakhstan, growth in merchandise exports from the Central Asian countries during the past decade has been below the rates reported by many developing and transition economies.
- At- and behind-the-border barriers to trade in Central Asia remain significant. This is apparent in the World Bank's [Doing Business](#) surveys, which rank the Central Asian countries at the very bottom of its "trading across borders" category. Higher trade costs are a particular burden for small and medium-sized enterprises in such labour-intensive sectors as agriculture, light industry, wholesale and retail trade, and tourism. High trading costs and low levels of competitiveness and productivity in these sectors constrain employment and limit possibilities for pro-poor growth.
- Trade and integration issues are moving towards the centre of Central Asia's development agenda. This is apparent in the re-emergence of WTO and Eurasian integration initiatives, the growing importance of global value chains, improvements in the region's transport infrastructure, and continued growth in already large migration and remittance flows.
- With the recent accession of the Russian Federation (2012) and Tajikistan (2013) to the World Trade Organization (WTO), the vast bulk of Central Asia's trade now occurs with WTO member states. The experience of the Kyrgyz Republic (which has been a WTO member since 1998) shows that WTO mem-

bership and the relatively open trade regimes that it promotes can bring important human development benefits. But it also shows that WTO membership is not by itself a game-changer.

- The Customs Union created in 2010 by the Eurasian Economic Community is seeking to both *deepen* into an economic union by 2015, and *widen* by including the Kyrgyz Republic and (possibly later) Tajikistan. Eurasian integration could boost Central Asia's human development prospects—particularly if it goes beyond preferential trading relations to address questions of institutional development, formalizing migration and remittance flows, and boosting the competitiveness of labour-intensive export-oriented sectors. But if the Customs Union creates more barriers to trade between members and non-members, and if it hinders Central Asia's inclusion into global value chains, then the region could miss out on important development opportunities.
- The emergence of global value chains as drivers of economic growth affords Central Asia important development opportunities—particularly in light of the region's proximity to three BRICS countries (Russia, India and China). However, taking advantage of these opportunities requires renewed national commitments and regional cooperation to improve Central Asia's transport infrastructure and remove other at- and behind-the-border trade barriers.
- These developments are creating new opportunities for diversifying Central Asian export baskets, and expanding trade, production, and employment in labour-intensive sectors. Less reliance on commodity exports could also reduce the burdens on the region's environmental, human, and social capital. Low-skilled workers, women, small-scale producers and traders, and residents of border communities could particularly benefit from these human development opportunities.

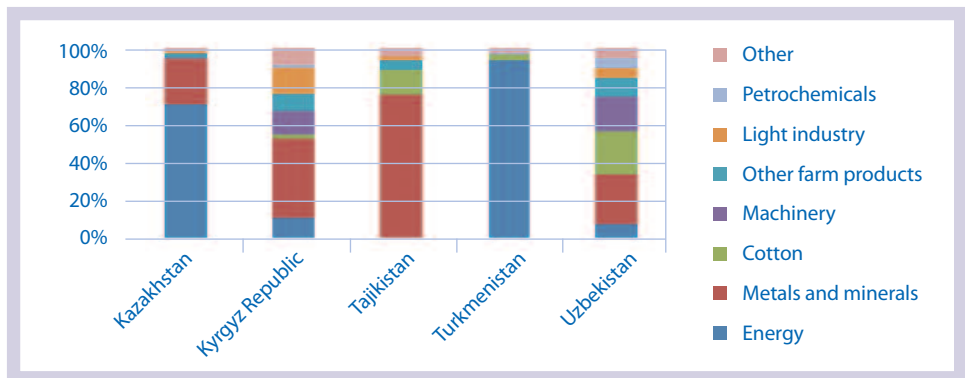
- Activities to take advantage of these opportunities could include:
 - reductions in at- and behind-the-border barriers to trade, particularly via trade facilitation and border management initiatives;
 - investments in the competitiveness and productivity of the small-scale producers and traders who have not full shares thus far in the benefits of economic integration in Central Asia; and
 - assurance that efforts to facilitate WTO and Eurasian integration reflect the human development needs of, and opportunities for the Central Asian countries.

2

Trade issues move toward the centre of Central Asia's development agenda

At independence, the five Central Asian countries¹ were open economies, exporting a small number of primary products. This characteristic has changed little in the two subsequent decades (Chart 1). Energy, cotton, and metals and minerals account for about 90% of merchandise exports from Kazakhstan, Tajikistan, and Turkmenistan. While Uzbekistan and the Kyrgyz Republic show more diversified export baskets, metals and minerals (gold), energy (gas, coal), and primary agricultural products (cotton) account for about two thirds of merchandise exports from these countries. Light industrial and machinery production account for about one quarter of these countries exports.

Chart 1: Central Asia's concentrated commodity composition of exports (2012)



UNDP calculations, based on *International Trade Center (ITC) data*.

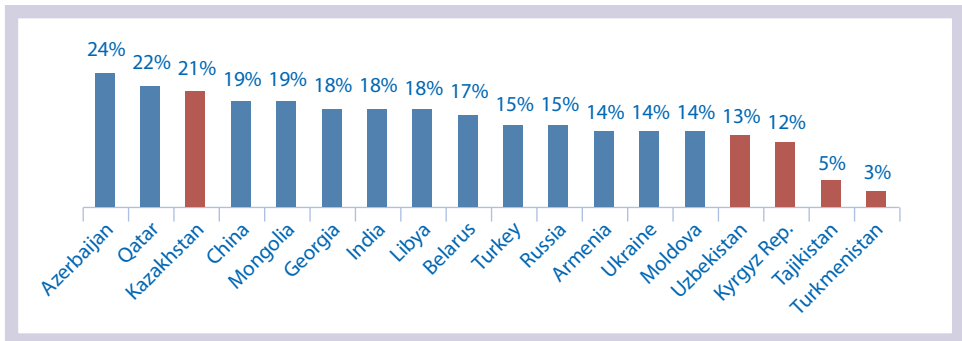
Higher exports of these primary products have boosted growth in GDP, output, and incomes in Central Asia—especially during the global commodity price boom that took hold in the middle of the last decade,

1 Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.

and peaked around 2011. However, with the exception of Kazakhstan, growth in merchandise exports from the Central Asian countries during the past decade has generally been below the rates reported by comparable developing and transition economies (Chart 2).

Because production in most of Central Asia's export sectors is based on capital-intensive production technologies, export growth does not necessarily translate into commensurate employment growth. Together with demographic trends (large numbers of young people entering the workforce each year) and governance challenges in the public and private sectors, these structural characteristics depress job growth in the region. Decent employment opportunities are therefore a key development challenge in Central Asia—especially for its low- and lower middle-income countries.²

Chart 2: Merchandise export growth rates, annual averages (2000–2012)



Efforts to promote trade—particularly in labour-intensive sectors that can create employment- and income-generation opportunities for vulnerable workers—could help address these challenges in Central Asia. The data shown in Tables 1, 2, and 3 indicate that export growth could mean new development opportunities in agriculture, light industry, tourism, and wholesale and retail trade. These are sectors that produce tradable goods and services, and in which women and vulnerable groups (e.g., the urban poor, vulnerable rural households) tend to be over-represented in the labour force.

UNDP calculations, based on data from the UN Statistical Division's [annual trade totals data base](#).

² For more on the global decent work agenda, see <http://www.ilo.org/global/about-the-ilo/decent-work-agenda/lang--en/index.htm>.

Table 1: Shares of agricultural activities in:

Country	Nominal GDP	Employment	
		Total	Women's
Kazakhstan	4%	26%*	25%
Kyrgyz Rep.	17%	30%	30%
Tajikistan	23%	66%*	...

UNDP calculations, based on 2012 data from national statistical office websites.

* Includes hunting, fishing, forestry, and related services.

Table 2: Shares of wholesale, retail trade activities in:

Country	Nominal GDP	Employment	
		Total	Women's
Kazakhstan	15%	14%	15%
Kyrgyz Rep.	16%	15%	18%
Tajikistan	15%	6%	n.a.

UNDP calculations, based on 2012 data from national statistical office websites.

Table 3: Shares of tourism activities in:

Country	Nominal GDP	Employment	
		Total	Women's
Kazakhstan	1,3%*	2,8%	3,7%
Kyrgyz Rep.	4,7%	4,5%	7,2%
Tajikistan	0,4%	0,3%	...

UNDP calculations, based on 2012 data from national statistical office web sites.

* 2011 data.

However, using trade to promote labour-intensive growth in Central Asia has not always been a priority. Instead, as UNDP's 2005 [Central Asia Human Development Report](#) pointed out, most of the Central Asian governments have been slow to adopt measures to lower trading costs (which can be especially harmful for landlocked economies³) and boost the productivity and competitiveness of small-scale producers and traders. The report also provided examples of how high trade costs, which prevented diversification away from resource exports, were restricting pro-poor growth. The World Bank's [Doing Business](#) surveys, which rank the Central Asian countries at the bottom of its "trading across borders" category

3 The problems of "landlockedness" in Central Asia have been analysed by Raballand (2003), Grafe, Raiser, and Sakatsume (2005), Cadot, Carrère, and Grigoriou (2006), and Grigoriou (2007).

Table 4: Landlocked country rankings from the “trading across borders” category⁴ of the World Bank’s Doing Business survey (June 2013).

Country	Ranking
Former Yugoslav Rep. of Macedonia	88
Serbia	102
Armenia	116
Bosnia and Herzegovina	109
Bolivia	126
Moldova	149
Belarus	150
Paraguay	154
Bhutan	172
Nepal	177
Mongolia	181
Kyrgyz Republic	184
Kazakhstan	186
Tajikistan	188
Uzbekistan	189

*Out of 189 countries, total, Turkmenistan was not ranked.
Source: <http://www.doingbusiness.org/rankings>.*

(Table 4), underscore the continued presence and importance of these barriers. While the higher trading costs faced by landlocked countries are reflected in this ranking, the Central Asian countries compare poorly even vis-à-vis other landlocked economies.

On the other hand, a number of trends suggest that issues of trade, economic integration, and regional cooperation are moving towards the centre of the development agenda in Central Asia. These include the following:

⁴ These rankings reflect data collected in response to survey questions concerning the numbers of documents required to conduct export and import transactions, the time required to complete these transactions, and the costs of exporting and importing a freight container.

Has the commodity price boom peaked? The run-up in global commodity prices that began just before the turn of the century (Chart 3) gave an important boost to Central Asian exports. This was particularly the case for energy exporters Kazakhstan and Turkmenistan, but also for Uzbekistan. On the other hand, in addition to limiting progress in economic diversification and heightening Dutch disease concerns, the boom widened gaps between the region's energy exporting middle-income countries and low-income, oil/gas importing Tajikistan and the Kyrgyz Republic—which typically report large trade deficits (Chart 5). These low-income countries were also hit by soaring food prices during this time.

Chart 3: World price trends (historical data, 1999 = 100)

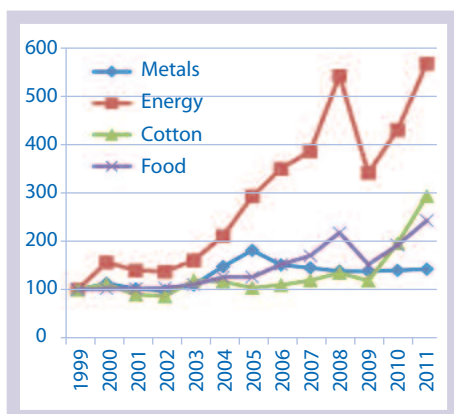
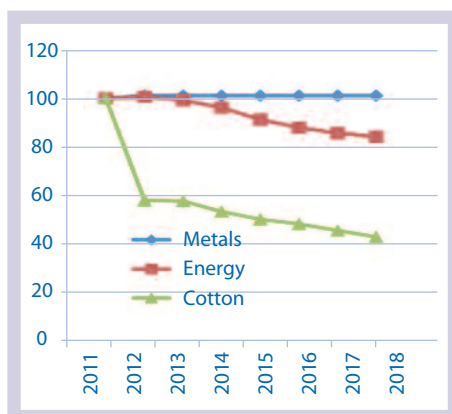


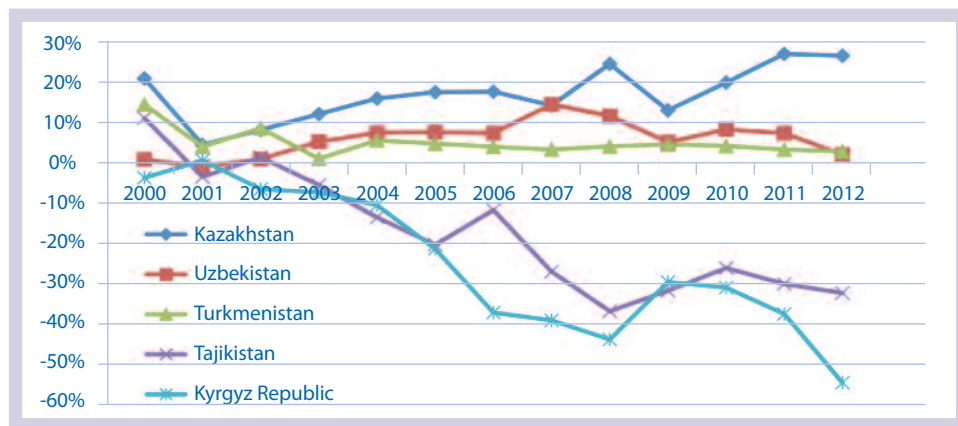
Chart 4: World price trends (historical data and projections,* 2011 = 1000)



* Projections begin in 2013. UNDP calculations, based on *International Monetary Fund (IMF) primary commodity data*.

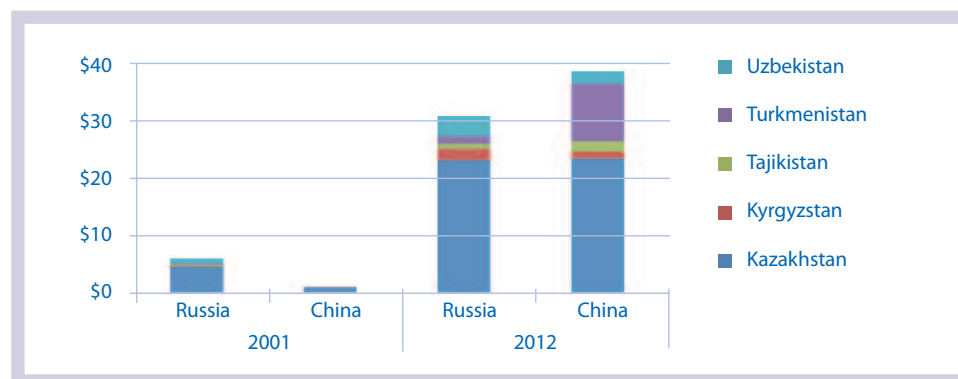
Since 2011, global commodity prices have moderated. The IMF projects falling commodity prices during 2013-2018 – particularly for cotton, but also for energy (Chart 4). If these forecasts are correct, then the Central Asian countries that have benefitted most from the run-up in global commodity prices will face adverse terms-of-trade movements during the next five years.

Russia resurges, and China emerges. The past decade has seen the economic resurgence of the Russian Federation, which has likewise enjoyed an energy-led boom. The Russian Federation's merchandise trade turnover with the Central Asian countries rose five-fold (from \$6.2 billion to \$31.9 billion) during 2000-2012 (Chart 6). Legal entities registered in the Russian Federation re-

Chart 5: Merchandise trade balances in Central Asia (vis-à-vis GDP, 2000-2012)

UNDP calculations, based on IMF-WEO data and the UN Statistical Division's *annual trade totals data base*.

ported some \$5 billion in foreign direct investment flows into Central Asia during 2005-2012. Perhaps most importantly for vulnerable households in Central Asia, annual remittance flows from the Russian Federation to the region (as measured by money transfer flows monitored by the Central Bank of Russia) rose from virtually nil in 2000 to \$11.6 billion in 2012.⁵

Chart 6: Trends in Central Asia trade turnover* with Russia, China (2001-2012, in billions)

* Merchandise exports plus imports, in dollar terms. UNDP calculations, based on *International Trade Centre data*.

Russia's re-emergence been matched by the rapid rise in China's importance as a trading partner, investor, and financier of infrastructure projects in the region. After a decade of rapid

5 UNDP calculations, based on ITC and Central Bank of Russia data.

growth, Chinese trade with Central Asia has grown to levels commensurate with the region's trade with the Russian Federation (Chart 6). In terms of trade flows, there are obvious complementarities between Chinese manufactured exports and Central Asian comparative advantage in the primary products that China imports. Chinese state-owned enterprises and banks have financed large investments in the extraction and transport of key energy and mineral products, as well as high-profile infrastructure projects in Tajikistan and the Kyrgyz Republic. During his September 2013 tour, Chinese President Xi Jinping visited four Central Asian countries, met all five Central Asian presidents, and pledged over \$50 billion in Chinese funding for energy and infrastructure projects.

WTO accession is back on the agenda. Prior to 2013, the Kyrgyz Republic was the only Central Asian country to have joined the WTO; of its neighbours, only China was a WTO member. However, the accession of the Russian Federation (in 2012) and Tajikistan (in 2013) changed the region's WTO dynamics: most of Central Asia's trade now occurs with WTO member states. Kazakhstan's long-standing WTO membership aspirations may therefore be taking on new significance; Uzbekistan's interest in WTO accession likewise seems to have quickened.

In addition to strengthening the Central Asian countries' abilities to respond to protectionist measures, WTO membership can help boost growth in exports, production, and employment—particularly in labour-intensive light industrial sectors (also in metallurgy). This is apparent in the Kyrgyz Republic's experience, in which a relatively liberal trade regime has supported the emergence of an *entrepôt* trade sector that provides employment for tens of thousands of low-skilled workers, many of them women. WTO membership has also promoted the emergence of a competitive clothing export sector (in which women are likewise strongly represented) in the Kyrgyz Republic. Expanded exports of tourism services could be next—particularly in light of the recent liberalization of the Kyrgyz Republic's visa regime.

On the other hand, the Kyrgyz Republic's export basket continues to be dominated by a single mineral—gold which generates little employment, creates negative environmental externalities,

and is a source of political friction at home and abroad. The informality associated with large bazaars that are the basis for these trade and clothing exports also raises questions about their sustainability. In these and other ways, the Kyrgyz Republic's experience shows that WTO membership is not by itself a game changer for development and modernization. Moreover, the WTO's trade-related intellectual property regulations could reduce access to imported and generic medicines in the region.

Eurasian integration gathers speed. The regathering of Russia's economic weight has made possible the establishment of the Customs Union and the Single Economic Space of the Eurasian Economic Community (EurAsEC), between Kazakhstan, the Russian Federation, and Belarus. The Eurasian Economic Union (EEU), which would feature the free movement of goods, services, labour, and capital, is to be created in 2015. In addition to pursuing an ambitious "deepening" agenda, the "widening" of the Eurasian integration project may also be in the cards: the Kyrgyz Republic is currently negotiating for Customs Union membership.

If the Eurasian integration project remains open to trade with the rest of the world, if it expands to include the Kyrgyz Republic (and possibly later Tajikistan), if it facilitates the expansion of labour-intensive production in these low-income Central Asian countries, and if it helps to formalize their large migrant labour flows to/remittance from the Russian Federation, then Eurasian integration could make a significant contribution to human development in Central Asia. But if the Customs Union creates more barriers to trade between members and non-members, and if it hinders Central Asia's inclusion into global value chains, then the region could miss out on important development opportunities.

Value chains and transport corridors. A "second unbundling" of global production processes is providing developing countries with new opportunities to find niches in global and regional value chains. Central Asia's prospects for inclusion into these niches are often seen as limited by the region's landlocked status. Its location could have an upside, however, in the form of deeper cooperation with the dynamic neighbours—including three of the BRICs—that loom large in Central Asia's periphery. In particular, China's growing

shares of Central Asian trade could provide entry points into “Factory Asia” value chains. On-going improvements in transport links between China and Europe could create new opportunities for Central Asian suppliers to participate in these value chains. Such opportunities could be particularly important for Kazakhstan, whose position as an upper middle-income country suggests that significant development opportunities could lie in the expansion of more technologically sophisticated and somewhat more capital-intensive manufacturing activities. Although its per-capita GDP levels are well below Kazakhstan’s, such possibilities may also be present in Uzbekistan, which reports the largest share of manufactured exports (in total exports) in the region.

However, realizing these opportunities will require investments not only in transport infrastructure, but also in trade support—which governments in the region have sometimes been slow to promote. The transport corridor concept, with its emphasis on better hard and soft infrastructure (i.e., physical structures and trade facilitation), can promote pro-poor trade-led growth, by reducing the trade costs that can be particularly onerous for small and medium-sized enterprises. Aid-for-trade initiatives that address high trade costs and boost the productivity and competitiveness of small producers and traders can likewise improve human development.

Migration and remittance flows acquire very large dimensions. The region is witnessing large movements of workers from Tajikistan, the Kyrgyz Republic, and Uzbekistan to the Russian Federation (and to a lesser extent to Kazakhstan) as well as equally large remittance flows in the opposite direction. Although the relevant data are not without methodological weaknesses, they indicate that millions of Central Asian migrants are working abroad and (along with diaspora communities) are sending home \$10-15 billion in remittances annually. In addition to providing critical balance-of-payments support to Central Asia’s low-income countries, these remittances play a significant poverty-reduction role.

On the other hand, the size of these flows may be matched by their associated human costs in both source and destination

countries; and for the migrants themselves, for the communities that receive them, and for those left behind. Their quasi-informal nature reduces the developmental benefits of these flows, *inter alia* in terms of supporting pension funds and other forms of social and employment protection in both source and destination countries. In the longer term, replacing the direct export of labour to the Russian Federation and Kazakhstan with indirect labour exports, in the form of labour-intensive goods and services sold to these countries, must be seen as a key development challenge for Central Asia's low- and lower middle-income countries. Efforts to improve the conditions of Central Asian migrant workers in destination countries, help them acquire skills that can be applied back home, and channel remittance inflows into local development initiatives are likewise extremely important.

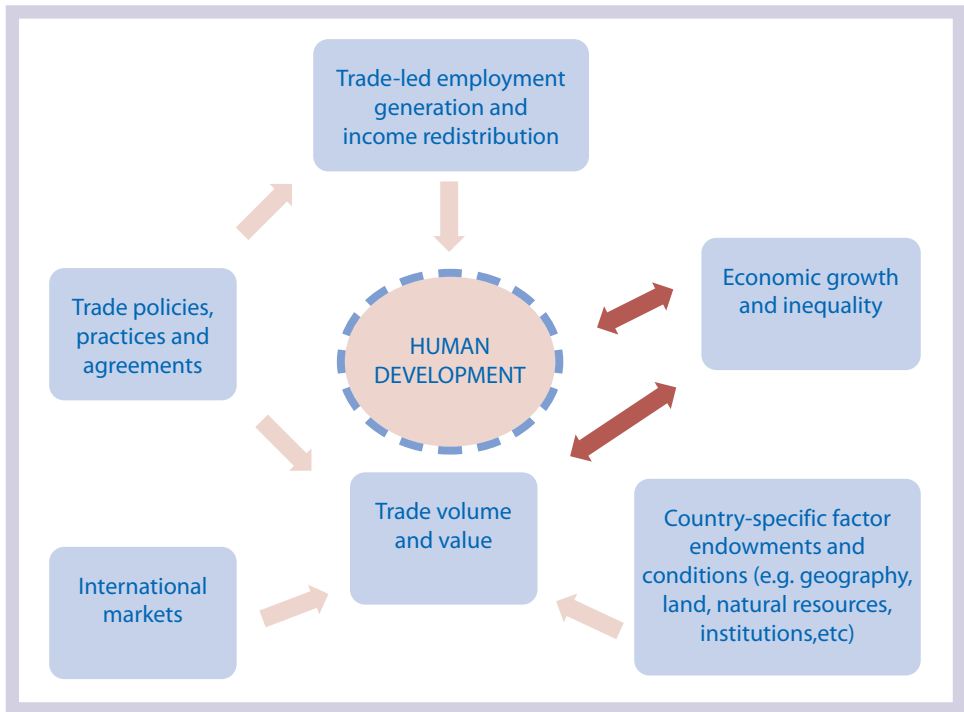
Trade and human development. By creating new income- and employment-generation opportunities, particularly for vulnerable communities, trade can promote human development and help countries achieve the Millennium Development Goals.⁶ Both trade theories and national experiences point to potential pro-poor outcomes for low- and middle-income countries that specialize in the production and export of labour-intensive goods and services. UNDP's [2013 Human Development Report](#) (17) notes that: "Most fast-developing countries of the South opened up to foreign trade, investment and technologies. But that opening alone did not guarantee success. They also invested in their own human development capabilities, strengthened domestic institutions and built new areas of comparative advantage. The critical combination of external openness with internal preparedness allowed countries to prosper in the global marketplace, with positive human development outcomes for the population at large." That is, policies promoting trade and integration are complements to, rather than substitutes for, appropriate people-oriented domestic policies.

Important relationships between trade and human development are captured in Figure 1, which highlights the instrumental role of international trade as a means to the end of improving human welfare by creating new opportunities and capacities for

6 For more on the links between trade, human development, and the MDGs, please see Annex I.

people to enjoy long, productive, healthy lives. Figure 1 also emphasizes that, while cross-border movements of goods, services, and people may accelerate economic growth, they can also harm human development prospects by generating undesirable side effects, in terms of the distribution of income (and resources and power), environmental degradation, brain drain, and other unac-

Figure 1: International trade and human development



Source: UNDP, *Aid for Trade and Human Development*, 2008.

ceptable burdens on a country's social, human, and environmental capital. As in other regions, these undesirable side effects are present in Central Asia, *inter alia* in the form of ecological burdens associated with the cultivation of water-intensive cash crops (e.g., cotton), and the extraction and processing of gold, uranium, and other metals. The region's human capital has been weakened by a brain drain of skilled workers, while its social capital has been taxed by movements of millions of migrant labourers and the loss of cross-border commercial and people-to-people linkages.

People-centred approaches to trade and integration in Central Asia would emphasize reductions in the region's reliance on capital-intensive and ecologically burdensome extractive exports, as well as on the socially disruptive export of migrant workers. These objectives can be met by more exports of labour-intensive goods and services that do not pose significant environmental burdens. The agriculture, light industrial, wholesale and retail trade, and tourism sectors—especially when their management is aligned with green economy principles—are well placed to benefit from such a focus in Central Asia.

Aid-for-trade programming, trade facilitation initiatives, and programming in the poverty-environment nexus can support people-centred approaches to trade and development. At the [2005 WTO Ministerial Conference](#) in Hong Kong, supply-side constraints were identified as important obstacles limiting the benefits received by developing countries from reductions in trade barriers and integration into the global economy. The global [Aid for Trade \(AFT\)](#) Initiative therefore committed donors to incorporate explicit trade objectives into their aid programmes for acceding countries as well as for existing WTO members. UNDP's AFT needs assessment (UNDP, 2008) drew up a long list of constraints on trade expansion which aid donors could target. Empirical studies have since predicted large potential benefits from aid for trade. However, the credibility of such estimates depends crucially on whether the aid hits the right target (Sourdin and Pomfret, 2012, 132-4).⁷

Under the aegis of its [aid for trade](#) regional project (funded under the Government of Finland's [Wider Europe Initiative](#)), UNDP produced aid-for-trade needs assessments for the five Central Asian countries. These assessments identified untapped potential for trade diversification and development within Central Asia. The realization of these opportunities was related to short-term targeting of sectors with export potential (e.g., fruit and vegetables, meat and dairy products, other agro-processing and food, textiles

7 Cali, Razzaque and te Velde (2011), for example, estimate that a \$1 million increase in aid-for-trade funding to small vulnerable states is associated with a 2.5%-5.4% decrease in the cost of handling and loading a twenty-foot container.

and clothing, leather and footwear, and services), while in the longer term “harmonized trade policies, trade facilitation, institutional and regulatory development, continued product and market diversification, and improvement of business conditions would allow new sectors and enterprises to develop ... thus contributing to human development” (UNDP, 2010a, 11). The UNDP-UNEP [Poverty-Environment Initiative](#), which has likewise begun working in Central Asia (in [Tajikistan](#) and the [Kyrgyz Republic](#)), is helping to apply green economy principles in the region.

Trade-led economic growth can promote human development as long as GDP increases also boost employment and generate revenues to finance social services and environmental protection. All the Central Asian governments derive budget revenues from the rents generated by the export of primary products, and use

Table 5: Central Asian countries’ development indicators⁸

Indicator	Kazakhstan	Kyrgyz Rep.	Tajikistan	Turkmenistan	Uzbekistan
Human Development Index (and ranking)	.754 (69 th)	.622 (125 th)	.622 (125 th)	.698 (102 nd)	.654 (114 th)
Maternal mortality rate*	51	71	65	67	28
Under-five mortality**	33	38	63	56	52
Income poverty rate [^]	31%	66%	79%	...	...
Gini coefficient (income)	0.29	0.362	0.308	...	...
GDP per-capita ^{^^}	\$11,983	\$1,158	\$953	\$6,263	\$1,736

* Per 100,000 live births.

** Per 1000 live births.

[^] At poverty threshold of PPP\$4.30/day.

^{^^} At market exchange rates.

Sources: IMF-WEO, HDRO, POVCALNET. All data are for 2012, or most recent year.

these revenues to maintain spending on basic services (including environmental protection). Likewise, the rapid economic growth that most countries in the region have reported since 2000, which has been based on the export of primary products, has boosted household incomes and significantly reduced poverty. This is particularly the case in Kazakhstan, which is now an upper middle-income country (Table 5), and in which household budget survey data indicate that extreme poverty has essentially been eradicated.

8 A full presentation of human development data for the Central Asian countries may be found in Annex II.

But while trade may be a necessary condition for human development, it is not a sufficient condition. Trade-related investments may occur primarily in capital-intensive sectors (e.g., linked to natural resource extraction), rather than in employment-generating labour-intensive sectors. Likewise, if trade-induced output growth is limited to export-oriented sectors or to sub-national regions that are not strongly linked to the rest of the domestic economy, gains from trade may be trapped in geographic or sectoral silos. Jobless growth, rising income inequality, and social tensions can result. If the competitiveness of domestic producers cannot be raised to levels prevailing regionally (not to mention globally), decent employment opportunities may contract rather than expand. This can accelerate already large movements of migrant workers, so that social cohesion, labour market, and balance of payments issues may become dominated by the impacts of migration flows and the remittances they produce. And if the domestic policy calculus is dominated by approaches that do not put people first, and do not recognize inter-generational dimensions of human welfare, then the human development potential of trade-led economic growth may be lost.

Appropriate policies and programming are therefore needed to address these risks and ensure that the benefits of trade and integration are broadly spread across Central Asian societies. Governments and their international partners can pursue trade-supporting and productivity-increasing initiatives that make it easier to do business and to trade across (as well as within) borders. Such initiatives are particularly important for the small and medium-sized businesses that sell to smaller geographic markets, and for which trading costs comprise large shares of total costs. The resulting pro-poor growth can create virtuous political economy circles, as beneficiaries become more vocal in demanding better conditions for working, producing, and trading—from better rural roads to less red tape at (and behind) the border—as well as the public services, and sustainable natural resource use, that underpin long-term national competitiveness. Diversified trade expansion is also less likely to have harmful ecological consequences than large-scale resource-based export projects whose implications for the natural environment are easily underestimated *ex ante*.

Successful economies are generally open, competitive economies. Virtually all developing economies that managed to avoid “middle-income country traps” and became high-income countries (with very high levels of human development) did so by successfully integrating into the global economy. But these countries also have the policies and institutions needed to deliver the public services—particularly in education, health, environmental protection, and local economic development—that can transform increased trade into favourable human development outcomes.

Ways in which support to small producers, local authorities, micro-finance organizations, and local NGOs can help vulnerable communities benefit from emerging trade opportunities were flagged in the aid-for-trade needs assessments that were developed during the first phase of UNDP’s [aid-for-trade](#) regional project. [Trade facilitation](#) initiatives pursued within the framework of the [Central Asia Regional Economic Cooperation](#) programme (supported by the Asian Development Bank, World Bank, IMF, Islamic Development Bank, UNDP, and other partners) have likewise helped governments to come to terms with these challenges. But more needs to be done, if the potential benefits of trade liberalization and integration in Central Asia and neighbouring countries are to be spread more widely.

3

Trade support, WTO accession, and human development

Trade theories and economic history indicate that, by capturing gains from trade via inter- and intra-industry specialization, expanding trade in goods and services can reallocate resources towards more highly valued uses, accelerate economic growth, and raise incomes and living standards. Expanding trade can also mean distributional shifts in favour of a country's abundant factor of production, which tends to be relatively inexpensive (compared to the country's trading partners). Pro-poor growth for developing countries that specialize in the production and export of labour-intensive goods and services can result.

However, despite Central Asia's abundance of educated but not highly paid labour,⁹ specialization and trade have primarily occurred in capital-intensive sectors linked to natural resource extraction, with modest employment-generation potential. If trade-induced output expansion is limited to sectors or sub-national regions that are not strongly linked to the rest of the economy, jobless growth, increased income inequality, and social tensions may result. In such cases, trade may increase inequalities, reduce social cohesion, and stimulate labour migration.

As Chart 1 above shows, the commodity composition of Central Asian exports is dominated by a small number of primary products. This outcome (which is particularly apparent for Kazakhstan, Tajikistan, and Turkmenistan) holds irrespective of the type and extent of trade liberalization or integration strategies

9 Adults in the five Central Asian countries average 9-10 mean years of education (see Appendix II). In the Kyrgyz Republic, nearly half the population has received at least some post-secondary education. (By contrast, 2011 data show this share falling below 10% for Uzbekistan.)

pursued. These have varied from the rapid WTO accession and low tariffs of the Kyrgyz Republic, to Uzbekistan's state-driven import-substitution/export promotion and infant industry-support strategies, to the petro-export subsidized manufacturing orientation of Kazakhstan and Turkmenistan. Similarities are likewise apparent in the geographic directions of Central Asian trade. During the Soviet era, the five Central Asian republics traded almost exclusively within the USSR; no more than 15% of their trade was with the rest of the world (and most of this was with other planned economies).¹⁰ After independence, existing links were disrupted and trade volumes declined for most of the 1990s. Geographical trade patterns also changed dramatically: by 1997, the former Soviet republics accounted for less than half of the Central Asian countries' trade (Kaser, 1997; Islamov, 2001, 173).

This trend has by and large continued: the shares of other former Soviet republics in the Central Asian countries' trade turnover¹¹ has in recent years varied from 45-50% for Uzbekistan and the Kyrgyz Republic, to 30-35% for Kazakhstan and Tajikistan—and dropping to 15-20% for Turkmenistan. Mutual trade shares among the Central Asian countries are even smaller, ranging from 15-20% for Uzbekistan and the Kyrgyz Republic to 5% (or less) for Kazakhstan and Turkmenistan. These low mutual trade shares are additional evidence of the importance of at- and behind-the-border trade barriers, as well as of the lack of competitiveness and productivity of many Central Asian traders and producers.

In much of the world, low levels of intra-regional trade galvanize regional integration and cooperation initiatives. But while many regional trade agreements have been concluded among the Central Asian countries (particularly in the 1990s), their impact has been minimal (Kulipanova, 2012). Since 2005, when the last purely Central Asian arrangement was folded into the Eurasian Economic Community (EurAsEC), the secretariats of the three most significant regional agreements have been lo-

10 The IMF (1992, 37) contrasted the Central Asian republics' 11-15% range for trade outside the Soviet Union in 1988 with the Canadian provinces' 25-66% trade outside Canada.

11 Merchandise exports plus imports.

cated outside Central Asia: in Moscow (EurAsEC), Teheran (the [Economic Cooperation Organization](#)), and Beijing (the [Shanghai Cooperation Organization](#)).¹²

The simplest explanations of the gains from international trade reflect the benefits of exchange when relative prices differ. As long as markets are reasonably competitive and prices are rough measures of the social (as well private) value of tradable goods and services, then exchange is mutually beneficial, regardless of whether it occurs within or across state borders. Under these circumstances, the benefits of such trade for buyers—who obtain goods and services at prices and quantities that are preferable to what would be available under conditions of autarchy—can be shown to exceed the losses born by sellers who lose customers. Concerns about the impact of trade upon the “losers” can be addressed by policies that transfer to them some of the gains from trade accruing to the “winners”.

In practice, the welfare gains produced by trade are limited by transactions costs, by imperfect competition on markets for tradable goods and services, by the presence of ecological (and other) externalities, by imperfect information, and by weaknesses in states’ abilities to design and implement policies to address these market failures. The *de facto* benefits of trade and economic integration are often determined by the capacity of state institutions, and by the political economy of trade policy—particularly states’ abilities to safeguard the interests of potential “losers” from trade.

These dynamics were apparent in Central Asia during the 1990s, when small-scale “shuttle traders” travelling to Turkey, China, the Gulf states and elsewhere to buy consumer goods for resale on the bazaar upon returning home played an important

12 Pomfret (2009) and Laruelle and Peyrouse (2012) provide taxonomies and analysis of various regional agreements involving the Central Asian countries. Although a dense network of trade agreements exists among countries belonging to the Commonwealth of Independent States (CIS), it is difficult to assess their implementation. All CIS countries have agreements with Russia. Among the Central Asian countries, Kazakhstan has the most bilateral agreements, including with all CIS members except Azerbaijan, Turkmenistan, and Uzbekistan. Turkmenistan has several agreements, but none with Central Asian countries. Uzbekistan’s only Central Asian agreement is with the Kyrgyz Republic (Idrisov and Taganov, 2013, Table 1).

role in Central Asia's international economic relations. This trade helped many households to weather the declines in income and output that took hold following the dissolution of the Soviet Union. It also provided consumers with better price/quality options than were available in formal retail trade establishments. Much of this trade was unmonitored and unregulated—indeed, given their small scale of operations, this lack of regulation was often needed for shuttle traders to be competitive.

Over time, shuttle trade in Central Asia has declined in importance, for a number of reasons. First, governments tightened their borders and began to monitor bazaars more closely—driving up transactions costs and making shuttle trade less profitable. Second, as the Central Asian economies recovered from the hardships of the 1990s, household incomes rose and purchases of higher quality (more expensive) goods from formal trading establishments became more attractive. Third, as formal wholesale and retail trading companies modernized and adapted to new market conditions, they were able to offer consumers a greater variety of price/quality options, including at the lower end of the spectrum.

The fourth cause of the decline of small-scale shuttle trading was the Kyrgyz Republic's emergence as an entrepôt, importing goods from China and elsewhere, to be resold on the Dordoi and Karasuu bazaars (outside Bishkek and Osh, respectively) to buyers from across the region.¹³ Although much of the trade was (and remains) unrecorded, it is clear that many of Dordoi's customers are from neighbouring Kazakhstan, while many Karasuu customers are from neighbouring Uzbekistan. In 2008, the Dordoi bazaar employed some 55,000 people. It had 40,300 sales outlets and annual sales of \$2.8 billion, of which \$2.1 billion are estimated to have been foreign sales. Dordoi infrastructure includes well-organized local and long-distance transport facilities, as well as overnight accommodations. Karasuu reported annual sales in 2008 of \$684 million (of which \$400-500 million went to Uzbekistan), involving mainly ethnic Uzbek traders with

13 This section focuses extensively on the Kyrgyz Republic, in light of its relatively long membership in the WTO and related experience with trade liberalization.

Box 1–The Dordoi bazaar and clothing exports in the Kyrgyz Republic

At independence, textiles accounted for over 80% of light industrial production in the Kyrgyz Republic, while clothing accounted for another 15%. Following the post-Soviet breakdown of supply chains in the early 1990s, output in both sectors collapsed; textile production has yet to recover. However, export-oriented clothing production has re-emerged in the Kyrgyz Republic, thanks in part to the wholesale trade infrastructure of the Dordoi bazaar (as well as to access to cheap textile imports via transport corridors from Western China). The Kyrgyz Republic's tailors benefit not just from the transport networks servicing the bazaar, but also from wider access it affords to a range of zips, buttons, thread, fabrics, and other inputs, from which appropriate price/quality combinations can be selected.

Although the Kyrgyz Republic's clothing producers are mostly small and informal, official estimates record exports rising to \$170 million in 2008, before falling to \$155 million during the global recession in 2009. Thanks to the labour-intensive technologies used in clothing production, employment in 2008 was estimated at over 100,000; official data indicate that the majority of those employed in the sector were women. These data also indicate that clothing production accounted for the second-largest share of employment in the Kyrgyz Republic (after agriculture). Moreover, many experts believe that the actual numbers for clothing exports and employment are 3-4 times greater than what is officially reported.

The business model for these small-scale clothing producers seems to be based primarily on the import of textiles and other non-labour inputs—mostly from China, and mostly sourced via the Dordoi bazaar. The lion's share of clothing production is in turn exported to the Russian Federation and Kazakhstan. Kyrgyzstani clothing producers have been able to compete successfully with clothing exporters from western China on quality, and from eastern China on price.

This example suggests that—for clothing producers, at least—the Dordoi bazaar is an important source of the Kyrgyz Republic's light industrial competitiveness. It shows that trade openness developed under the WTO and the presence of appropriate transport and supplier networks can create significant employment- and income generation opportunities for vulnerable households.

-- Source: Birkman et al., (2012).

family connections on both sides of the border.¹⁴ Many of these goods are subsequently resold on large markets in Almaty, Tashkent, and other Central Asian cities.¹⁵

Critics often view such “unofficial” trade negatively, citing concerns about tax avoidance, health and safety, and informal, low-wage employment.¹⁶ Many of these criticisms are clearly legitimate. On the other hand, these trade flows have increased the welfare of many Central Asians, both by providing consumers and producers with access to a wider range of goods at affordable prices, and by creating much-needed income- and employment-generation opportunities. Although some people have become rich from the shuttle and entrepôt trade and many consumers are middle-class, these activities primarily involve poor people and benefit less well-off consumers (Özcan, 2010).¹⁷ Moreover, the logistics and supply chains that have developed around the Kyrgyz Republic’s bazaars have supported production and exports of goods as well as services. This is apparent in the re-emergence of an export-oriented clothing industry located primarily in Bishkek and to a lesser extent in Osh (Box 1).

This outcome is consistent with trade theories suggesting that the gains from trade typically accrue primarily to the owners of relatively abundant factors of production, while the owners of relatively scarce factors of production are likely to be net losers from trade. For developing countries with abundant supplies of low-wage labour, many poor households should gain from trade. Of course, other factors also matter in practice. In addition to transactions costs, imperfect competition, imperfect information, and externalities, when factors of production are immobile/fixed in certain areas or activities (and therefore cannot easily respond to market signals), then gains from trade may be lost, or their distributional implications are less clear cut. Likewise, when trade

- 14 Data are from surveys was conducted in summer 2008 (World Bank, 2009). On the operation of the bazaars, see also Kaminski and Raballand (2009), and Kaminski and Mitra (2010).
- 15 Questions about the extent to which these markets are competitors to (as opposed to clients of) Dordoi and Karasuu may be worthy of further research.
- 16 There were also concerns that illegal trade undermined governments’ industrial policies. On the other hand, the bazaars cater to producers as well as consumers, making inputs available at competitive prices.
- 17 Özcan has also published biographies of two female shuttle traders from the Kyrgyz Republic: “Djamila’s journey” (Özcan, 2006) and “Aigula’s story” (Özcan, 2008).

is dominated by extractive industries that do not have strong forward or backward linkages to the domestic economy, or by companies that monopolize local markets for labour and raw materials, the gains from trade may bypass local communities.

In part for these reasons (and because of domestic lobbies who fear the commercial consequences of trade liberalization), all countries adopt policies to limit imports, particularly during the early stages of their development. However, most countries also weaken or abandon these policies over time—often via participation in global or regional trade liberalization. Thus, the infant industry strategies that were pursued by virtually all of today's OECD countries until the end of the 19th century, and which were copied by practically all low- and middle-income countries in the 1950s and 1960s, were mostly abandoned in the 1980s and 1990s (often after the establishment of competitive domestic industries), in the face of evidence of their negative long-run consequences and the examples of successful outward-oriented economies such as Hong Kong, Taiwan, Singapore, and South Korea. Instead, policies promoting investment in human capital, good institutions, and openness seem to have produced the best results.¹⁸ This conclusion seems to apply also to resource-rich countries like Norway, Australia, and Canada, which have flourished as open economies.

Openness is not sufficient; when unaccompanied by institutional development in the public and private sectors, its impact may be limited. This arguably is the case with the Kyrgyz Republic, where—despite early (1998) WTO membership and low tariffs—exports are concentrated in a single product (gold), merchandise trade deficits are close to half of GDP, numerous at- and behind-the-border barriers drive up trade costs, and many small-scale producers and traders face challenges of low productivity and weak competitiveness. Good companion policies are needed to realize the opportunities, and manage the distributional consequences of trade.

Open trade regimes are in practice closely associated with membership in the World Trade Organization. The WTO principles of

18 Edwards (1998) and Dollar and Kray (2003) emphasize the positive impact of openness. Rodriguez and Rodrik (2001) offer a rare contrarian interpretation of the evidence.

multilateralism, unanimity, non-discrimination, transparency, and predictability give its members the protection of international trade law that an outward-oriented economy needs. The WTO also embodies network effects: the more countries that abide by common rules, the more useful those rules are.¹⁹ Moreover, the WTO's dispute resolution mechanism can be invoked to protect small countries against abuses of economic power by larger trading partners. Since 1995, over 400 trade disputes have been adjudicated by the WTO; many of these have involved complaints by developing against developed countries.²⁰ The European Union and USA have been the defendants in many of these complaints; following the rendering of a negative judgment, they have complied with WTO rulings.

The Kyrgyz Republic joined the WTO in 1998, followed by Tajikistan in 2013. These countries' accession negotiations went fairly smoothly, as both have relatively liberal trade regimes and few exporters that challenge the commercial interests of other

Table 6: Central Asian and neighbouring countries' WTO status

Country	Application date	Accession date
Kazakhstan	1996	--
Kyrgyz Republic	1996	1998
Tajikistan	2001	2013
Turkmenistan	--	--
Uzbekistan	1994	--
China	1986	2001
India	Charter member	Charter member
Iran	1996	--
Russia	1993	2012
Ukraine	1993	2008

Source: www.wto.org

- 19 At present, the WTO has 159 member states and 24 applicants.
 20 WTO complaints brought by developing countries include: 25 by Brazil, 21 by Mexico, 19 by India, 15 by Argentina, and 15 by the Republic of Korea.

WTO members. By contrast, despite longstanding applications, Kazakhstan and Uzbekistan have not completed the WTO accession process (although Kazakhstan is regarded as being relatively close to finishing membership negotiations), while Turkmenistan has not yet lodged an application for WTO membership (Table 6).²¹ Concerns about ceding trade policy autonomy, the lack of obvious trade-led prosperity following the Kyrgyz Republic's WTO accession, and the commodity price windfall of the past decade (which produced gains from trade without changes in national policies) have reinforced this caution. Nonetheless, the accessions of the Russian Federation (in 2012) and China (in 2001), Tajikistan, and the Kyrgyz Republic (as well as of India and Turkey) have pushed WTO issues toward the front burner in Central Asia.

The Kyrgyz Republic was the first Soviet successor state to join the WTO, and the results were closely monitored in other Central Asian countries. Initial expectations about the benefits of WTO accession in Bishkek were followed by certain amounts of disappointment at home and criticisms from neighbouring Central Asian countries, which blamed the Kyrgyz Republic for "floods of contraband products". As has been pointed out elsewhere,²² many of these criticisms have been wide of the mark. Because the Kyrgyz Republic's tariffs were already low before WTO accession, and since none of its neighbours at that time were WTO members, it is hard to see why accession should have been expected to produce large increases in trade flows. China's subsequent (2001) WTO accession also exacerbated concerns about Central Asia being flooded by inexpensive Chinese goods. However, other Central Asian governments that wish to pursue industrial policies that preclude the price/quality options represented by Chinese imports can do so irrespective of the Kyrgyz Republic's WTO membership status.

Questions about the impact and effectiveness of the Kyrgyz Republic's WTO membership may be more serious. As pointed out above, 15 years of WTO membership have not helped the Kyrgyzstani economy to significantly reduce its dependence on

21 According to CAREC (2013, 17), "Turkmenistan recently expressed its intention to join the WTO and established a governmental commission to review issues related to WTO accession."

22 For more on this, see Pomfret (2007).

gold exports. Nor has it improved the Kyrgyz Republic's rankings in the trading component of the World Bank's *Doing Business* surveys. Having a place at the WTO negotiating table seems not to have benefited the Kyrgyz Republic much; nor has Bishkek felt a need to resort to the WTO dispute settlement mechanism. While success stories about the inclusion of small-scale producers from other sectors of the Kyrgyzstani economy into regional or global value chains can be found (Tilekeyev, 2013), these stories remain the exception, not the rule.

Still, the Kyrgyz Republic's experience illustrates how trade liberalization can provide benefits to vulnerable communities (e.g., low-skilled workers), as well as to the country on the whole (Box 1). In any case, with the Russian Federation and China (as well as the Kyrgyz Republic, and Tajikistan) now in the WTO, the bulk of Central Asia's trade falls under the WTO's writ. Likewise, its membership in the EurAsEC Customs Union (with WTO member Russia) means that Kazakhstan's external (non-Customs Union) tariffs are now effectively bound by the Russian Federation's WTO commitments. WTO membership could provide important benefits for other Central Asian countries: Kazakhstan has had anti-dumping duties imposed on its steel exports by WTO member states;²³ while exports in Uzbekistan (and Tajikistan) have been found to have been damaged by WTO members' cotton policies.²⁴

Liberalization and integration can promote trade in services, as well as in goods. Tourism services could be a candidate for export expansion in Central Asia—particularly in light of the sector's labour-intensive character, the obvious tourism potential of the ancient Silk Road cities (especially in Uzbekistan), and the progress that the Kyrgyz Republic has begun to make in developing its tourism sector (Table 7).²⁵

23 Kazakhstan currently suffers more than other Central Asian countries from anti-dumping investigations (mainly by the EU) and temporary trade barriers (Cusolito and Hollweg, 2013, 16-17).

24 US and EU cotton policies have been criticized by Brazil and some West African countries; Brazil has successfully pursued a WTO legal case against US practices (Schnepf, 2011).

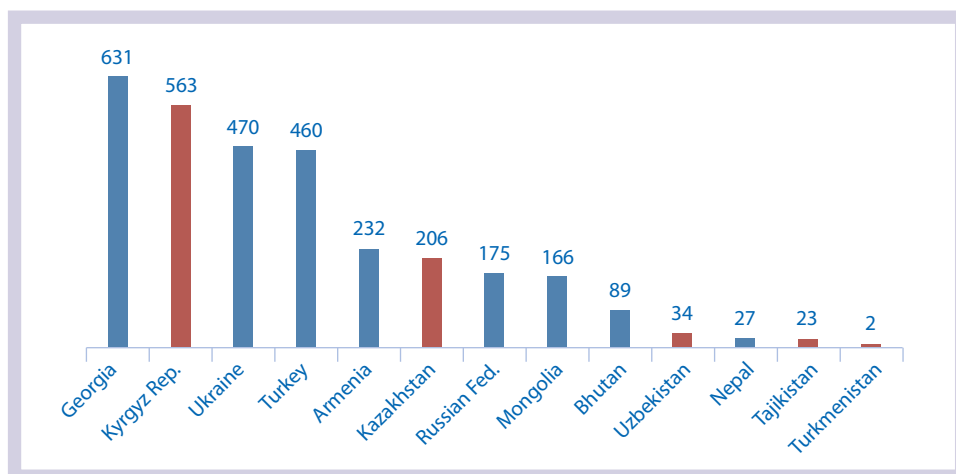
25 As of June 2012, visa requirements have been lifted for tourists from some 60 (OECD as well as CIS) countries, for the Kyrgyz Republic.

Table 7: Tourism in Central Asia (2012, or most recent year)

Country	Share of tourism activities in:		Numbers of international arrivals (annual, per 1000 domestic population)*
	GDP	Employment	
Kazakhstan	1.5%**	2.7%**	206
Kyrgyz Republic	4.7%	4.5%	563
Tajikistan	0.4%	0.3%	23

UNDP calculations, based on national statistical office data.
 * International arrivals in destination country, 2011 data.
 ** 2009 data.

The data in Chart 7 suggest that the Kyrgyz Republic is the only country in the region to have made relatively strong progress in tapping into the global tourism boom. Indeed, compared to other small Asian developing landlocked countries (e.g., Bhutan, Mongolia,

Chart 7: Numbers of international arrivals (annual, per 1000 domestic population,* 2011)

* Reference is to destination (hosting) country population. Data are from 2011, or most recent year.
 UNDP calculations, based on World Bank, IMF-WEO data.

Nepal), the Kyrgyz Republic's tourism sector already seems to be developing quite well. National Statistical Committee data indicate that, thanks in large measure to international visitors, tourism in the Kyrgyz Republic accounts for some 4-5% of GDP (Chart 8), and generated some \$1.5 billion in service exports in 2012.²⁶ These data

26 [Balance-of-payments data](#) produced by the National Bank of the Kyrgyz Republic offer a more sanguine view: according to these figures, total (non-factor) service exports (i.e., including transport, finance, etc.) do not exceed \$1 billion annually. National accounts data also suggest a smaller share of GDP generated (directly) by tourism.

also show the sector accounting for some 100,000 jobs—5% of total employment (7% for women).

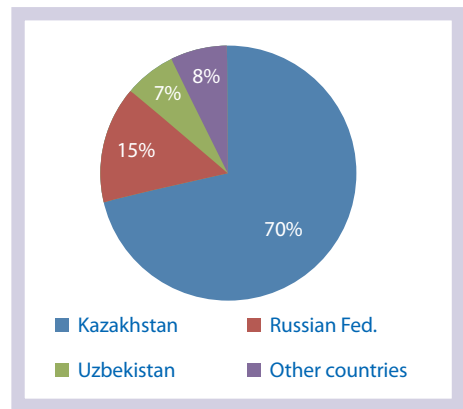
However, the data in Chart 9 indicate that more than 90% of the Kyrgyz Republic's foreign visitors come from Kazakhstan, the Russian Federation, and Uzbekistan. These data would seem to reflect in part the cross-border drawing power of the Issyk-Kul lake, as well as the commercial visits of traders from Kazakhstan and Uzbekistan.

By contrast, tourists from neighbouring China, as well as from India, the European Union, and the USA account for only 5–7% of total annual visits. In light of this, the World Tourism Organization estimates that, with improvements in the Kyrgyz Republic's

Chart 8: Kyrgyz Republic: Shares of tourism in GDP (2008–2012)



Chart 9: Kyrgyz Republic: International tourist arrivals by source country (2012)



*Source: *National Statistical Committee of the Kyrgyz Republic* (estimates).

tourism infrastructure, the number of annual visits by international tourists could triple (National Sustainable Development Council, 100). Moreover, increasing the numbers of tourists from these countries (who tend to be relatively well off) could disproportionately boost the income generated in this sector. This could have an important impact on poverty and employment, especially for women. And while growing numbers of tourists

can mean undesirable ecological burdens for host countries, the Kyrgyz Republic's [National Sustainable Development Strategy](#) calls for the alignment of the tourism sector's future development with green economy principles.

WTO membership also brings with it obligations for the protection of intellectual property rights, under the trade-related aspects of intellectual property rights (TRIPS) agreement. The enforcement of TRIPS obligations can sometimes have unintended consequences for developing countries, in terms of limiting access to essential medicines and, in some cases, agricultural chemicals (Abbott and Correa, 2007). In Ukraine, for example, enforcement of "TRIPS-plus" obligations led to the removal from the market of some generic HIV medications, while preventing the sale of other medications (Konstantinov, 2010).²⁷ Tajikistan has likewise agreed to some TRIPS-plus standards that could reduce access to more affordable medicines (WTO, 2012, 66). TRIPS-related changes in Tajikistani legislation have already resulted in the purchase of more expensive imported medications. TRIPS issues have also posed challenge during Kazakhstan's accession negotiations, as Kazakhstan's public health system relies heavily on generic medications.

Fortunately, these problems can be addressed by making better use in national legislation of the TRIPS Agreement's public health flexibility clauses, in order to increase access to medicines (UNDP, 2010(b)). Many developing country/WTO member states—including recently Ukraine²⁸—have used these provisions to reduce the costs of imported medicines.

27 See also ECUO (2013).

28 See Ukrainian Council of Ministers Resolution № 877 (2013) *On approving the procedure for providing permission to use a patented invention (utility model) regarding a medicinal product.*

4

Value chains
and transport
corridors

The ineffectiveness of regional trade agreements in Central Asia is sometimes explained by reference to the fact that the five countries export similar products, limiting possibilities for inter-industry specialization and trade. However, in a process that has been called the “second unbundling” (Baldwin, 2011),²⁹ production within individual industries is increasingly fragmenting into multiple distinct stages that can be located in different places/countries, where it can be done most efficiently. This fragmentation is creating new opportunities for integration into global value chains. As such, the relative importance of intra-industry (as opposed to inter-industry) trade is increasing, and the significance of cross-country economic complementarities (or their absence) is declining.

Value chains are product- (not sector-) specific. In some cases they are managed by trans-national firms that design and sell the final goods in other cases they are managed by intermediaries; in others independent firms create their own niche. Global value chains also include financial, ICT, and other commercial services—the global trade in which grew from \$300 billion in 1990 to \$2.3 trillion in 2011. Over one fifth of this trade takes the form of service exports provided by companies located in East, South, and Southeast Asia.³⁰

- 29 The “first unbundling” refers to the pre-1914 globalization era, when production was separated from consumption as countries specialized in goods in which they had a comparative advantage (inter-industry trade). In today’s globalization, production processes themselves are being unbundled as countries specialize in tasks within a given sector, in which they have a comparative advantage (intra-industry trade).
- 30 Data are from the UN Services Trade Database, using the category “commercial services” with transport and travel services excluded.

Although global value chains exist, many are regional, working around three main geographical loci: the North American Free Trade Area, the European Union, and “Factory Asia.”³¹ These groups all contain locations with differing comparative advantages, and within which the movement of goods, services, capital, and people is fairly easy.³² The regional limits may reflect the importance of being able to easily visit problematic suppliers for face-to-face trouble-shooting. Although countries outside these regions have greater difficulty joining supply chains, South and Southeast Asian firms have managed to identify niches.

To be an attractive global value chain participant, a country must have unimpeded flows of inputs and outputs, provide good access to trade services and information technology, and facilitate the hassle-free movement of people (at least for key managers and technical staff). In all of these areas, low costs and minimal delays are essential for the just-in time inventory management that makes a value chain location attractive.

In addition to making “made in Country X” statements increasingly meaningless, the rise of global value chains underscores the importance of policies that lower the costs of moving goods and capital across borders. They also suggest a growing complexity in the challenges facing policy makers who seek to create or protect domestic industries.

This could be good news for developing countries (including those in Central Asia), as it is often easier to be competitive in a single phase of a production process than in all (or many) phases. Such opportunities could be particularly important for Kazakhstan, whose status as an upper middle-income country suggests that significant development opportunities could lie in the expansion of more technologically sophisticated and somewhat

31 For more on “Factory Asia”, see Pomfret (2011); on trade costs and supply chains, see Sourdin and Pomfret (2012).

32 More precisely, the regional chains include those countries that embrace easy movement of goods, factors and money. In Central and Eastern Europe, participants in EU value chains include Schengen area countries that use the euro (e.g., Slovakia, Slovenia, Estonia). In Southeast Asia value chain participants are most prevalent in countries with low trade costs (Singapore, Thailand, Malaysia), rather than those with the lowest wages (Laos, Cambodia, Myanmar).

more capital-intensive manufacturing activities. Although its per-capita GDP levels are well below Kazakhstan's, such possibilities may also be present in Uzbekistan, which reports the largest share of manufactured exports (in total exports) in the region.

However, in order to be competitive, participants in a supply chain must have low and predictable trade costs. The Central Asian economies' low rankings in the "trading across borders" category of the World Bank's *Doing Business* survey raise red flags in this respect. Central Asian experiences with value chain integration, thus far, therefore show mixed results. On the one hand, the expansion of the Kyrgyz Republic's labour-intensive clothing sector (Box 1) shows that Central Asian companies—even small ones—can successfully specialize in a global value chain niche. The emergence of the Kyrgyz Republic's export-oriented clothing sector has been accompanied by the continued export of cotton fibre and imports of textiles. The Kyrgyz Republic does not have a comparative advantage in the relatively capital-intensive production of cotton cloth. As long as transactions costs are not excessive, it is more efficient to outsource its manufacture and generate value added upstream in the production process (i.e., by producing and exporting clothing). Transactions costs have been held down by Kyrgyzstan's WTO membership and relatively liberal trade regime, by the presence of transport corridors from Western China to the Kyrgyz Republic, and by the supply networks that have emerged around the Dordoi and Karasuu markets.

But apart from indirectly increasing demand for Central Asia's natural resources, the emergence of global value chains has thus far largely passed Central Asia by. To be sure, China's phenomenal export-led growth (which since the 1990s has been driven by value chains) lies behind its thirst for raw materials—and increasing exposure to risks of supply delays. Chinese companies have therefore been seeking new suppliers and diversified supply routes to minimize these risks. This has led to the expansion of existing or construction of new oil and gas pipelines through Central Asia, as well as of road and rail links. But while Central Asia has clearly benefitted from these investments, most of these benefits remain associated with the capital-intensive extraction and transport of primary products.

Central Asia's future prospects for cashing in on global value chains may depend on progress in lowering the costs of moving goods, services, and people in and through the region. This will require stronger national support for trade facilitation and for regional cooperation. On the one hand, all the Central Asian countries have made significant investments in their road and rail transport infrastructures since independence. Because of its size and location (as a gateway to the Russian Federation and Europe), Kazakhstan's transport infrastructure has particular significance in this respect. Together with the World Bank, the government of Kazakhstan has designed a \$35 billion transport infrastructure development plan, the completion of which is slated for 2020.³³ Similar programmes are in various stages of design and implementation in the other Central Asian countries.

If these programmes are not coordinated at the regional level, national governments risk creating redundant or otherwise inefficient transport infrastructure. Multilateral agencies have helped with coordination, primarily through the Central Asian Regional Economic Cooperation programme (CAREC), but also via the United Nations' Special Programme for the Economies of Central Asia.³⁴

While CAREC currently includes ten member states, it is geographically centred on the five Central Asian countries; five of the six CAREC transport corridors pass through them. Since 2007, the costs (in time and money) of commercial travel along the corridors and crossing through border posts have been subject to regular monitoring under the CAREC transport and trade facilitation strategy. In 2012, the costs of some 3200 trips were monitored. These results are reported in the CAREC Corridor Performance Measurement and Monitoring monthly and annual reports. Thanks in part to this framework, some coordinated investments have been made in Central Asia's transport infrastructure. For example, upgrades to the Tashkent-Beyneu corridor (which is part of the E40 route to Berlin) now make possible speeds of 100kph in parts and 60kph on most of the rest. (By contrast, the Kungrad-Beyneu section of this corridor was a rough dirt road six years ago).

33 Posted on <http://www.government.kz/index.php/en/> 16 November 2013; referenced in the Jamestown Foundations *Eurasia Daily Monitor*, 10 January 2014.

34 The Asian Development Bank, as the coordinator of CAREC, has taken the lead, drawing on its experience with corridors in contexts such as the Greater Mekong sub-region (Brunner, 2013).

Box 2–Reforming border management in Central Asia

Reforms to border management systems can address many non-tariff barriers to trade and transit, reducing delays and transaction costs. They can also help increase foreign direct investment. According to OECD estimates, a 1% reduction in global trade costs would increase worldwide income by more than \$40 billion—65% of which would accrue to developing countries.

Many transport infrastructure projects are now underway in Central Asia which, when completed, should significantly reduce behind-the-border travel times. However, if infrastructure improvements are to reduce overall transit times and costs, better infrastructure needs to be matched by corresponding improvements in border management regimes, particularly in terms of reductions in informal payments.

Strong “control mentalities” continue to pervade border services in Central Asia and limit the effectiveness of trade facilitation initiatives. Since customs administrations have incentives to maximize revenue collection, border officials typically resort to detailed documentary and physical inspections to verify the value, classification and origin of goods. Complex and duplicative inspections, and a lack of systematic risk profiling, often result in significant delays of goods at borders.

The complexity of the various border formalities and required documentation, combined with inadequate staff rotation, internal control, and proper salaries, create opportunities for bribery and corruption. However, the problem is broader than simply rent seeking by officials at the border. What is instead needed is a cultural shift in the work of border agencies toward the recognition that border management is a public service. Increased transparency and interaction with border users is essential. So are responsive approaches to consultative processes, public outreach concerning cross-border trading and procedures (on websites and at border crossing points), simplified and harmonised documentation, available for completion in accessible languages, and efficient and impartial appeals processes.

The introduction of online payments via “single window” systems can reduce the need for cash at borders and thus the opportunity for rent seeking by corrupt officials. New layout, procedures, inter-agency working and surveillance cameras at border crossing points can also help mitigate risks. Border agencies can also upgrade codes of conduct and disciplinary procedures, provide ethics training, and strengthen mechanisms for compliance monitoring and internal oversight.

Still, in 2012, crossing the border took on average 30 hours at the Kazakhstani border post and 14 hours at the Uzbekistani post (CAREC, 2012, 24). In fact, when upgrades in transport infrastructure are not accompanied by stepped-up trade facilitation efforts,³⁵ delays have often lengthened as traffic has increased at many border-crossing points.³⁶ In fact, the longest delays were reported on the corridor with the highest freight volumes—the railway from China to Russia (and then Germany) through Kazakhstan. At the border crossing between China and Kazakhstan the average waiting time at the Chinese border was 353 hours (nearly 15 days), plus an additional 54 hours (two more days) at the Kazakhstani border. While some of this is associated with the change of gauge, most of the delays are associated with customs, quarantine, etc.³⁷ The Chongqing-Duisburg train, which managed to avoid long delays, benefitted from trade facilitation efforts, in the form of special wagons for faster gauge changes and simplified border formalities.

This example suggests that trade facilitation in Central Asia is possible when it has high-level support—but that such support is reserved for special cases. This uneven commitment to trade facilitation is often accompanied by weak efforts to align transport infrastructure upgrades with regional development initiatives, with slow progress in aligning border management systems with the demands of modern commerce (Box 2), or with the local development planning of the communities proximate to the corridor. If Central Asian governments wish to more deeply integrate their economies into regional and global value chains, and if they want to ensure that local communities benefit from the transport arteries that are a necessary (but not sufficient) condition for inclusion into these value chains, they may wish to consider pursuing more ambitious trade facilitation initiatives, and linking them with local and regional development planning for the communities involved.

- 35 Although there is anecdotal evidence that the level and frequency of corruption has declined, the 2012 CPMM annual report found a 32% chance that “unofficial payments” would be demanded at border crossing points.
- 36 This does not apply to border crossings between Kazakhstan and the Russian Federation, as most border check points were dismantled after the 2010 formation of the EurAsEC Customs Union.
- 37 It is often difficult to ascribe delays to posts on one side of the border rather than on the other, because delays at one crossing point lead to back-up of trains at the other. (For example, delays entering Kazakhstan can cause freight to back-up on the Chinese border.) Moreover, there is a suspicion that these 2012 data were influenced by the Customs Union’s hard line towards goods entering from China (CAREC, 2012, 21).

5

Eurasian
integration

The establishment in 2010 of the EurAsEC Customs Union between Kazakhstan, the Russian Federation, and Belarus is almost certainly the most significant event in regional (re)integration since the dissolution of the USSR in 1991. The introduction of a common external tariff regime and customs code in 2010 was followed in July 2011 by the abolition of customs posts at common borders. The Customs Union's transition to the Single Economic Space began in January 2012. By 2015 the Single Economic Space is to give way to the Eurasian Economic Union (EEU), which will feature a common market in goods, services, labour and capital; the coordination of monetary, financial, and tax policies; the development of unified transport, energy and information systems; and the harmonization of state support for priority sectors. For these and other reasons, Libman and Vinokurov (2012, 49) describe the Customs Union as "the only truly functioning integration institution in the Former Soviet Union (FSU)".³⁸

Box 3–The Eurasian Economic Commission

The Eurasian Economic Commission (EEC) consists of nine commissioners (three from each member state—Belarus, the Russian Federation, and Kazakhstan), one of whom acts as EEC chairman. The chairman and commissioners are appointed by

38 Questions about this ambitious timeline can perhaps be attenuated by references to the history of European (EU) integration, which has been uneven, lengthy and slow (lasting for more than 60 years). The completion of the European customs union in the 1960s led to pressures for the creation of a single market, then a common currency, and now common banking rules and supranational fiscal oversight. The fact that integration does not always happen according to pre-agreed timelines does not mean that it doesn't happen at all.

the heads of state and government (the Supreme Eurasian Economic Council). Commission resolutions, which are binding on member states, are subject to majoritarian voting, with each commissioner having one vote.

In addition to monitoring the Customs Union and Single Economic Space, the EEC negotiates preferential trading arrangements with other countries and groupings. Since countries not belonging to the Commonwealth of Independent States account for 80% of the member states' foreign trade, this is not surprising. The European Union is a particularly strategic partner, as the EU accounts for about half of the member states' foreign trade.

Some 35 countries and regional associations have expressed interest in establishing free trade areas with the EEC's member states. At present, the Commission is negotiating free trade agreements with the European Free Trade Association, as well as with New Zealand and Vietnam. In addition to reducing or eliminating import tariffs, these negotiations seek to simplify sanitary and phytosanitary controls, and facilitate access to infrastructure, construction, and technology projects.

The Commission also seeks to align the workings of the Customs Union and Single Economic Space with member states' WTO requirements. For example, the starting date for the Single Economic Space was aligned with the Russian Federation's 2012 WTO accession. The Customs Union's legal framework likewise recognizes the legal force, and incorporates provisions, of member states' WTO obligations. Some of the Russian Federation's WTO obligations can only be executed via the EEC. For example, the authority to conduct WTO-compliant anti-dumping investigations and introduce countervailing duties lies with the Commission, not with its member states. In this way, some aspects of the WTO's writ are extended to those Customs Union member states that have not yet acceded to the WTO.

The creation of the Eurasian Economic Union, which is to come into existence in 2015, is now a major EEC priority. The Eurasian Economic Union is to feature a common market in goods, services, labour and capital; the coordination of monetary, financial, and tax policies; the development of unified transport, energy, and information systems; and the harmonization of state support for priority sectors. This will take the form of an interstate treaty, the preparation of which requires extensive work to align existing national and international legal obligations.

At least three different sets of narratives can be identified regarding the Customs Union and Single Economic Space.³⁹ In light of the many previous unsuccessful attempts at economic reintegration in the post-Soviet space, many specialists (both within the region and beyond) initially dismissed the Customs Union as irrelevant. However, the effective introduction of the common external tariff regime, the dismantling of internal border posts, the hardening of external borders (*inter alia* with the Kyrgyz Republic), and the work of the Eurasian Economic Commission (Box 3), have shown that the Customs Union is both viable and significant.

Once it became clear that the Customs Union really exists and matters, a second set of more technical (but not without political dimensions) narratives came to the fore, focusing on the possible gains and losses for member states—particularly Kazakhstan and Belarus, but also for possible future Customs Union members. Customs unions (indeed, all preferential trading arrangements) both create trade among member countries and reduce trade conducted with external partners (Viner, 1950). If a customs union includes members that already trade extensively with each other, or which are world-best suppliers; or if the customs union's external tariffs (or other trade barriers) are relatively low, then trade creation effects are likely to dominate. However, if the customs union brings together less efficient producers; if its members trade extensively with non-members; or if the customs union's external tariffs (or other trade barriers) are relatively high, then trade diversion is more likely. In such cases, the customs union's net welfare effect for its members (in terms of economic efficiency) is likely to be negative.

Many analyses of the EurAsEC Customs Union take the fact that the common external tariff was built on the Russian Federation's tariff system as a point of departure. Whereas the formation of the Customs Union allowed Russia to keep 82% of its customs duties unchanged (while lowering 14% and increasing 4%), the corresponding shares for Kazakhstan were 45%, 10%, and 45% (Libman and Vinokurov, 2012, 49). Tumbarello (2005) estimated

39 For an overview of the evolution of the Eurasian integration project and its perceptions, see Mankoff (2013).

that Kazakhstan would experience a substantial welfare loss (due to trade diversion) should such an approach to integration be pursued. By contrast, a recent EBRD study (Isakova *et al.*, 2013) found only small negative short-term effects for Kazakhstan, with uncertain long-term effects; while Laruelle and Peyrouse (2012, 44-5) read the empirical literature as pointing to potential short-run benefits for Kazakhstan, but also to longer-term negative effects as foreign investment, technology and knowledge transfer flows decline. Mogilevskii (2012c, 33) highlights the immediate increase in tariff revenue for Kazakhstan (by at least \$1.4 billion in 2011) that can be traced to the Customs Union.⁴⁰

A third, more explicitly political set of narratives has also emerged—particularly in the run-up to the EU’s Eastern Partnership Summit in Vilnius in November 2013. These narratives are driven by perceptions of “east-west” competition between the Russian Federation and the EU around the Customs Union. Some Western critics (e.g., Aaslund, 2013) were quick to portray the Customs Union as a political project to “recreate the USSR”, devoid of economic rationality. A similar, softer version of this debate is apparent among the EurAsEC member states themselves, whose governments place varying degrees of emphasis on the political versus economic dimensions of Eurasian integration.⁴¹

By contrast, development—and especially human development—perspectives on Eurasian integration and its potential implications for Central Asia’s low-income countries have been largely absent in this debate. The Baltic states that joined the EU in 2004 were able to replace many broken Soviet-era economic linkages with European commercial ties. However, the post-1991 rupturing of the linkages that bound the Central Asian republics together—in energy, water, and transport, as well as in trade—cannot be restored or replaced by European integration. Development prospects for Tajikistan and the Kyrgyz Republic must therefore be supported by other regional cooperation schemes.

40 Earlier studies such as Isakova and Plekhanov (2012), Mogilevskii (2012c) and World Bank (2012) had too little data to draw convincing empirical conclusions. Mogilevskii (2012c, 22) emphasizes the number of contemporary exogenous shocks that obscure identification of pure customs union effects.

41 For more on these different perceptions and their interpretations, see Slay (2013).

Seen from this perspective, if Eurasian economic integration can reduce poverty, raise living standards, and reinforce socio-political stability in the Central Asian countries bordering Afghanistan, it should be attractive even to the European Union—whose member states and European Commission together comprise the world’s largest donor. On the other hand, Eurasian integration for the Kyrgyz Republic and Tajikistan can at present seem to be a choice between increased access to markets in the Russian Federation and Kazakhstan on the one hand, versus tariff increases and tighter borders with China (and other WTO members) on the other. The possible human development implications of different cooperation scenarios should ideally be reflected in negotiations regarding membership or association. Varying transition periods, compensatory measures, and degrees of asymmetry could likewise be discussed.

How has Eurasian integration affected the low-income Central Asian countries thus far? The case of the Kyrgyz Republic may be particularly revealing, owing to its geographic proximity to the Customs Union (i.e., its northern border with Kazakhstan) and Bishkek’s current membership negotiations. On the one hand, Laruelle and Peyrouse (2012, 44) report sharp declines in the numbers of wholesale traders in the Kyrgyz Republic during 2010–2011. CAREC (2012, 38–9) reports that, while the average border-crossing time for trucks leaving Kazakhstan for Russia fell from 7.7 hours in 2011 to 2.9 hours in 2012, the average border-crossing time for trucks entering Kazakhstan from outside the Customs Union (including from the Kyrgyz Republic) increased from 8.6 to 21.5 hours during this time. Should its eventual accession lead to similar reductions in imports from China and other non-members, the competitiveness of the Kyrgyz Republic’s labour-intensive light industrial exports (see Box 1) could be threatened. The increase in import duties that would follow the adoption of the Customs Union’s external tariff regime could also place the Kyrgyz Republic at odds with its commitments vis-à-vis China and other WTO member states.

On the other hand, the Kyrgyz Republic’s 2010–2012 trade data suggest that trade destruction concerns may be misplaced. These data show 42% cumulative growth in exports to and 61%

cumulative growth in imports from the Customs Union countries during 2010-2012—with particularly strong growth in trade with Kazakhstan. Reports of a dramatic hardening of the Kyrgyz Republic’s northern border may be exaggerated.

The more serious issues concerning the Kyrgyz Republic’s prospective accession to the Customs Union (and then the Single Economic Space and the Eurasian Economic Union) may lie in the deep structural differences between these economies. The current members of the Single Economic Space (the Russian Federation, Belarus, and Kazakhstan) are upper middle-income countries that have essentially eradicated extreme poverty and have made important progress in acquiring regional and global competitiveness. Their indicators for a number of development and competitiveness variables (Table 8) are roughly comparable with those reported by the upper middle-income countries that joined the European Union during the previous decade, at their time of accession. By contrast, the Kyrgyz Republic and Tajikistan are low-

Table 8: Development, external competitiveness indicators in select EurAsEC countries

	<i>GDP per-capita*</i>	<i>Merchandise exports per-capita*</i>	<i>FDI per-capita*</i>	<i>Poverty rate**</i>
Russian Federation	\$14,302	\$3,718	\$3,586	0%
Kazakhstan	\$11,983	\$5,237	\$6,322	2%
Belarus	\$6,739	\$4,848	\$1,537	0%
Kyrgyz Republic	\$1,158	\$339	\$494	25%
Tajikistan	\$953	\$474	\$161	32%

income developing countries, with significant shares of the population living in poverty. These countries’ levels of per-capita GDP, merchandise exports, and foreign direct investment are roughly one tenth of those prevailing in the Russian Federation, Kazakhstan, and Belarus. While migration has led to deep integration for Kyrgyz Republic and Tajikistan into the labour markets of the Russian Federation, similar integration in the production of goods and services is lacking. For Tajikistan, for example, the ratio of for-

* 2012 data, at market exchange rates.

** Most recent (2009) internationally comparable data, at the PPP\$2.15/day poverty threshold.

Sources: IMF-WEQ data base, UN Statistical Division’s *annual trade totals* data base, World Bank *POVCALNET* data base, and *UNCTAD FDI* data base.

eign trade turnover (merchandise exports + imports) relative to GDP is under 75% (for small economies, this ratio is generally over 100%); trade with the Customs Union accounted for less than a third of this turnover.

A comparison with the processes that underpinned the European Union's expansion in 2004, 2007, and 2013 (when thirteen new member states acceded to the EU) may be instructive. In addition to being middle-income countries when they began their accession processes, these new EU member states benefitted from more than a decade and billions of Euros in pre-accession foreign investment and technical assistance for trade facilitation and support, institutional development, and regulatory reform. In addition to integrating their economies into European value chains, this pre-accession assistance helped improve public-sector and corporate governance. It thereby played key roles in raising the new member states' productivity levels towards what would be needed to withstand competition on the EU's single market. To be sure, the governments of the Russian Federation and Kazakhstan have begun providing development assistance to the Kyrgyz Republic and Tajikistan.⁴³ But this assistance cannot yet be compared in size and shape to what was provided by the European Union to the much wealthier transition economies that have become EU members since 2004.

These considerations suggest a possible need for greater conceptual and programmatic clarity, and more financial support for the Eurasian integration project's prospective "widening" in Central Asia. They are also apparent in the current negotiations concerning the "road map" for the Kyrgyz Republic's membership in the Customs Union. Press reports and analyses⁴⁴ indicate that the Kyrgyz Republic's negotiators have assessed the country's accession-related financial needs at \$200 million annually for at least five years, reflecting *inter alia* the costs of modernizing border infrastructure

42 In addition to providing official development assistance, this support takes such non-traditional forms as the sale of refined oil products by the Russian Federation at the same (discounted) price paid by Customs Union members.

43 See, for example, "Кыргызстан не подписал «дорожную карту» вступления в Таможенный Союз", (*Ferghana News*, 23 December 2013); and "Russia's weak growth threatens regional integration", *Oxford Analytica Daily Brief*, 3 January 2014.

(e.g., sanitary, veterinary, and phytosanitary facilities); and creating a “stabilization fund” to finance the “reprofiling of the country’s largest markets” (presumably Dordoi and Karasuu). These funds would presumably cover at least some of the damages that might need to be paid to other WTO member states that could have a legal basis for launching complaints against the Kyrgyz Republic under the WTO’s dispute resolution mechanism, following the introduction of the Customs Union’s (higher) external tariffs.⁴⁴

These conditions also suggest that analyses of Eurasian integration that focus solely on trade diversion versus trade creation within the Customs Union’s current parameters, and which present “WTO accession versus the Customs Union” options as competing, mutually exclusive scenarios, may be too narrow. For one thing, the Eurasian Economic Commission seeks to align Eurasian integration with WTO processes and obligations. It also calls for close cooperation with the European Union (see Box 3). Evgeny Vinokurov of the Eurasian Development Bank’s Centre for Integration Studies has proposed a “pragmatic Eurasianism” vision that would be based on “integration from below”, and would be driven by the free movement of goods, services, labour, and capital. Such an “open regionalism” could accommodate close cooperation between the EU and EEU—similar to the emerging cooperation between the EU and USA around the Transatlantic Trade and Investment Partnership.

The Russian Federation’s WTO commitments call for substantial tariff reductions (to an average rate of 8%) by 2020, as well as the elimination of other non-tariff trade barriers.⁴⁵ If implemented as anticipated, these changes would effectively reduce the Customs Union’s common external tariffs, attenuating trade diversion concerns for both present and future members.⁴⁶

44 Press reports also indicate that Bishkek wants to negotiate exceptions from the Customs Union’s common external tariff regime for the import of some 2600 products.

45 Shepotylo and Tarr (2012) estimate that in 2020 after the transition period Russia’s weighted average bound tariff will be 8.2% and the applied tariff 7.6%.

46 The imposition of WTO obligations on other, non-WTO member states that belong to the Single Economic Space could also have its drawbacks. For example, during its WTO accession negotiations, the Russian Federation agreed to adopt the “test data exclusivity” standard for pharmaceutical products, which can restrict competition and drive prices up. These provisions may likewise be applied to Single Economic Space members Kazakhstan and Belarus, even though they are not (yet) WTO members.

If Kazakhstan were to accede to the WTO, then the vast bulk of Central Asia's trade would be conducted under WTO-compatible policy regimes. Should these efforts be combined with significant technical assistance, greater trade facilitation, measures to boost productivity for small producers and traders, and the strengthening of the legal and institutional status of Central Asian migrant workers in the Russian Federation (and the remittances they generate), the human development benefits of Eurasian integration for Central Asia's low-income countries could be considerable. Such a vision of Eurasian integration would surely be worthy of support from all quarters.

6

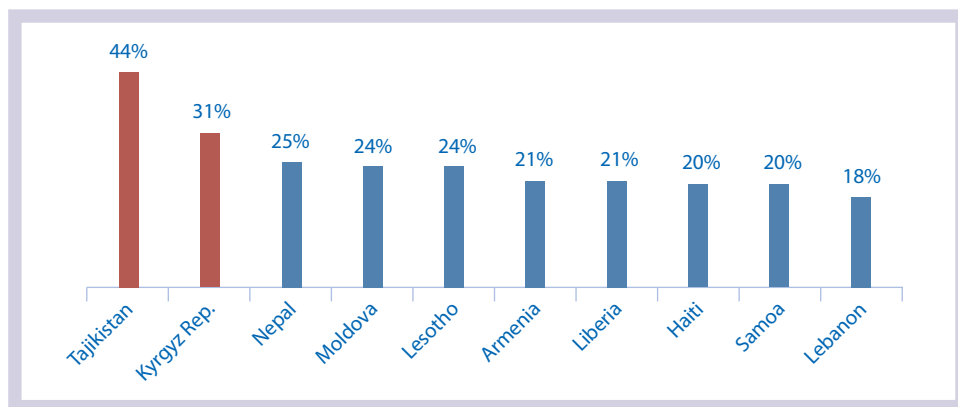
Migration,
remittances, and
human development

The past decade has witnessed dramatic increases in labour migration from, and remittances inflows to, Central Asia. Although data remain sketchy and not without methodological issues, they point to extremely large movements of workers from Tajikistan, the Kyrgyz Republic, and Uzbekistan to the Russian Federation—and to large remittance flows in the reverse direction. For example:

- The [World Bank's migration estimates](#) (derived from census data) for 2010 were: the Kyrgyz Republic—621,076; Tajikistan—791,618; and Uzbekistan—1,954,460.
- According to the Statistical Office of the Kyrgyz Republic, there were 457,000 migrants from the country in 2011, of which 416,000 worked in Russia. However, Eurasian Development Bank research (2013a, 4) finds the number to be over a million—which would be nearly one fifth of the country's population. While official figures for Tajikistan in 2012 reported 877,335 workers abroad, the true number is widely believed to exceed one million.
- Expressed as ratios vis-a-vis GDP, remittance inflows in 2012 are estimated at 44% in Tajikistan and 31% in the Kyrgyz Republic—ranking these two countries first and second in the world by this indicator (Chart 10).⁴⁷ Following declines in 2009 due to the global financial crisis, this ratio for Tajikistan rose

47 Other transition economies for which this ratio exceeded 10% in 2012 (besides Moldova and Armenia, as shown in Chart 11 include Kosovo (as per UNSC Resolution 1244 (1999)—16%), Georgia (11%), and Bosnia and Herzegovina (11%), according to UNDP estimates.

Chart 10: Ratios of remittance inflows to GDP (2012)

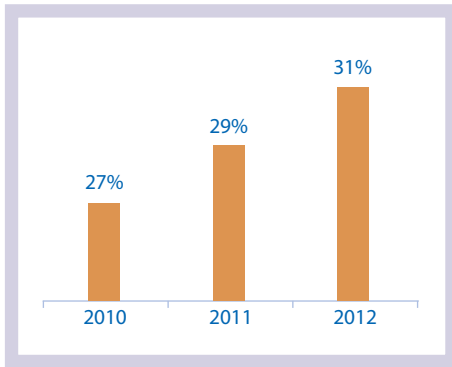


UNDP estimates, based on *IMF-WEQ* and *World Bank* data.

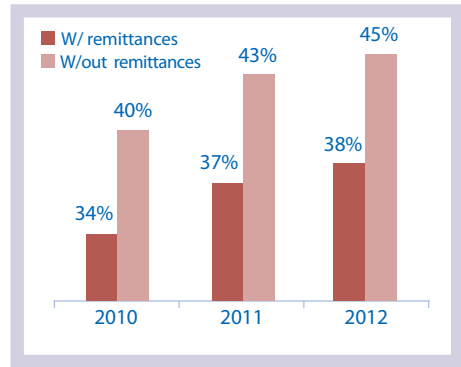
to 47% in 2011, before dropping back slightly in 2012. (Reported remittances inflows into Tajikistan continued to grow in absolute terms, rising to \$3.4 billion in 2012.) By contrast, monotonic growth in this ratio was noted in 2010-2012 for the Kyrgyz Republic (Chart 11).

- Remittance inflows provide critical external balance support for Central Asia's low-income countries. According to official data, remittance inflows in Tajikistan during 2011-2012 were more than twice as large as merchandise exports, and fully financed Tajikistan's merchandise trade deficit. For the Kyrgyz Republic, remittances have financed between half and three quarters of the merchandise trade deficit during most of the past decade.
- The available evidence indicates that remittance inflows in Central Asia's low-income countries play a significant role in reducing poverty (Chart 12).
- As a source of development finance, remittance inflows dwarf ODA. OECD-DAC data indicate that, for Tajikistan, remittances in 2011 exceeded ODA inflows received by a factor of eight. For the Kyrgyz Republic, remittances exceeded ODA inflows by a factor of three.

**Chart 11: Kyrgyz Republic:
Ratios of remittance inflows
to GDP (2010-2012)**



**Chart 12: Kyrgyz Republic:
Income poverty rates with,
without remittances (2010-2012)**



Estimates of the precise magnitudes of these inflows are fraught with methodological and measurement issues. Still, comparisons with remittance estimates from other countries (which generally suffer from similar problems) show that these inflows into Tajikistan and the Kyrgyz Republic have acquired very large dimensions, and continue to grow (in absolute terms).

These trends may pose questions to the conventional wisdom about the role and sustainability of migration and remittances in development and poverty reduction.⁴⁸ Such views generally posit that slowing population growth (especially among younger age cohorts), converging income levels between source and destination countries, and the transformation of circular migrants into permanent residents in destination countries eventually weaken migration drivers and the remittances they generate. While such arguments may hold in the long term, the experience of the past decade suggests that, as a guide to the short- and medium-term development landscape in Central Asia's low-income countries, they could leave quite a bit to be desired. These issues may also be becoming increasingly relevant for Uzbekistan: Central Bank of Russia data indicate that Uzbekistan is the largest recipient

UNDP estimates, based on IMF and World Bank data.

Source: National Statistical Committee, Kyrgyz Republic (household budget survey data).

⁴⁸ For more on issues of migration and development globally, see *Overcoming Barriers: Human mobility and Development* (UNDP's 2010 global *Global Human Development Report*); see also the International Organization for Migration's *World Migration Report*.

(receiving nearly one third) of the wire transfers sent from Russia to other CIS countries (in value terms).⁴⁹

On the other hand, the large scale of these flows may be matched by their associated human costs—in both source and destination countries; and for the migrants themselves, for the communities that receive them, and for those left behind. This may in particular be the case for Central Asia’s low-income countries, where rural communities and families are increasingly losing their young men, where children grow up without fathers, and where returning migrants can spread HIV, TB, and other infectious diseases contracted in epidemiological hotspots. Likewise, migration may not be an unmixed blessing for the Russian Federation (the source of 80–90% of the remittances received by Tajikistan and the Kyrgyz Republic), where migrant workers can be sources of social tensions. Their quasi-informal nature reduces the developmental potential of migration and remittances flows, particularly in terms of supporting pension funds and other forms of social and employment protection in both source and destination countries.⁵⁰

For both the Kyrgyz Republic (which is actively seeking membership in the EurAsEC Customs Union) and for Tajikistan (which may wish to join), these issues are closely associated with the future of the Eurasian integration project.⁵¹ Measures introduced under the Single Economic Space already reduce the number of documents migrant workers must carry, increase the timeframe for registration and permissible length of uninterrupted stay, grant social rights to migrants’ families (especially in education), and provide legal guarantees concerning migrants’ access to information. The Single Economic Space’s anticipated transformation into the Eurasian Economic Union (EEU) in 2015—which is to feature the free movement of labour (as well as of goods, services, and capital)—could help to further formalize migration flows to the Russian Federation and Kazakhstan, yielding important labour

49 UNDP estimates place Uzbekistan’s remittance inflows in 2012 at around \$7 billion, or some 7% of GDP.

50 For more on transferring pension rights between migration source and destination countries, see “Мобильность пенсий в процессах трудовой миграции стран ЕврАзЭС”.

51 The Customs Union consists of the Russian Federation, Kazakhstan, and Belarus. In addition to the Kyrgyz Republic and Tajikistan, the government of Armenia has announced its intention to join.

Table 9: Gender and the labour market in the Kyrgyz Republic

Sectors in which the share of women employed exceeded the share of men employed	Sectors in which the share of men employed exceeded the share of women employed
Manufacturing	Agriculture, forestry, hunting and fishing
Services:	Mining
* Trade	Electricity, gas, water supply, recycling
* Education	Construction
* Health and social services	Transport, communications, and storage
* Tourism	State administration, professional activities

market and social protection benefits in both source and destination countries.⁵²

Eurasian integration could also promote the expansion of production and exports in such labour-intensive sectors as textiles, food processing, wholesale and retail trade, and tourism in Tajikistan and the Kyrgyz Republic. These are sectors in which women are more likely to be employed (Table 9), and in which informality tends to loom large. The resulting benefits—in terms of income and employment generation for vulnerable households in Central Asia—could more than offset short-run trade diversion losses resulting from higher tariff and non-tariff barriers to imports from non-EEU suppliers.

In any case, the size of these flows indicates that labour markets in Tajikistan, the Kyrgyz Republic and, increasingly, Uzbekistan are deeply integrated with the Russian (and in some cases Kazakhstani) labour markets—irrespective of formal government policies vis-à-vis Eurasian integration. On the other hand, formal engagement in Eurasian integration processes could allow Central Asian governments to better manage these flows.

The global literature emphasizes that the longer-term effects of remittances and migration depend on whether remittances are used for consumption or for investment in physical and hu-

HBS data (2012), from [Занятость и безработица: Итоги интегрированного выборочного обследования бюджетов домашних хозяйств и рабочей силы в 2012г.](#) Bishkek

52 These questions are explored *inter alia* in Eurasian Development Bank (2012, 2013a).

man capital, and whether returning migrants bring back skills that are needed to establish new activities—such as light industries in Turkey, or information technology services in India. The importance of these topics for Central Asia suggests that further research in these areas would be warranted.

Despite the importance of these issues, governments in Central Asia have yet to fully come to terms with their development (and especially human development) implications. In countries where national migration strategies have been designed, their implementation has often lagged. Likewise, efforts to support Central Asian social protection systems by facilitating contributions from migrants working in the Russian Federation are only now beginning.⁵³ Moreover, except for the IOM,⁵⁴ the international community has been slow to address the programming ramifications of these large migration and remittance flows in Central Asia.

On the other hand, some good practices have emerged, *inter alia* in the form of migrant job fairs, and local development projects that attract savings from migrant households and reinvest them into community development via microfinance operations and other locally controlled inclusive financial institutions. Projects designed and implemented by UNDP, UNESCAP, IOM, IFAD, OSCE, the World Bank, Eurasian Development Bank, and other international partners in Central Asia have generated some important initial lessons learned and good practices that could be replicated and scaled up.

53 See, for example, EDB (2012), and “Правительство утвердило положение «единого окна» для трудовых мигрантов в Россию: негосударственный пенсионный фонд будет выдавать пенсионные карты”, AKIpress, 14 October 2013.

54 See, for example, IOM's [Central Asia Operational Strategy 2011-2015](#).

7

Conclusions

Events—Eurasian integration, the regional re-emergence of the WTO agenda, the second global unbundling, large migration and remittance flows—are pushing trade and integration issues towards the centre of Central Asia’s development agenda. It is not clear how these processes will affect the contrasting policy frameworks being pursued in the region. However, it is clear that the Central Asian countries continue to share at- and behind-the-border barriers that raise the costs of trade. It is also clear that much of their burden falls on small-scale traders and small and medium-sized enterprises.

All the Central Asian countries have benefited from growth in exports, and GDP, during the past 15 years. However, the large numbers of migrant workers leaving Tajikistan, the Kyrgyz Republic, and Uzbekistan, and the dependence of the first two of these countries on remittances to offset their large trade deficits, underscore the magnitudes of these countries’ unmet development challenges. Because these migrants often work in difficult conditions, the prospect of improved treatment for migrant labour is a major attraction of membership in the Customs Union and the future Eurasian Economic Union, for Tajikistan and the Kyrgyz Republic. But while they may be a valuable coping mechanism for poor households, the remittances produced by migration may be neither socially desirable nor sustainable—at least, not in their present size and shape.

Prospects for harvesting the development potential of the transport corridors now being constructed and upgraded in the region, to reduce trade costs and to provide new development opportunities for adjacent communities, appear promising. The

on-going western shift in China's domestic production and the emerging Eurasian land bridge transport system could provide the Central Asian countries with important development opportunities in the coming decade. However, despite the support of the international community, progress in tapping this potential is patchy (CAREC, 2012; 2013). Whether the Central Asian economies can benefit from global value chains depends in large measure on progress in facilitating the movement of goods, services, and people, within as well as beyond the region.

If economic integration is to significantly increase the employment- and income-generation opportunities available to vulnerable households and communities in Central Asia, barriers to trade and their associated trading costs need to be further reduced. This underscores the continuing significance of trade facilitation initiatives and aid-for-trade programming. Efforts to accelerate the modernization of border management systems (in order to facilitate the unhindered movement of people, goods, and services without ignoring genuine security threats), to simplify transit arrangements, and generally reduce red tape and unofficial payments, retain their perennial importance.

Disagreements continue regarding the virtues of industrial and infant-industry trade policies, both globally and in the region. However, the second unbundling of global trade seems likely to pose new challenges to governments that take such approaches. Successful industrial policies no longer require identifying those sectors and products in which a country may create a comparative advantage. At issue instead are the niches and tasks in which suppliers can contribute to a global value chain. This further increases the importance of standard trade facilitation measures such as single windows and integrated border-crossing posts, as well as such behind-the-border measures as improved transport and communication infrastructure. Improvements in rural roads and mobile phone networks not only facilitate trade, but the ensuing trade is generally pro-poor.⁵⁵

55 For rural roads, this is the conclusion of Lokshin and Yemtsov (2005) on Georgia, Khandker *et al.*, (2006) on Bangladesh, Mu and van der Walle (2007) on Vietnam, Edmonds and Fujimura (2006) on the Greater Mekong sub-region, and Donnges *et al.*, (2007).

By contrast, the case for robust state policies to correct market failure remains strong. Such interventions are not necessarily related to trade and may be industry-specific. For example, in tourism, there is a good case for industry-specific assistance in promoting a country's image in select target countries, reducing red tape such as visa or registration requirements, and providing quality guarantees, (e.g., by rating accommodation or certifying trekking companies). Likewise, subsidies for veterinary services that benefit livestock farmers may be in the general interest if such services would be undersupplied in the absence of subsidies (positive externalities include reduction of the probability of infectious animal diseases). Subsidies for veterinary services are likely to be pro-trade if they help farmers not to run into trading partners' health and safety restrictions, and pro-poor if large-scale farmers have access to such services without subsidies while small-scale farmers do not.

This paper does not seek to provide trade policy recommendations to Central Asian governments. Instead, it identifies risks to the region's natural, human, and social capital that are apparent in current development trajectories.⁵⁶ It also suggests certain policy and programming options that may be useful in managing these risks. These include the following:

In terms of **natural capital**: current trade and development patterns are placing well recognized burdens on the region's water and energy resources. The cultivation of water-intensive cash crops like cotton exacerbates pressures on water resources in the Aral Sea basin, while the extraction and export of fossil fuels and minerals poses threats of polluting by-products and hazardous wastes. These environmental externalities generate real costs for real people, which are apparent *inter alia* in the socio-economic and health challenges facing communities located in the proximity of Aral Sea, or abandoned heavy metal mines. Greater support for trade in labour- (as opposed to natural capital-) intensive activities, such as non-irrigated agricultural production, food processing, textiles, tourism, and wholesale and

56 This section emphasizes the distinction between economic and other forms of capital. For more on this, see OECD (2013a).

retail trade, can reduce the environmental footprint of production for export, while also broadening export baskets. Efforts to ensure that trade policies are aligned with national green economy or sustainable development strategies (such as those now being introduced in Kazakhstan [Osmanova, 2014] and Kyrgyzstan [National Sustainable Development Council]) are likewise important in this respect.

In terms of **human capital**: The (physical) capital-intensive nature of Central Asia's export baskets slows employment growth, and limits opportunities for skills acquisition. The large out-migration of labour, some of which has brain-drain characteristics, is an important consequence. Greater support for exports from more labour-intensive sectors (e.g., fruits and vegetable production, light industry, tourism, wholesale/retail trade), to increase employment- and income-generation opportunities, can support market-driven skills acquisition. Expanded support for vocational training, business and extension services, and other initiatives to boost the productivity and capacities of small-scale farmers, producers, and traders is essential in this respect. So is more proactive management of migration flows, to support social and worker protection in both source and destination countries, and to accelerate the acquisition and repatriation of human capital via returning migrants ("brain gain"). Job fairs for migrants, and programmes to encourage reinvestment of remittances in local development, could also play greater roles in this respect.

In terms of **social capital**: Prior to the 1990s, the Central Asian republics were bound together by long-standing socio-cultural (as well as economic and infrastructure) linkages. Many of these person-to-person links were ruptured by the dissolution of the USSR, and have not been repaired. Meanwhile, not all of the linkages and networks (e.g., concerning migration flows, cross-border criminal activities, etc.) that have emerged since independence are benevolent. Traditional forms of social capital that hold families and communities together are frequently coming under increasing pressure. While these issues go well beyond questions of trade and economic integration (Kourmanova, 2013), they are apparent *inter alia* in the absence of cross-border linkages between business associations, chambers of commerce, and the

like. Stronger support for such linkages, combined with efforts to formalize migration and remittance flows, could help reinforce the region's social capital and regenerate the grass-roots business networks needed for cross-border trade to flourish.

Two decades after independence, the Central Asian countries have made important progress with integration into the global economy. Their citizens have benefitted from this progress—particularly in the energy-exporting countries that have seen the largest increases in incomes and living standards. At issue now is whether the policies and programmes needed for regional and global integration to promote inclusive, sustainable growth and human development will be adopted. Less reliance on commodity exports could create new growth opportunities while reducing the strains on the region's environmental, human, and social capital. The unemployed, low-skilled workers, women, migrants, small-scale producers and traders, and residents of border communities could particularly benefit from these human development opportunities.

Taking advantage of these opportunities requires:

- reductions in at- and behind-the-border barriers to trade, particularly via trade facilitation and the modernization of border management;
- increased investments in the competitiveness and productivity of the small-scale producers and traders who have not fully shared in the benefits of economic integration in Central Asia; and
- ensuring that policies in support of WTO and Eurasian integration initiatives reflect the human development needs of, and opportunities facing, the Central Asian countries.

8

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Annex I: Trade, Human Development, and the Millennium Development Goals

<i>Human development principles</i>	<i>Related MDGs</i>	<i>Links to Trade</i>
<p>Equity and equality: Equity concerns impartiality and fairness; it embodies the principles of natural justice and fair conduct. Equality concerns opportunities, rights, privileges, and status.</p>	<p>MDGs 1,2,3,8</p>	<p>Access to incomes, assets, and the like has implications for the distribution of costs and benefits of supra-national economic integration. These can enhance equity or deepen inequality. On the other hand, policies that promote equity and equality can help all groups benefit from trade opportunities. In many countries, women are the backbone of small and medium enterprises (SMEs) and micro-trade activities, yet they face many obstacles. MDG3 focuses on gender equality and empowering women in economic and political activities to address these disparities.</p>
<p>Sustainability: Human development gains can be fragile and vulnerable to reversal. Policies should seek to ensure that development gains today are not attained at the expense of future generations.</p>	<p>MDGs 1,2,3,4,5,6,7,8</p>	<p>Trade can contribute to sustainability by offering new opportunities for employment, productive activities and ideas, and access to technology, goods and services. But trade may also unsustainably deplete environmental, social, or human capital—particularly in the absence of adequate regulatory frameworks. MDG8 focuses on issues related to trade development and sustainable growth. Target 8A calls for countries to develop further an open, rule-based, predictable, non-discriminatory global trading and financial system. Targets 8B-D seek easier trading and debt conditions for landlocked (and other) developing countries.</p>
<p>Empowerment: This is about helping people to exercise individual choice, and to participate in, shape, and benefit from action at the household, community and other levels.</p>	<p>MDGs 1,2,3,5,8</p>	<p>When trade increases incomes, and improves working conditions and access to technology and healthcare, it gives people more control over their lives. When trade policies reduce the choices available to individuals, communities, and countries, they disempower. MDG Target 1B calls for full and productive employment and decent work for all, including women and young people. Target 8F calls for governments, in cooperation with the private sector, to make the benefits of new technologies, especially information and communications technologies, more broadly available.</p>
<p>Productivity/income: This concerns the role that human capabilities play in the use of productive assets as the basis of economic growth and human progress.</p>	<p>MDGs 1,2,3,4,5,6</p>	<p>Trade can increase productivity, thereby strengthening human capabilities and promoting the more equal distribution of its benefits.</p>

Source: UNDP (2011).

Annex II: Human development indicators in Central Asia

<i>HD Composite and related indices</i>	<i>Kazakhstan</i>	<i>Kyrgyzstan</i>	<i>Tajikistan</i>	<i>Turkmenistan</i>	<i>Uzbekistan</i>
Human Development Index (HDI), value and rank Source: HDRO database	0.754 (69 th)	0.622 (125 th)	0.622 (125 th)	0.698 (102 th)	0.654 (114 th)
HDI: Non-income HDI value Source: HDRO database	0.791	0.738	0.731	0.727	0.740
GNI per capita rank minus HDI rank Source: HDRO database	8	24	19	-10	19
Inequality-adjusted HDI (IHDI) Source: HDRO database	0.652	0.516	0.507	..	0.551
IHDI: Overall percentage loss in HDI due to inequality (%) Source: HDRO database	13.6	17.1	18.4	..	15.8
Multidimensional Poverty Index (MPI), value Source: HDRO database	0.002 (MICS, 2006)	0.019 (MICS 2005-2006)	0.068 (MICS 2005)	..	0.008 (MICS 2006)
MPI: Population in multidimensional poverty, (%) Source: HDRO database	0.6	4.9	17.1	..	2.3
MPI: Contribution to deprivation in overall poverty, (%) Source: HDRO database	education	standards	education	education	education
	14.6	health	standards	health	health
	56.8	living standards	living standards	living standards	living standards
	28.7	26.4	36.3	..	21.1
	28.7	36.9	45.0	..	55.7
	23.2	36.6	18.7	..	23.2
	23.2	36.6	18.7	..	23.2

Demography	Kazakhstan			Kyrgyzstan			Tajikistan			Turkmenistan			Uzbekistan		
	Total	male	female	Total	male	female	Total	male	female	Total	male	female	Total	male	female
Population (mln) Source: UNDESA (2011). 2010 Revision of World Population Prospects. http://esa.un.org/unpd/wpp/unnpp/panel_population.htm	16.4	7.9	8.5	5.5	2.7	2.8	7.1	3.5	3.6	5.2	2.6	2.6	28.1	14	14.1
Urban populations (%) Source: UNDESA (2012a). World Urbanization Prospects, 2011 Revisions.	53.5			35.4			26.5			49			36.2		
Population under age 15 (% of total) http://esa.un.org/unpd/wpp/unnpp/panel_population.htm															
Total dependency ratio, % Source: UNDESA (2011). 2010 Revision of World Population Prospects	47.2			51.9			65.3			48.4			48.7		
Stock of emigrants (% of population) Source: HDRO calculation based on data from World Bank 2011, Migration Factbook and UNDESA 2011, 2010 Revision, World Population Prospects	23.6			11.2			11.2			5			7		
Stock of immigrants (% of population) Source: HDRO calculation based on World Bank bilateral matrix on emigration, immigration and population	19.5			4			4			4			4.2		

Education	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
HDI: Mean years of schooling (of adults, years) Source: Barro and Lee (2011) estimates based on UNESCO Institute for Statistics data on education attainment (2012) and Barro and Lee (2010) methodology.	10.4	9.3	9.8	9.9	10
HDI: Expected years of schooling (years) Source: UNESCO Institute for Statistics (2012), Data Centre.	15.3	12.6	11.5	12.6	11.6
Pre-primary gross enrolment ratio (%) Source: http://www.childinfo.org/education_preprimary.php	39	18	9 (10 – male, 8 – female)	...	26
Gross tertiary enrolment ratio (%) Source: UNESCO Institute for Statistics (2012).	40.8	48.8	19.7	...	8.9
Public expenditure on education (% of GDP) Source: World Bank (2012a). "World Development Indicators 2012." Washington, D.C.: World Bank. http://data.worldbank.org	4.5	6.8	5.3	2.3	5.2

Gender/women	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
Gender Inequality Index (GII). Rank and value Source: HDRO	0.312 (51 st)	0.357 (64 th)	0.338 (57 th)	...	...
MDG 5: Maternal mortality ratio (per 100,000 live births) Source: UN Maternal Mortality Estimation Group (MMEIG) WHO, UNICEF, UNFPA and the World Bank (2013). http://www.childinfo.org/maternal_mortality_ratio.php	51	71	65	67	28
MDG 3: Seats in parliament held by women (% of total) Source: IPU (2013). [Parline database on women in parliament.] http://www.ipu.org/wmn-e/classif.htm	Lower or single house 24.3	Lower or single house 23.3	Lower or single house 19	Lower or single house 16.8	Lower or single house 22
Total fertility rate Source: UNDESA (2011). 2010 Revision of World Population Prospects.	2.6	3.1	3.8	2.4	2.5
Labour force participation rate (female-male ratio) Source: ILO (2012). [“Key Indicators on the Labour Market: 7th edition”; Geneva: ILO.] http://www.ilo.org/empelm/wh/at/lang--en/WCMS	77.2	78.6	75.1	76	74.7
MDG 5: Adolescent fertility rate Source: HDRO database	25.5	33	25.7	16.9	12.8

Health	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
Public expenditure on health (% of GDP) Source: World Bank (2012a). "World Development Indicators 2012." Washington, D.C.: World Bank. http://data.worldbank.org	2.1	2.1	0.9	3.2	2.5
MDG 4: Infant mortality rate (per 1,000 live births) Source: WHO (2012b), Global Health Observatory. http://www.who.int/gho	29	33	52	47	44
MDG 4: Under-five mortality rate (per 1,000 live births) Source: UNICEF, WHO, UN Population Division and World Bank 2012	33	38	63	56	52
HIV prevalence, Youth (% aged 15-24) Source: UNICEF (2012). "The State of the World's Children 2012". New York. http://www.unicef.org/sowc2012/	Male	male	male	male	male
	0.1	0.1	0.1	..	0.1
HDI: Life expectancy at birth (years) WDI (2011)	total	total	total	total	total
	68.9	69.6	67.1	65.2	68
Health-adjusted life expectancy (years) Source: GHDR 2012 , data for 2007	male	male	male	male	male
	64.2	65.7	63.9	61.1	64.7
Children under-five years underweight (%) Source: WHO 2013 http://www.who.int/gho/en/	female	female	female	female	female
	3.7	2.9	15.9	..	4.6
Health-adjusted life expectancy (years) Source: GHDR 2012 , data for 2007	total	total	total	total	total
	56	57	57	55	59
Children under-five years underweight (%) Source: WHO 2013 http://www.who.int/gho/en/	male	male	male	male	male
	3.7	2.7	15	10.5	4.4
Health-adjusted life expectancy (years) Source: GHDR 2012 , data for 2007	female	female	female	female	female
	3.6	2.5	14	..	4.3

Health	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
MDG5: Proportion of births attended by skilled health personnel http://mdgs.un.org/unsd/mdg/Data.aspx www.unhabitat.org/stats/default.aspx	100	98	83	100	100
MDG7: Proportion of population without access to improved drinking water http://mdgs.un.org/unsd/mdg/Data.aspx www.unhabitat.org/stats/default.aspx	5	10	30	...	13
MDG7: Proportion of population without access to improved sanitation http://mdgs.un.org/unsd/mdg/Data.aspx www.unhabitat.org/stats/default.aspx	3	7	6	2	0
Inequality	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
IHD: Income Gini coefficient Source: World Bank (2012).	0.29	0.362	0.308	...	...
Innovation and technology	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
Fixed broadband internet subscription (speeds equal or greater than 256 kb per sec, per 100 people) Source: International Telecommunication Union (2012). http://www.itu.int/ITU-D/ict/statistics/	8.9	0.3	0.1	0	0.3
MDG 8: Internet users (per 100 people) Source: International Telecommunication Union (2012). http://www.itu.int/ITU-D/ict/statistics/	33.4	19.6	11.5	2.2	19.4
Total patent granted to residents and non-residents (per 1 mln people) Source: HDRO calculation based on data from WIPO (2012) and population data from UNDESA (2011).	10.9	20.4	0.4	...	7

Poverty/well-being	Kazakhstan		Kyrgyzstan		Tajikistan		Turkmenistan		Uzbekistan	
Income poverty rate (%) Source: WDI, 2012	PPP 2.15/day	PPP 1.25/day	PPP 2.15/day	PPP 1.25/day	PPP 2.15/day	PPP 1.25/day	PPP 2.15/day	PPP 1.25/day	PPP 2.15/day	PPP 1.25/day
	2	0.1	25	6.2	32	6.6	:	:	:	:
Public expenditure of social security as proportion of gross national income Source: http://www.ilo.org/sec-soc/lang-en/index.htm										
Sustainability	Kazakhstan		Kyrgyzstan		Tajikistan		Turkmenistan		Uzbekistan	
Population living in degraded land (%)	24		10		10		11		27	
Natural resource depletion (% of GNI) Source: HDRO calculations based on World Bank (2011a).	23.4		6.9		0.8		...		19.2	
Fossil fuels (% of total) Source: HDRO database	99		72.5		41.2		100.7		98.4	
Renewable energy usage (% of total) Source: HDRO database	1.1		28.4		58.6		0		1.6	
Environmental performance index 2014, score and rank Source: http://epi.yale.edu/epi/country-rankings	51.07 (84 th)		40.63 (125 th)		31.34 (154 th)		45.07 (109 th)		43.23 (117 th)	

<i>Trade economy and income</i>	<i>Kazakhstan</i>	<i>Kyrgyzstan</i>	<i>Tajikistan</i>	<i>Turkmenistan</i>	<i>Uzbekistan</i>
GDP per capita (USD) Source: WB POVCALNET	11983	1,158	953	...	...
HDI: GNI per capita (USD) World Bank (2012a). "World Development Indicators 2012." Washington, D.C.: World Bank. http://data.worldbank.org .	10,451	2,009	2,119	7,782	3,201
Total debt services (% of GNI) Source: HDRO (data for 2008)	29.2	6.6	2.7	...	2.5
Exports of services (% of GDP) Source: HDRO computations based on UNCTAD (2012) and World Bank (2012a)	3.2	...	3.9	...	3.1
Imports of services (% of GDP) Source: HDRO computations based on UNCTAD (2012) and World Bank (2012a)	8.6	...	7.4	...	1.7
Remittances inflows (% of GDP) HDRO World Bank (2012a). "World Development Indicators 2012." Washington, D.C.: World Bank. http://data.worldbank.org .	0.2	26.6	39.96	...	...
Remittances outflows (% of GDP) HDRO World Bank (2012a). "World Development Indicators 2012." Washington, D.C.: World Bank. http://data.worldbank.org	2.04	6.19	15.17	...	...
Private capital flows (% of GDP) Source: HDRO database	-2.7	3.9	0.4	...	...
FDI per capita (USD) Source: UNCTAD FDI	6,322	494	161	...	...
FDI, net inflows (% of GDP) Source: HDRO database	6.9	6.6	0.3	10.4	2.1

Status of fundamental labour & human rights conventions and covenants	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
Equal Remuneration Convention, 1951 (#100) Source: ILO 2013 NORMLEX . http://www.ilo.org/dyn/normlex/en/f?p=1000:12000:0::NO	ratified	ratified	ratified	ratified	ratified
Discrimination (Employment and Occupation) Convention, 1958 (#111)	ratified	ratified	ratified	ratified	ratified
Minimum Age Convention, 1973 (#138)	ratified in 2001 (min age 16)	ratified in 1992 (min age 16)	ratified in 1993 (min age 16)	ratified in 2012 (min age 16)	ratified in 200 (min age 15)
Worst Forms of Child Labour Convention, 1999 (#182)	ratified in 2003	ratified in 2004	ratified in 2005	ratified in 2010	ratified in 2008
International Covenant of Economic, Social and Cultural Rights 1969)	ratified in 2006	ratified in 1994	ratified in 1999	ratified in 1997	ratified In 1995
Convention on the Elimination of All Forms of Discrimination against Women CEDAW (1979) Source ; https://treaties.un.org/Pages/ViewDetails.aspx?src=TREATY&mtdsg_no=IV-tdsg_chapter=4&lang=en	Ratified In 1998	Ratified In 1997	ratified in 1993	ratified in 1997	ratified in 1995
Convention against torture and other cruel inhuman or degrading treatment or punishment (1984)	ratified	ratified	ratified	ratified	ratified

Social integration	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan										
Employment, vulnerability and equity															
MDG 1: Youth unemployment (% ages 15-24) Source: http://mdgs.un.org/unsd/mdg/Data.aspx	total	4.6	4.2	5.0	14.6	13.6	16.2	total	10.0	total	10.0	total	10.0	total	10.0
	male	4.6	4.2	5.0	14.6	13.6	16.2	male	10.0	male	10.0	male	10.0	male	10.0
	female	4.6	4.2	5.0	14.6	13.6	16.2	female	10.0	female	10.0	female	10.0	female	10.0
Child labour (% ages 5-14) Source: HDRO database	total	5.0	4.0	4.0	4.0	4.0	4.0	total	4.0	total	4.0	total	4.0	total	4.0
	male	5.0	4.0	4.0	4.0	4.0	4.0	male	4.0	male	4.0	male	4.0	male	4.0
	female	5.0	4.0	4.0	4.0	4.0	4.0	female	4.0	female	4.0	female	4.0	female	4.0
Perception of individual well-being and that of society Source: HDRO Gallup world Values survey 2012															
Overall satisfaction with life	76	71	70	70	70	70	70	70	70	70	70	70	70	70	70
Satisfaction with job	77.9	75.2	82.7	82.7	82.7	82.7	82.7	82.7	82.7	82.7	82.7	82.7	82.7	82.7	82.7
Trust in people	33	34	31	31	31	31	31	31	31	31	31	31	31	31	31
Satisfaction with community	79.7	84.8	89.9	89.9	89.9	89.9	89.9	89.9	89.9	89.9	89.9	89.9	89.9	89.9	89.9
Perception of safety	56	62	85	85	85	85	85	85	85	85	85	85	85	85	85
Suicide rate Source: HDRO database	total	43	14.1	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
	male	43	14.1	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
	female	43	14.1	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9