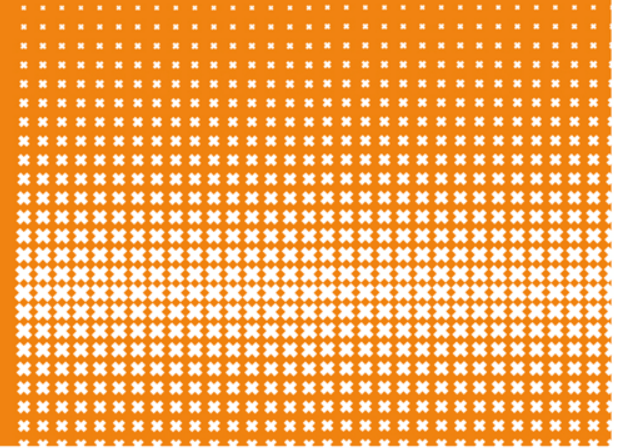




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Regional Integration in Central Asia

In Search for an Explanation of Failing Regionalism

The Empirical Puzzle

- The five Central Asian countries share many cultural, historic, and political commonalities.
- Nevertheless, genuine Central Asian regionalism failed and only Kazakhstan participates in advanced regional integration of the EEU.
- What can a comparison with other regional organisations tell us about the problems of regional integration in Central Asia?

Theoretical Background:

The Intraregional Logic of Regional Integration

- Industrialised regions like Europe integrate in order to liberalise regional markets and to allow for increasing intraregional trade and investments.
- Despite having proceeded far beyond pure market integration, the Single Market is nevertheless at the core of the European integration project.
- Trade liberalisation, re-regulation and increasing intraregional trade lead to a virtuous circle of regional economic integration.

Theoretical Background:

The Extra-regional Logic of Regional Integration (I)

- Developing regions cannot profit much from intraregional trade and investments, because their main economic partners are outside the region.
- Regional markets cannot push regional integration in developing regions, but developing regions may profit from extra-regional effects of regionalism.
- Well integrated regions are more attractive in economic terms, and they have more weight in international negotiations..

Theoretical Background:

The Extra-regional Logic of Regional Integration (II)

- Developing countries and emerging markets do not only compete with other world regions, but also with their neighbours for trade, investment and security.
- Problems emerge, if some member states gain competitive advantages in this struggle by acting unilaterally without consulting their neighbours.
- In such cases, extra-regional forces may torn the regions apart, and there exists no strong regional markets to keep the regions together.

Empirical Examples:

The European Union (EU)

- The EU is the classic example for the intraregional logic of regional integration, where regional market liberalisation is a driving force of cooperation.
- Due to their diversified economies, the EU member states are able profit a lot from intraregional trade and investment.
- Intraregional trade was always high in the EU, and due to various rounds of deepening and widening, it is about 66% today.

Empirical Examples:

The Association of Southeast Asian Nations (ASEAN)

- ASEAN is an example for positive extra-regional effects of regional integration. Intraregional trade in ASEAN adds up to only 25% so that it cannot be the sole motor for integration.
- Within the ASEAN+3 process, China and Japan support regional cooperation in ASEAN from outside (e.g. Chiang-Mai-Initiative).
- The ASEAN charter demonstrates that integration of the region proceeds

Empirical Examples:

The Common Market of South America (MERCOSUR)

- Regional integration in MERCOSUR entered troubled waters, when Brazil followed a beggar-my-neighbour strategy at the cost of Argentina.
- In face of economic difficulties, Brazil decided unilaterally to float its currency in 1999. Consequently, the country enjoyed an export boom.
- Brazil's devaluation harmed Argentina's competitiveness, which led to the Argentine crisis and to the largest default in history.

Empirical Examples:

Central Asia (I)

- The Central Asian economies are largely based on the export of commodities like oil and gas.
- Recipients of these exports are not the regional neighbours, but industrialised countries in other world regions.
- Market liberalisation and re-regulation are unlikely to push regional integration forward, because there are not enough economic interdependencies within the region.

Empirical Examples:

Central Asia (II)

- Due to limited intraregional effects, regionalism in Central Asia needs to generate positive extra-regional effects in order to be sustainable.
- The region has not yet managed to speak with one voice, but different member states ally themselves with different extra-regional powers.
- Kazakhstan cooperates with Russia, Uzbekistan allies with the US, Kyrgyzstan orients itself towards China and Turkmenistan towards Turkey.

Conclusion

- Despite cultural, historical and political commonalities, there exist structural obstacles for deeper regional integration in Central Asia.
- The best strategy for regional integration in Central Asia would be to follow the ASEAN example and to utilise extra-regional gains from regional integration.
- However, a power struggle between competing extra-regional players makes a unified position of the Central Asian countries unlikely.