

**OIC CENTRAL ASIAN COUNTRIES IN TRANSITION:
INTEGRATION INTO THE WORLD ECONOMY AND
COOPERATION WITH THE REST OF THE OIC COUNTRIES**

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After more than a decade since their independence in 1991, the six OIC Central Asian member countries (former Soviet Union republics) are still struggling in their integration into the world economy and facing a particularly difficult transition process where a long unfinished reform agenda remains. Given the complex political and economic picture of the region around the Caspian Sea where they are located, this paper attempts to shed light on the problems, potentials and policy challenges facing those countries in their integration process. It gives special attention to their integration at the regional level, particularly the possibilities of further regional cooperation with the rest of the OIC members.

1. INTRODUCTION

The break-up of the Soviet Union led to the creation of fifteen independent republics, widely known as Newly Independent States (NIS)¹. The NIS ceased to exist as a geo-political reality on 8 December 1991 when the heads of state of the Russian Federation, the Republic of Belarus and the Republic of Ukraine signed the Minsk Agreement to establish the Commonwealth of Independent States (CIS). Currently, the CIS includes all the NIS of the former Soviet Union (FSU) except the Baltic States (see Table A.1 in the annex). Out of the current twelve members of the CIS, six are also OIC members, namely Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan. Those six countries, which for the purpose of this paper, will be named hereafter as the OIC Central Asian Countries (**OIC-**

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¹ Armenia, Azerbaijan, Belarus, Georgia, Estonia, Kazakhstan, Kyrgyz Republic, Latvia, Lithuania, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

CACs), have declared their independence from the Soviet Union in 1991 and became members of the United Nations on 2 March 1992. By the year 1995, they have also become members of the OIC².

Like the other countries in transition, following their independence, the NIS of the FSU, including the OIC-CACs, started to be gradually integrated into the world economy through a transition process to independent open market economies. However, the record of transition and integration into the world economy has been uneven across those countries. While this process has been rapid and deep in the Baltic States and some Central and Eastern Europe Countries (CEECs)³, it is still slow in the CIS countries. The progress in transition through the implementation of structural economic reforms and trade liberalisation programmes continued to be held back by serious problems and policy challenges in many CIS countries, including the OIC-CACs. In most of those countries, trade is still limited by obstructive domestic and regional policies and distance from international markets. A part of the legacy of the Soviet financial and trade links together with weak institutions has remained entrenched even after more than a decade of independence.

Given this state of affairs and considering the economic and strategic importance of the region around the Caspian Sea, in which the OIC-CACs are located, this paper attempts to shed light on the problems, potentials and policy challenges facing those countries in their transition process to independent, open and market-oriented economies. Special attention is given to their integration into the world economy and the possibilities of further regional cooperation, particularly with the rest of the OIC member countries by making optimal use of their potentials for trade and investment in support of this process.

Following this introductory section, Section 2 presents a brief overview of the OIC-CACs in transition while Section 3 examines the structure and economic performance of their economies since the independence. Section 4 sheds light on the progress made by those

² Azerbaijan became member in 1991, Kyrgyz Republic, Tajikistan and Turkmenistan in 1992, and Kazakhstan and Uzbekistan in 1995.

³ Including the three Baltic States, eight of these countries joined the EU in May 2004 and an other two (Bulgaria and Romania) are expected to join in 2007 (see Table A.1 in the annex).

countries in their process of integration into the world economy through the implementation of economic reforms and access to international markets. Section 5 focuses on the choices of those countries in regional economic integration, particularly the possibilities of further cooperation with the rest of the OIC countries. Lastly, Section 6 provides some concluding remarks.

2. THE OIC-CACs IN TRANSITION: OVERVIEW

The region around the Caspian Sea, in which the NIS of the FSU including the six OIC-CACs are located, is likely to become of great economic and strategic importance. It encompasses more than twice the territory of the Middle East and is much larger than Western Europe. It is a gateway to three regions that are also of great importance: to the east lie China and the rest of Asia, to the south lie Iran, Afghanistan and an important part of the Islamic world, and to the west and north lie Russia, Turkey and Europe. It is also likely to become an important oil and natural gas producer. Currently, the NIS of the FSU rank seventh in the world in terms of the proven oil resources and it is estimated that the region contains more than one-third of the world's natural gas resources.

2.1. Azerbaijan

Azerbaijan covers an area of 86.6 thousand square kilometers, bounded on the east by the Caspian Sea. It shares borders with Russia and Georgia to the north, Iran and Turkey to the south and Armenia to the west. Its population reached 8.14 million in 2002 (49% of which live in rural areas). Azerbaijan is a small, oil-rich country and one of the oldest oil and natural gas producers and exporters in the world. The country is also well endowed with ample mineral resources such as iron ore, non-ferrous metals, bromine, marble, etc. as well as fertile agricultural land. Major agricultural products include cotton, tobacco, and fruits and vegetables. Although the structure of the economy reflects the country's natural resource base (mainly the two traditional industries of petroleum and natural gas), other sectors such as petrochemicals and light industry, including food and beverages, have also been growing in importance.

2.2. Kazakhstan

Kazakhstan is the second largest land area (2.67 million square kilometers) after Russia in the centre of the Eurasian continent. With a population of 14.86 million in 2002 (56.6% of which live in rural areas), or 5.5 inhabitants per square kilometre, it is also one of the most sparsely populated countries in the world. The country shares borders with Russia in the north, Turkmenistan, Uzbekistan and Kyrgyz Republic in the south, China in the east, and the Caspian Sea in the west. Being the second largest of the FSU republics in terms of land area, Kazakhstan owns considerable endowments of natural resources, mainly oil and natural gas reserves, coal and other minerals and metals such as iron ore, aluminum and phosphate. The structure of the economy reflects the country's natural resource base where industry is dominated by mining and processing activities. Besides these industries, Kazakhstan has a variety of agro-processing industries, including meat and fish canneries, wineries and textile manufacture where the country's production of cotton, sugar, fruits and vegetables are exploited.

2.3. Kyrgyz Republic

The Kyrgyz Republic, a largely mountainous country, covers an area of 191.8 thousand square kilometres in the centre of Asia. The country is bounded by China in the east, Kazakhstan in the north, Uzbekistan in the west, and Tajikistan in the west and south. The population of 5 million of the Kyrgyz Republic in 2002 is largely rural (65% of the population live in rural areas). Historically, the Kyrgyz Republic was among the poorest republics of the FSU. Its economy was characterized by heavy dependence on trade with the other republics of the FSU. The economy of the country is primarily agricultural, including pasture-based livestock and the production of cotton, wool, leather, silk, hemp, fodder, vegetables, fruits and grain. Major industries are metallurgy, food processing and textiles. The mountainous terrain and rivers enable the country to generate substantial hydroelectricity, which is one of its main exports. Unlike some neighbouring republics, the Kyrgyz Republic has negligible deposits of oil and natural gas. However, there are considerable mineral deposits of coal, gold, mercury and uranium.

2.4. Tajikistan

Tajikistan is situated in Central Asia, bordered in the south by Afghanistan, in the east by China and in the west and north by Uzbekistan and the Kyrgyz Republic. The country's territory, which covers 143.1 thousand square kilometres, is largely mountainous, and only 7% of the land is arable and heavily irrigated. Tajikistan's population of 6.5 million in 2002 is largely rural (73% of the population live in rural areas). The economy of the country is highly dependent on agriculture and on labour-intensive basic food and raw material processing industries. Although Tajikistan is a major producer of long-staple cotton and has many natural resources including gold, mercury and other minerals, its exports are limited to a few products where aluminium and cotton fiber make up 72% of total exports. In return, the country imports a large part of its energy needs, particularly petroleum products, almost all manufacturing goods, and, increasingly during the second half of the 1990s, grain.

2.5. Turkmenistan

Turkmenistan borders Uzbekistan in the north and east, Kazakhstan in the north, the Caspian Sea in the west, and Iran and Afghanistan in the south. With a total land area of 469.9 thousand square kilometres, it is the fourth largest republic of the FSU. However, because of the Kara Kum desert (comprising 90% of the country's area), Turkmenistan was inhabited by only 4.8 million in 2002. The economy is highly dependent on the production and processing of energy resources and cotton. The country possesses substantial oil and natural gas reserves. It is self-sufficient in energy and ranks among the major energy producers of the FSU republics. It is the second largest natural gas producer in the FSU after Russia and the fourth largest producer in the world. The generation of chemicals from other mineral resources is also highly developed. Cotton is the dominant agricultural crop after wheat. It accounts for 50% of the country's arable land and total agricultural production.

2.6. Uzbekistan

Uzbekistan covers a land area of 414.2 thousand square kilometres and is bordered by Kazakhstan in the north, the Kyrgyz Republic and Tajikistan in the east, and Afghanistan and Turkmenistan in the south

and the southeast. With a population of 25.2 million in 2002 (62% of which live in rural areas), Uzbekistan is the most populous among the OIC-CACs and the third in the FSU republics, after Russia and Ukraine. The country is endowed with substantial reserves of gold, oil and natural gas. It is the second largest producer of gold in the FSU and ranks sixth in the world in terms of proven gold reserves. Oil reserves are sufficient for domestic demand, but export potential is limited due to the lack of investments and adequate infrastructures. Although most of the natural gas production is consumed domestically, the export potential is significant. The structure of the economy is dominated by agriculture where cotton is the most important crop in terms of production and export. The industrial sector includes industries linked to the agriculture sector such as the processing of agricultural raw materials, cotton harvesters, textile machinery and fertilizers.

As a group, the six OIC-CACs make up almost 18% of the total land area of the NIS region and more than 22% of its population. When Russia, the largest FSU republic in the region, is excluded, this group of countries accounts for 78% and almost 45% of the region's total land area and population, respectively (see Table A.2 in the annex). Therefore, the OIC-CACs constitute a substantial part of the region and, together, own a proportionally large share of the FSU endowments of natural resources, mainly oil, natural gas and arable land.

However, accounting for only 11% of the region's total GDP and exports, the economic potential of these countries does not yet manifest itself in the form of reasonable development levels, particularly when compared with the levels achieved by some other FSU countries in the region, especially the three Baltic States. With a total population less than that of Azerbaijan alone and a total land area less than that of the Kyrgyz Republic, the three Baltic States account for 5.7% of the region's total GDP and 6.4% of its total exports (Table A.2 in the annex).

3. STRUCTURE OF THE ECONOMY AND ECONOMIC PERFORMANCE

3.1. Structure of the Economy

Considering the information in the above brief country overviews and the figures in Table 1 below, it is clear that the economy of the OIC-

CACs, as a group, is relatively diversified with industry and agriculture being the dominant productive sectors. It is also clear that the structure of the economy in each of those countries reflects its natural resource base where, in general, it is highly dependent on the production and processing of energy resources and agricultural products.

TABLE 1: GROSS DOMESTIC PRODUCT BY SECTOR
(average % 1997-2002)

	Agriculture	Industry	Services
Azerbaijan	17.2	37.3	45.5
Kazakhstan	9.4	33.9	56.7
Kyrgyz Republic	37.8	23.7	38.5
Tajikistan	27.4	27.0	45.7
Turkmenistan	27.3	43.5	29.2
Uzbekistan	27.0	23.1	49.9
OIC-CACs^(a)	19.0	31.4	49.6

Source: Table A.3 to Table A.8 in the Annex. (a) Computed on the basis of the averages of individual countries weighted by their 2000 GDP values in terms of current US dollar.

The industrial sector in most of those countries is dominated by the traditional heavy industries of oil, natural gas, metallurgy and mineral extraction, which have recently been reinvigorated by foreign investment but remain marginal in global terms. Other than those industries, the industrial sector of these countries includes light industries such as agro-processing industries of food and beverages as well as textiles, which are mostly labour-intensive industries. With a 31.4% average share in GDP, industry constitutes the major productive economic activity in the OIC-CACs as a group during the period 1997-2002⁴. The highest average share of industry in GDP (43.5%) during the said period is registered in Turkmenistan, followed by Azerbaijan with 37.3% and Kazakhstan with 33.9%, and the lowest share (23.1%) in Uzbekistan.

On the other hand, although its contribution to the GDP went through a severe decline since independence, agriculture is still the largest employer and the second largest exporter sector after oil and gas. For example, although agriculture is the largest employer sector in Azerbaijan, with over 40% of the total employed workforce, its share in

⁴ The average of the six-year period (1997-2002) is computed in order to avoid problems resulting from missing data for some countries and the effects of year-to-year cyclical fluctuations in others.

GDP has shrank steadily from 31% in 1991 to 14.2% in 2002. This is also true for Kazakhstan where the share of agriculture in GDP decreased steadily from 28% to only 7.9% during the same period. In contrast, the agriculture sector remained the primary economic activity and still plays a major role in the economies of the Kyrgyz Republic, Tajikistan and Uzbekistan, and is only second to industry in Turkmenistan. In most of those countries, cotton constitutes the major agricultural product.

Services, which were neglected under the centrally planned Soviet Union economy, have expanded rapidly over the last decade, often as a result of investment in mining industry, particularly oil and natural gas. With the highest average share in GDP (49.6%) during the period 1997-2002, the services sector started to play a significant role and constitute an important source of income in many of those countries. During this period, the average share of the services sector in GDP varied from 29.2% in Turkmenistan to 56.7% in Kazakhstan. Yet, the sector is still fragile and underdeveloped in most of these countries due to the slow progress in economic reforms, particularly in building effective economic institutions and setting regulations that support a properly functioning market economy.

TABLE 2: MAIN EXPORTS IN 2002 (% of total exports)

Azerbaijan	Oil products (88.9%), food products (3.1%).
Kazakhstan	Oil products (61%), metals (23%), food/agricultural goods (5%), chemicals (4%).
Kyrgyz Republic	Metals (40.7%), building materials (14%), light manufacturing (13.4%), agricultural products (11.6%).
Tajikistan	Aluminium (61%), electricity (12%), cotton (11%).
Turkmenistan	Natural gas (57%), oil/refined products (26%), cotton (12%), electricity (5%).
Uzbekistan	Cotton (26.6%), electricity (11.5%), gold (10%), metals (7.9%), machinery/equipment (3.4).

Source: Table A.9 in the annex.

The overall picture of the structure of the economies of the OIC-CACs in transition described above in terms of the composition of their output (GDP) is also reflected in the structure of their trade, particularly the export side. It is clear, as may be observed in Table 2, that oil and refined products as well as natural gas and metals constitute the main export items and account for the bulk of those

countries' total exports. While this reflects the natural resources base of energy in those countries, agricultural products and goods, mainly cotton, constitute the second main exports. On the import side, machinery and equipment constitute the main imports in most of these countries, particularly oil and gas exporting countries (Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan). In contrast, energy, mainly oil and gas, constitute the main imports in the Kyrgyz Republic and Tajikistan. Foodstuff, mainly grain, recently started to appear among the main imports in many of those countries (see Table A.9 in the annex).

Reflecting their natural resource base endowments, the OIC-CACs in transition show a high concentration of the production and export of primary commodities, mainly oil and gas, metals and cotton. There is no doubt that the production and export of those commodities play a crucial role in the prospects of growth and development in those countries. Yet, the large share of primary commodities in output and exports brings about a significant exposure of these economies to the risks of external shocks and makes them more vulnerable to fluctuations in world commodity prices and developments in certain markets and/or adverse seasonal factors. This, in turn, affects economic growth and long-term policy making in those countries since they have to secure and effectively manage high national savings rates over time, particularly during low prices periods. On the other side of the problem, facing the challenge of promoting economic diversification requires high quality investment by both the public and the private sectors to develop new sources of growth.

3.2. Economic Performance

As is the case in all other NIS established in the economic space of the FSU, the economic performance of the OIC-CACs weakened considerably since their independence in 1991 through 1995. During the said period (particularly in 1993), the economies of those countries suffered a big decline in output and trade with inflation persisting at annual rates above 1000 percent. In fact, a combination of common adverse factors of political instability and severe economic dislocation caused by the break-up of the Soviet economy contributed to and intensified the problem.

The figures in Table 3 show that the total output of the OIC-CACs in terms of real GDP dropped on average by 10.2% in 1993. This, in fact, was the worst average decline in real GDP experienced in all the other groups of the transition countries (TCs) in that year. Although the group succeeded in the following two years to curb this decline and bring it to a lower rate of 6.4% in 1995, this rate was still significantly higher than the rate of decline of 1.6% experienced by the group of all TCs. The picture becomes even worse when we consider the figures at the individual country level where most of the OIC-CACs experienced higher rates of decline in their GDP and per capita GDP in both real and nominal terms (see Tables A.3 to A.8 in the annex). In contrast, it is worth mentioning that the group of CEECs, which includes the three Baltic States, is the only group of TCs that did better than others during the period 1991-95. After experiencing a sharp average decline of almost 10% in their real GDP in 1991, they succeeded in maintaining an average real GDP growth rate of 5.3% in 1995.

TABLE 3: REAL GDP AND INFLATION RATES (Annual % change)

	1991	1993	1995	1997	1998	2000	2002
Real GDP							
OIC-CACs ^(a)	-6.5	-10.2	-6.4	2.6	2.0	8.6	6.6
All TCs	-7.4	-6.4	-1.6	2.0	-0.8	6.6	4.1
CEECs	-9.9	-3.7	5.3	2.6	2.4	3.8	3.0
CIS	-7.0	-9.6	-5.5	1.7	-2.9	8.4	4.8
World	1.8	2.7	3.7	4.3	2.8	4.7	3.0
Inflation ^(b)							
OIC-CACs ^(a)	98.8	1390	341.8	41.7	11.7	23.9	16.3
All TCs	94.1	602	133.8	27.4	21.5	20.7	11.1
CEECs	94.9	356.5	24.7	42.0	17.2	12.9	5.6
CIS	97.0	1224	235.7	19.0	24.5	25.8	14.5

Sources: Table A.3 to Table A.8 in the annex. IMF, World Economic Outlook, May 1999 and September 2003. (a) Computed on the basis of the averages of individual countries weighted by their 2000 GDP values in terms of current US dollar. (b) Annual % change of Consumer Price Index.

However, economic growth in the OIC-CACs started to take up in 1996 and the economies of most of those countries have, since 1997, been growing rapidly which is attributable in most cases to the massive inflows of foreign investments into the oil and gas sectors. In 1997, the group of OIC-CACs grew on average at 2.6%, a rate equal to that of the CEECs and higher than that of all TCs and CIS countries, but significantly lower than the global average. Yet, the weakness of most of

those economies and the continued dependence on the Russian economy were clear when most of them slipped back into recession in 1998 as a result of the Asian and Russian financial crises and falling oil prices.

The turnaround in 1999-2000 was a result of the recovery in world economic activity and the high world oil prices and better weather, which benefited the oil and agriculture sectors in most of those countries. With an 8.6% average rate of growth in real GDP in 2000, the group of the OIC-CACs in transition did rather well than the global average and the averages of all TCs, CEECs and the CIS countries. Yet, although the average growth of the OIC-CACs in 2000 seems to be impressive, the growth figures at the individual country level show that much of this growth was recorded by the natural resource-rich (especially oil and gas) countries of Turkmenistan, Azerbaijan and Kazakhstan and driven by the high world prices of these commodities in that year.

Albeit with a slower pace, the average growth in the group of OIC-CACs continued in the following two years with an average real GDP growth of 6.6% in 2002. At the individual country level, the main exception in 2002 was the Kyrgyz Republic where a sharp slowdown in economic activity was linked to the disruptive effects of a landslide around a large gold mine accounting for a substantial share of the country's exports. Due to the fall in world oil prices in 2001, oil and gas-rich countries (Turkmenistan, Azerbaijan and Kazakhstan) also recorded slower growth rates in 2002. It is also observed that Uzbekistan lagged behind the rest of the OIC-CACs for the last few years reflecting, in part, the continued lack of economic and structural reforms.

TABLE 4: GROWTH OF TRADE

	1991	1992	1995	1997	1998	2000	2001
Exports							
Billion US \$	4.9	1.4	11.6	12.3	10.6	18.1	16.4
Annual % change	-	-71.2	53.9	1.0	-13.8	49.6	-9.4
Imports							
Billion US \$	7.3	2.4	10.1	12.3	13.3	14.0	13.8
Annual % change	-	-67.5	22.4	-4.6	8.4	21.1	-1.5
Trade balance							
Billion US \$	-2.4	-1.0	1.5	0.0	-2.7	4.1	2.6

Sources: Table A.3 to Table A.8 in the annex.

On the other hand, following the break-up of the Soviet economy, the foreign trade of the OIC-CACs went through a severe decline after the independence, particularly in 1992. The ineffective and highly distorted trade and payments systems that those countries inherited from the FSU were at the root of the decline in trade, which was linked to the contraction in output and incomes in that period. However, the introduction of the new national currencies and trade reform measures facilitated a pickup in trade growth in those countries in the period 1993-95 when their total exports grew on average by 53.9% in 1995 compared to a contraction by 71.2% in 1992 (Table 4). Yet, the OIC-CACs in transition are still, in general, unable to trade much either within their region or with the rest of the world. This is due to both natural and man-made barriers to trade which are still impeding market access or transit to regional and international markets.

TABLE 5: OTHER ECONOMIC PERFORMANCE INDICATORS

	1993	1995	1997	1999	2000	2001	2002
Current Account							
Billion US \$	-0.4	-1.0	-3.4	-1.8	0.9	-1.2	-1.7
% of GDP	-1.0	-2.8	-7.5	-4.0	2.0	-2.4	-3.2
External Debt							
Billion US \$	-	7.5	11.5	17.2	22.6	25.4	16.8
% of GDP	-	22.6	25.3	38.7	50.3	51.3	41.3
Net FDI							
Billion US \$	1.0	2.2	2.8	2.4	1.6	3.3	4.0
% of GDP	1.6	6.5	6.1	5.3	3.6	6.6	11.8
Foreign Reserves							
Billion US \$	-	1.3	2.4	2.4	2.6	3.2	3.6

Sources: Calculated using the relevant data in Tables A.3 to A.8 in the annex.

As a result, most of the OIC-CACs in transition largely ran substantial current account deficits since independence, which were funded by foreign direct investment (FDI) and/or external debt and recently in some countries by foreign exchange reserves (Table 5). In fact, most of FDI flows into the OIC-CACs went to the oil and gas-rich countries such as Azerbaijan, Kazakhstan and Turkmenistan (see Tables A.3 to A.8 in the annex). FDI inflows into those countries were almost entirely driven by the oil and gas sectors, largely covered their current account deficits and were also an important engine of growth. Therefore, the external debt of those countries was relatively modest. By contrast, FDI flows to the relatively less oil-rich countries (Kyrgyz Republic, Tajikistan and Uzbekistan) was modest and thus external debt was

relatively high. In this context, it is also worth mentioning that, as in most FSU republics, the OIC-CACs had almost no foreign exchange reserves after the independence. However, those reserves rose rapidly by the end of the 1990s, particularly in the oil-rich countries who now have comfortable levels of reserves and minimal net external debt owing to higher oil prices and increased FDI flows and export volumes.

Yet, being narrowly based and directed to the capital-intensive sectors of oil and gas, the FDI did not generate any substantial employment. It seems that outside these sectors there were little FDI flows into other economic activities, particularly into agriculture, the largest employer and second largest exporter. This is mainly attributed to the poor investment climate including weak institutions and infrastructure. Therefore, there is still a need for creating a business environment that is successful in attracting FDI into other productive sectors. For those countries, FDI is very much important not only as external finance supporting the domestic one, but also because it is a combination of managerial expertise, skills, technology and know-how that is bundled together with the financial transfer. It is a very effective way of achieving technology transfer from more advanced countries to the host ones.

It is then clear that the economies of the OIC-CACs in transition have recently benefited from the favourable world commodity prices, particularly oil and gas, and even cotton and gold which were strongly priced in international markets. However, sustainable growth in those countries will depend on their ability to foster growth outside the core natural resources sector and manage the large volatile foreign currency flows associated with this sector. In fact, there has been some growth outside the natural resource sectors in some of those countries, but if we look at the recent overall picture, growth in those sectors has been lower than in their natural resource counterparts. This is clear, as shown in Tables 1 and 2 above, in terms of the share of industry, mainly oil and gas, in both the GDP and total exports of those countries.

To conclude, it is worth mentioning that although the 6.6% average growth rate of the OIC-CACs in 2002 is respectable, it would not be sustainable in the long run in the absence of further far-reaching structural reforms. This is due to the fact that much of this growth was driven by favourable world oil and gas prices which are usually volatile and cannot

be relied on even in the short run. Therefore, there is still a need for further structural reforms and diversification in these economies.

4. INTEGRATION INTO THE WORLD ECONOMY: ECONOMIC REFORM AND ACCESS TO INTERNATIONAL MARKETS

Under the centrally planned Soviet economy, the OIC-CACs were suffering from misdirected and highly distorted trade and financial systems, in which they were highly dependent on trade with each other (inter-republican trade). This reflects the interdependency of their economies due to pronounced economic specialisation imposed by central planning. However, after long decades of subjection as a sub-sector of the centrally planned Soviet economy, the OIC-CACs started, following their independence in 1991, to be gradually integrated into the world economy through a transformation process into independent open market economies and access to international markets.

The process of transition from centrally planned to open market economies is an essential factor for the integration of those countries into the world economy where the liberalisation of trade and financial systems provides more effective links between domestic and international markets. The pace and scope of economic and trade reforms as well as structural adjustments are thus key determinants of the integration of those countries into the world economy. However, the record of transition and economic reform in the transition countries has been uneven. Some of the advanced countries in transition like the CEECs and the Baltic States have made considerable progress in carrying out far-reaching reforms and structural changes and moved further forward in their transition process as many of them finalised the accession negotiations with the EU (see footnote 2 in the introduction). Yet, for others, particularly the CIS countries, including the OIC-CACs, much remains to be accomplished.

Following the declaration of independence in 1991, the governments of the OIC-CACs embarked on programmes of macroeconomic stabilisation and structural reforms to transform their economies from the centrally planned system of the Soviet economy to open market economies. However, the adverse shocks of political and economic instability that these countries experienced following the break-up of the

Soviet economy made the structural reforms to take place in a difficult economic environment dominated by high inflation and severe contraction of output and trade. These factors distracted the governments of those countries, in the early years after independence, from the tasks associated with the transition to market economies.

In response to those difficulties and the scale of the challenge involved after independence, the governments of most of those countries started to accelerate the process of economic and structural reforms. The major task confronting them was to stabilise their economies through the implementation of comprehensive structural reform programmes in order to create the conditions conducive to sustainable development. Building on the introduction in late 1993 of their own national currencies in place of the Soviet ruble⁵, most of the OIC-CACs in transition began serious economic reforms by introducing stabilisation programmes supported by the World Bank's and IMF's facilities in 1994. In fact, by 1996, satisfactory progress was made in implementing tight financial and monetary policy measures in all of those countries aimed at price stability. As a result, inflation decelerated in some of those countries to developed country levels, government budget deficits were modest and foreign debt burdens remained low and manageable in some others. Indeed, the governments of these countries have recently implemented sound macroeconomic policies and achieved high growth aided in most of them by oil-related FDI and low inflation.

Yet, given the difficult initial macroeconomic conditions in those countries, much remains to be done to achieve the ultimate objectives of those reforms. Structural and administrative reforms have been lagging and the financial sector, particularly the banking system, is still poorly developed in most of those countries. Trade reforms are still incomplete where many difficult trade liberalising reforms such as institutional building have not been undertaken enthusiastically. Indeed, the basis for reform is still fragile in most of the OIC-CACs in transition where the level of reform achieved so far is much lower than in the advanced transition countries. Although this is due to different reasons across those countries, economic instability, inadequate reforms and poor policy management are, in general, the main ones. In this context, it is

⁵ By late 1993, all the OIC-CACs, except Tajikistan which changed currency in May 1995, had introduced their own national currencies as a step toward stabilising their economies by renouncing the Soviet ruble.

also worth mentioning that since most of those economies are highly vulnerable to world commodity prices, mainly oil prices, reform policies have little effect on economic growth.

However, the rich natural resources, particularly oil and gas, are still offering high potential for export-led growth and development in most of the OIC-CACs in transition in the medium to long term. Yet, the realisation of this potential depends on the availability of substantial domestic and/or foreign investments and further access to new markets. While this, on the one hand, requires developing adequate infrastructures and technologies as well as strong private and financial sectors, it depends, on the other hand, on the governments' commitment to and the successful implementation of their reform programmes. In this context, while the greatest challenge remains in the areas of trade liberalisation and financial reform, privatisation and building effective economic institutions are also necessary to support an efficiently functioning market economy and sustainable economic growth in most of those countries.

As sub-sectors of the centrally planned Soviet economy, the NIS, including the OIC-CACs, were highly dependent on trade with each other (inter-republican trade) and only a small part of their trade was conducted with the rest of the world. This reflects the interdependency of these economies due to the regional specialisation imposed by the centrally planned economy of the FSU which used to allocate resources according to mandatory production and delivery targets mostly based on political or other considerations which are not related to economic efficiency. Therefore, following the break-up of the Soviet economy, the NIS, including the OIC-CACs, experienced an abrupt decline in their trade both with each other and with the rest of the world. The heavy economic interdependence and the disintegration of trade and payment systems among the NIS of the FSU after independence as well as the differences in prices and income policies and the lack of confidence in the Soviet ruble intensified the problem. This in turn resulted in arbitrary measures to restrict export flows within those republics and with the rest of the world.

However, although some of the OIC-CACs have recently re-oriented themselves from the old Soviet-style trade to trade outside the region, there has been, in general, very little growth and even some decline in intra-regional trade. In this context, Azerbaijan and Kazakhstan are good examples of trade outside the region (with non-CIS countries) where the direction of their exports follows oil and natural gas market patterns and is now directed towards some European oil consumers. In contrast, Tajikistan and Uzbekistan, for example, have shown declining trade both within and outside the region. As shown in Table A.10 in the annex, the bulk of trade in the OIC-CACs is still concentrated within the region of the CIS countries, particularly with Russia. It seems that although most of the OIC-CACs have reduced their dependence on Russia, it is still the major trading partner of most of those countries (the largest export market as well as the major source of imports). Meanwhile, it is also observed that some of those countries have recently increased their trade with neighbouring countries at the borders of the region such as Turkey, Iran and China.

In fact, the key problem facing those countries in this context is the fact that they are landlocked. As such, the OIC-CACs depend on their neighbours for access to international markets outside the region, which implies high transaction costs of their exports and imports. The important potential of the major exports of those countries is therefore seriously impeded where the routes of those exports, mainly oil and gas, traverse the territory of other competitors in the region like Turkey, Russia and Iran or follow costly alternatives through China and other countries in the region. Considering the importance of this issue, the OIC-CACs should make more regional cooperation efforts in negotiating export transit, particularly oil and gas exports, through other neighbouring countries.

Furthermore, the potential benefits from recent trade openness in the countries of the Central Asian region have been constrained by the continued incidence and spread of bilateral trade disputes and transit disruptions. For example, the borders between Armenia and both Azerbaijan and Turkey remain closed, and there have also been disruptions at the border between Georgia and Russia and occasional closings of some of Uzbekistan's borders. Transit restrictions and weak customs services as well as ad hoc tariffs are still common among neighbouring countries in the region. These restrictions appear

especially costly for the countries in the region, including the OIC-CACs.

In the case of the OIC-CACs, trade obstacles seem to be heavily in the complications of crossing the borders, administrative hassles and poor infrastructure and institutions. These are important determinants of the high trading costs which influence trade at both regional and intra-regional levels and ultimately reflect in the low levels of international integration of those countries into the world economy. In this context and in contrast to the Baltic States, the progress in the pace and scope of trade reform since independence in 1991 was slow and uneven in the OIC-CACs. In most of those countries, trade and financial institutions are still underdeveloped and the State continues to be heavily involved in trade and thus trade incentives are highly distorted. Overall, the issue appears to be a general lack of commitment to free trade. Among others, the recent anti-trade measures introduced by Uzbekistan and the unofficial taxation of transit trade in Kazakhstan are clear examples. Therefore, pursuing a closely coordinated agenda to advance regional trade cooperation among those countries should be considered as a high priority.

5. REGIONAL ECONOMIC INTEGRATION AND FURTHER COOPERATION WITH THE OIC COUNTRIES

5.1. Regional Economic Integration

Given the fact that all the OIC-CACs in transition are landlocked, it is clear that in order for them to integrate globally, they first have to integrate regionally. In this context, the expansion of the EU has been central to the process of regional integration in many countries of this region. This is particularly clear in the case of the accession countries of the Baltic States and CEECs (see footnote 2 in the introduction). The accession of those countries to the EU while others remain outside will have a significant impact on the pattern of trade and capital flows in the region as a whole. The EU expansion is likely to have both trade creating and trade diverting effects which are likely, in turn, to influence the business environment in the transition countries and therefore the pattern of FDI and other cross-border capital flows. The implementation of the EU external border controls by the new members will therefore alter the pattern of trade and migration among transition countries in the region as well as between transition countries and existing EU member countries.

In fact, the EU is now the most important market for most of the countries in this region, particularly for the acceding countries of the Baltic States and CEECs. However, this is slightly less true for the OIC-CACs, even for oil and gas exporting ones for which Western Europe has recently become a major market. This is due not only to deficiencies in economic policies and the scope of progress in economic reform, but also to the misallocation and/or lack of resources. Therefore, there is a danger that EU expansion may reinforce the marginalisation of some of the CIS countries, including the OIC-CACs, so that they remain on the fringes of the international economy with relatively little foreign investment and little opportunity for trade and legal migration in the region. Moreover, the EU barriers to trade remain high for non-acceding countries, especially in the areas of agricultural exports, textiles, shoes, steel and light manufacturing, where those countries relatively have a comparative advantage.

In this context, it is worth mentioning that the mobility of capital and labour is an important aspect of regional integration. However, while labour mobility has remained quite limited throughout the region, some countries have been able to attract significant capital flows, mainly in the form of FDI in those countries that are rich in natural resources as well as in those who have advanced reform progress. In general, trade and capital flows move together as the policies conducive to better trade integration also promote FDI. As a result, where trade integration has proceeded furthest, the advanced reformers of CEECs and the Baltic States have received most of the FDI flows into the region. In contrast, many other transition countries of the CIS, including some OIC-CACs, have failed to benefit to any notable degree from capital inflows and FDI in particular.

Yet, such problems and challenges facing those countries can be addressed in different ways, including steps towards greater regional integration through access to other markets in other regions or with each other in the same region. This can be achieved, inter alia, through accession to the WTO, as Moldova and Kyrgyzstan did⁶, along with greater cooperation with their larger neighbours in the region or outside. Further integration of the CIS countries, particularly large ones like

⁶ In the case of the OIC-CACs, only the Kyrgyz Republic became a member of the WTO in 20 December 1998. Azerbaijan, Kazakhstan, Tajikistan and Uzbekistan are still observers.

Russia, Ukraine and Kazakhstan, into the world economy is therefore necessary not only to improve trade and capital flows in the region but also to avoid the probability of marginalisation of some small countries in the region due to the EU expansion.

In this context, some economic cooperation agreements amongst some OIC-CACs and other CIS countries have been early tried following their independence in 1991 to foster and settle inter-republican trade and financial payment systems. Yet, many of those agreements were often lacking concrete measures of cooperation and, due to numerous political conflicts and instability in the region, most of them have either been terminated or fallen short of expectations. Meanwhile, of the many efforts at the regional cooperation level, the OIC-CACs in transition have also participated in a number of regional economic cooperation schemes and/or initiatives comprising other countries from the region and/or outside⁷.

As may be observed in Table A.13 in the annex, all the OIC-CACs have been associated with regional and/or sub-regional economic cooperation schemes which, although with different horizons, aim at one or another form of economic integration. However, it is observed that almost all of those schemes have fallen short of expectations of many of their members. After more than a decade of independence, the CIS countries, including the OIC-CACs, have not succeeded in establishing any form of functioning economic integration scheme such as a customs union or a free trade area covering all of the countries in the region. In fact, it is obvious that the perception of those schemes and their role varies considerably among the participating countries. Thus, they have been unable either to prevent or resolve numerous regional conflicts among their members who lack a broad-based convergence of interests.

Given this state of affairs in the region, for the OIC-CACs to enhance their regional and international integration, a two-fold action can be proposed. First is to improve market access, in particular to the region's most important market, the EU, through a faster implementation of structural and institutional reforms. In this context, the efforts to complete the WTO accession together with those to strengthen commercial

⁷ A brief overview of these schemes in terms of their name, date of establishment, objectives and progress is displayed in Table A.13 in the annex.

relations with the EU could indirectly provide a significant boost to reform by providing incentives for more liberal trade policies and better economic governance. Second, which is to be granted parallel to the first rather than replacing it, is to establish and enhance further economic and trade cooperation with the rest of the OIC countries.

5.2. Further Cooperation with the rest of the OIC countries

At a time when the OIC-CACs in transition endeavour to stabilise their economies and sustain their recent growth through more integration into the world economy, economic cooperation and bilateral relations with the rest of the OIC countries are now more important than ever. In fact, albeit at a slow pace, the efforts of the OIC-CACs in this direction have increased over the period since their independence in 1991 and particularly after their accession to the OIC. However, after more than a decade, progress in the OIC economic cooperation activities with these members seems to have remained less than widely expected and limited to cross-border trade with a few neighbouring OIC member countries.

In this context, perhaps Turkey, Iran and Pakistan have established much more economic and commercial links with the OIC-CACs than the other OIC members. This is due not only to certain initial conditions such as the close historical and cultural ties and geographical proximity but also to the strategic and political common interests between those countries in the region. Being founding members of the Economic Cooperation Organisation (ECO), Turkey, Iran and Pakistan have been leading the OIC economic cooperation with the OIC-CACs at the sub-regional level since 1992 when the latter, together with Afghanistan, have joined the ECO.

TABLE 6: INTRA-OIC TRADE OF THE OIC-CACs (Billion US \$)

	Exports			Imports		
	1993	1997	2001	1993	1997	2001
Total OIC	275.7	416.5	517.4	279.6	377.6	423.6
Intra-OIC	30.6	45.4	56.4	30.2	43.8	59.3
Intra-OIC (% of total OIC)	11.1	10.9	10.9	10.8	11.6	14.0
OIC-CACs	3.6	12.3	16.4	4.5	12.3	13.8
CACs Intra-OIC	0.6	2.2	2.5	0.6	2.8	2.3
As % of:						
Total CACs	16.7	17.9	15.2	13.3	22.8	16.7
Intra-OIC	2.0	4.8	4.4	2.0	6.4	3.9

Sources: SESRTCIC Database and Tables A.11 and A.12 in the annex.

In fact, given the continuing modest level of intra-OIC trade, the figures on the OIC-CACs intra-OIC trade seem to be encouraging. In this context, the share of intra-OIC trade of those countries in their total trade reached 17.9% of their total exports and 22.8% of their total imports in 1997, compared to 10.9% and 11.6% respectively for the OIC countries as a whole (total intra-OIC trade). Although the share of the OIC-CACs intra-OIC trade in their total trade decreased in 2001 (15.2% and 16.7% for exports and imports, respectively), it was still quite higher than that of the OIC countries (Table 6).

TABLE 7: INTRA-OIC TRADE OF ECO BY MEMBER COUNTRIES (%)

	1997		2001	
	Intra-OIC ⁽¹⁾	Intra-ECO ⁽²⁾	Intra-OIC	Intra-ECO
Afghanistan	20.9	63.5	42.9	89.4
Azerbaijan	38.0	92.0	17.0	88.2
Iran	11.6	49.2	12.4	27.8
Kazakhstan	9.9	86.3	8.8	71.8
Kyrgyz Republic	39.6	97.3	33.2	95.2
Pakistan	26.2	9.5	33.4	8.8
Tajikistan	37.5	98.6	41.9	100.0
Turkey	12.7	25.2	13.4	23.0
Turkmenistan	37.6	95.3	39.6	84.2
Uzbekistan	20.3	97.3	12.8	95.0
ECO	15.5	40.4	16.0	32.4
ECO as % of OIC⁽³⁾	27.0		23.1	

Source: SESRTCIC 2003, "Islamic Common Market in the Light of Intra-OIC Trade". (1) % of the country's total trade (exports plus imports). (2) % of the country's intra-OIC trade. (3) Intra-OIC trade of ECO as % of total intra-OIC trade.

However, when the direction of intra-OIC trade of the OIC-CACs is considered, the figures in Table 7 show that, until recently, the bulk of this trade has been taking place within the ECO member countries, that is among themselves and with Turkey, Iran, Pakistan and Afghanistan. In this context, it is worth mentioning that ECO, as one of the five regional and sub-regional cooperation schemes comprising only OIC member countries⁸, accounts for a significant part of the total intra-OIC trade. In 1997, intra-ECO trade accounted for 27% of the total intra-OIC trade.

⁸ The other four schemes are the Arab Maghreb Union (AMU), Council of Arab Economic Unity (CAEU), Gulf Cooperation Council (GCC) and West African Economic and Monetary Union (WAEMU). A detailed discussion on trade relations amongst these groupings and their intra-OIC trade is available in SESRTCIC, "Islamic Common Market in the Light of Intra-OIC Trade".

However, since Iran, Turkey and Pakistan, being leading members of the ECO, have recently followed more outward oriented trade patterns, the share of intra-ECO trade in total intra-OIC trade decreased to 23.1% in 2001. Albeit to a lesser extent, this is also true for the OIC-CACs (Table 7).

Yet, the figures in Table 7 still indicate the importance of the role of ECO as an OIC sub-regional economic cooperation scheme and its significant potential that can be built on in enhancing the OIC economic cooperation with this group of OIC members as well as with other member countries outside the region. Within the framework of the ECO, the key OIC neighbouring countries of Turkey, Iran and Pakistan are therefore assumed to play a critically important role in any future economic cooperation activity between the OIC-CACs in this region and the rest of the OIC countries in other regions or between them and the rest of the world, especially European countries.

The importance of this role becomes more apparent considering the fact that OIC-CACs in transition are landlocked and that in order for them to integrate globally, they have to integrate regionally first. However, since they may not be able to trade directly with the rest of the OIC countries, they certainly can do that through their immediate OIC neighbouring countries of Turkey, Iran, Pakistan and Afghanistan. In fact, those countries could be considered as the gateway for the OIC-CACs to the rest of the OIC countries in different regions. More trade or transit with these countries is therefore a pre-condition for achieving stronger economic relations with the rest of the OIC countries.

In the context of enhancing OIC cooperation with this group of member countries, it is worth mentioning that the main problem and challenge facing those countries is shipping their tradable goods, particularly their exports of oil and gas, to international markets over huge distances from a region composed mainly of landlocked countries. The destiny of both natural resources development and the domestic industrial and agricultural bases in these countries depends on the development of secured and efficiently run transportation networks including pipelines that can transport their exportable commodities and products to ports for sale on world markets. Another important point in this context is that given these countries' potentials of an enormous natural resource base, particularly the huge proven oil, natural gas and other mineral reserves,

the inflows of capital and technology are still highly needed and constitute an important area of cooperation as basic requirements for expanding the production capacity of oil and gas and other sectors and thus boosting their trade and integration into the world economy.

In the light of these problems and given the complex political and economic picture of the region, the role of the rest of the OIC countries in enhancing cooperation activities through trade and investment schemes with these countries is not an easy task⁹. The political will at the level of the member countries' leadership and the implementation of joint and bilateral projects within the framework of concrete cooperation schemes are two essential conditions for success. The promotion of regional trade cooperation schemes which bring together these countries with the rest of the OIC countries would help evolve complementarities in the economies of the participating members and pave the way for pooling resources to establish infrastructure links and industrial projects. By all accounts, the inflows of capital and technology into those countries are highly required. Investors from other OIC countries will bring with them not only financial resources and new production technology but also skills in business management and connections to international markets.

Although there is a need for enhancing cooperation activities in all areas between the OIC-CACs and the rest of the OIC members, efforts should be directed towards certain economic sectors and areas of high priority in order to support sustainable growth and development in these countries as well as boost their integration into the world economy. In this context, we may define briefly some areas that are in urgent need of further cooperation as follows:

1- *Industry (Energy and Mining)*

- Encouraging greater cooperation in the energy sector of these countries with a view to making optimal use of their existing resources. This is to include joint projects for the rehabilitation and upgrading of the oil

⁹ For example, given the fact that Russia still regards Central Asia and the Trans-Caucasian as a top priority aspect of its foreign trade and foreign policy, any future regional trade cooperation schemes including the countries of this region are likely to face serious and diverse complications with the Russian Federation. In this context, Russia usually closely observes the agreements between Central Asian States and neighbouring countries.

and gas pipelines and the electric power systems through direct investment flows from other OIC members to achieve more efficient exploration and exploitation of their energy and mineral resources.

- Promoting cooperation between the energy-rich OIC-CACs and other similar OIC members in other regions through the implementation of joint projects with especial emphasis on the involvement of the private sector.
- Developing contacts between the OIC-CACs and the industrialists in the newly industrialising OIC member countries to share information and experiences that will help enhance private sector cooperation in this area.
- Encouraging industrial cooperation with the OIC-CACs through joint industrial ventures and special arrangements and priorities and preferential schemes within the OIC framework.

2- Transport and Communication

- Encouraging joint investment projects with the participation of the private sector in the OIC-CACs and other OIC members in various fields of transport and communication.
- Encouraging regional transportation facilitation projects focusing on regional road and rail transportation networks, particularly in order to secure a transportation corridor between the OIC-CACs and their OIC neighbours.
- Encouraging greater cooperation between those countries and the rest of the OIC member countries in the field of transport and communication-related technology and services through special bilateral and/or multilateral agreements to be drawn up for this purpose.
- Promoting the extension by the rest of the OIC countries of preferential treatment in the area of transport and communication to the OIC-CACs and expediting, with special reference to them, the implementation of the agreements that have already been concluded within the OIC in the areas of transport, telecommunications and postal services.

3- *Foreign Trade*

- Promoting trade flows between the OIC-CACs and the rest of the OIC countries, keeping in mind the mutuality of advantages, respective levels of economic development and the international obligations of each country through encouragement of trade activities and joint action at the bilateral, regional and multilateral levels.
- Expediting the implementation of the 'Trade Preferential System Among the OIC Countries' taking into account the problems facing the OIC-CACs in their process of integration into the world economy through access to regional and international markets.
- Encouraging cooperation efforts to address the difficulties and constraints of trade flows between the OIC-CACs and the rest of the OIC countries at both the individual country and regional levels, including cooperation in customs and other trade facilitation measures.
- Developing measures in the rest of the OIC member countries to minimise those countries' problems of being locked-land by facilitating effective cooperation between them and their transit OIC neighbouring countries.
- Promoting and encouraging the establishment of free trade and export zones among the OIC-CACs and with other neighbouring OIC countries and encouraging private sector investments in those zones.
- Coordinating the views and positions of the OIC-CACs in the various international trade fora, particularly in the context of multilateral trade negotiations for the accession to the WTO, with a view to accelerating their integration into the world economy and securing better terms of trade for themselves.

4- *Money, Banking and Finance*

- Encouraging greater cooperation in the area of facilitating the flow of financial resources and encouraging OIC FDI flows into those countries on the basis of mutual benefits and sound commercial practices.

- Undertaking joint action and measures to secure financial support for the implementation of the cooperation projects in different areas, particularly in the area of trade by making use of the Islamic Development Bank's programmes and mechanisms in the area of trade financing.
- Strengthening cooperation and encouraging the establishment of direct links between the financial institutions in those countries and those in the rest of the OIC countries, particularly in the area of capital movements, direct finance and payments arrangements.
- Developing and promoting various means of financial intermediation, such as regional banks, mutual funds and insurance and investment companies involving the OIC-CACs to help widen and deepen the financial markets in those countries.

5- Technology and Technical Cooperation

- Promoting and expanding technical cooperation and technology-related activities between those countries and the rest of the OIC member countries through making the best use of the existing OIC mechanisms in this field.
- Promoting cooperation and coordination activities with those countries in the area of Research and Development (R&D) and supporting institution building through technical assistance in the core areas of specialisation.

6. CONCLUDING REMARKS

After more than a decade since their independence in 1991, the OIC-CACs have recently achieved impressive economic growth but still need to implement further structural reforms to strengthen their regional integration and thus enhance their integration into the world economy. The economic performance of the OIC-CACs in transition has improved considerably, particularly in the period since the 1998 Russian crisis and in those countries that made some progress in achieving macroeconomic stabilisation and implementing market reforms. Although prudent fiscal and monetary policies in those countries have sharply reduced inflation

and government budget deficits and export performance has often been impressive, the investment climate remains weak as reflected in low levels of FDI. Trade, especially exports, has shifted to some destinations outside the region, such as the EU, and most countries have become more open, although some still maintain high trade barriers.

However, these gains have yet to translate into sustainable economic growth and widespread rising living standards. The main challenge in the coming years will be to ensure that economic progress is sustained by strengthening structural reforms where most of those countries still face a difficult transition period with a long unfinished reform agenda. Looking ahead, there seem four main challenges for those countries to achieve sound sustainable growth and successful integration into the world economy over the medium term, as follows:

First, prospects for sustained growth over the medium term depend critically on governments' ability to implement structural reforms. Reflecting their natural resource base endowments, the OIC-CACs in transition show a high concentration of export commodities. This makes them more vulnerable to fluctuations in world commodity prices and to developments in specific markets, as experienced during the crises in Russia and Turkey. Promoting economic diversification requires high quality investment by both the public and private sectors to develop new sources of growth. In this context, private sector development should be identified as a crucial item in the reform agenda. Given its impact on growth, while a significant improvement in the business environment has taken place during the last couple of years, most of those countries still lag behind most other transition economies. Therefore, efforts to provide a more conducive environment for private sector activity, including the banking sector, should be given high priority in the years ahead, especially in view of the modest FDI flows into those countries.

Second, given that many of those economies are small and locked-land, the creation and preservation of an open trade environment and finding solution to the regional trade disputes would be vital for enabling them to realise their growth potential. The current regional and bilateral trade preference schemes in which those countries are members (mainly the ECO) can play a useful role in promoting regional trade, which remains weak in most countries in the region. However, experience suggests clearly that regional cooperation schemes are not a

lasting alternative to a multilateral approach. In this context, many of those countries must not delay their progress toward WTO accession or come at the expense of their integration into the world economy.

Third, regional cooperation in a variety of areas remains weak. Closer regional cooperation through increased market integration needs to extend beyond trade. Increasing regional cooperation, especially in transport and energy, is a key challenging issue for all those countries. Regional transportation networks need to be developed to facilitate access to world markets. All countries in the region need to ensure that arbitrary restrictions do not interfere with the flow of goods and services. Kazakhstan, which accounts for a significant share of Central Asian transit trade, bears a particular responsibility in this area.

Fourth, some OIC-CACs still face difficult trade-offs in public expenditure, given the existing financing constraints, especially the challenging task of balancing the competing needs of raising social expenditure and meeting external debt obligations while maintaining sustainable fiscal positions. In this context, a sound and sustained economic growth requires transparency and good governance. Experience as well as recent research results on this area show that transparency and good governance are correlated with better investment and growth performance, particularly in countries that are rich in natural resources.

With such challenges still facing most of the OIC-CACs, enhancing economic cooperation with the rest of the OIC member countries is now more important than ever. The first and foremost task in this regard is to have a clear and correct understanding of the forces and factors that are driving developments in the foreign relations of those countries, particularly their trade relations in a region where complex economic and political conditions are still taking place. Further cooperation between the OIC-CACs and the rest of the OIC members in different socio-economic fields would not only help those countries in their integration process at the regional and global levels, but also bring a new dynamism to the OIC community. In this context, strengthening OIC regional cooperation with those countries, particularly in trade and investment, is very important and essential, particularly for the smaller and poorest ones that are at the risk of marginalisation in the region. If those countries are not allowed market

access for the goods and services in which they have a comparative advantage, this would further add to the already existing trade barriers.

In fact, with a remarkable industrial potential and immense natural resource base, including considerable oil and gas, minerals and metals reserves and vast arable land areas, the OIC-CACs enjoy, as a bloc, all kinds of opportunities for securing a sustainable development for themselves in their region. In this context, it is also worth mentioning that new growth hubs are emerging in Asia, where growth has significantly outpaced Europe over the past decade and, according to the IMF projections, will continue to do so in the coming years. This economic potential of Asia, and of China in particular, will most probably provide significant new economic opportunities of the Central Asian region where the OIC-CACs are located. Seizing these opportunities requires that those countries stay in the course and consolidate the gains they have already realised in achieving macroeconomic stability.

However, this requires first and foremost the adoption of an outward-looking strategy to accelerate integration into the world economy. Within the framework of such a strategy, further trade and financial integration at both regional and international levels may help those countries sustain their recent high growth rates. They have to push forward with trade and institutional reforms and ensure sound fiscal policies that provide adequate public resources for developing regional infrastructure and move toward more flexible exchange rate regimes to ensure internal and external balance. These are all important policy measures that are to be taken in order to create a healthy business and investment environment, an area in which almost all OIC-CACs are still lagging behind other transition economies.

In all, the OIC-CACs in transition face truly tough decisions over the coming years in their trade and investment policies, particularly in the energy sector where they have to balance the politics and economics of the oil and gas sectors. They have to be realistic in their investment plans and decisions on economic necessities and, above all, live with each other and their neighbours in the region with a view to developing any possibility of economic cooperation to enhance their future economic prospects and integration into the world economy.

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ANNEX**TABLE A.1: COUNTRIES IN TRANSITION**

CIS	CEECs & Mongolia	
Armenia	Czech Republic	Albania
<u>Azerbaijan</u>	Estonia (*) (1)	Bosnia and Herzegovina
Belarus	Hungary (1)	Bulgaria (2)
Georgia	Latvia (*) (1)	Croatia
<u>Kazakhstan</u>	Lithuania (*) (1)	Macedonia
<u>Kyrgyz Republic</u>	Poland (1)	Romania (2)
Moldova	Slovak Republic	Serbia and Montenegro
Russia	Slovenia (1)	
<u>Tajikistan</u>		<i>Mongolia</i>
<u>Turkmenistan</u>		
Ukraine		
<u>Uzbekistan</u>		

Source: IMF, World Economic Outlook, September 2003. (*) Baltic States. (1) Joined the EU in 1 May 2004. (2) Prospected members in the EU in 2007. The countries underlined in bold are OIC-CACs.

TABLE A.2: THE NIS OF THE FSU (2001)

	Land Area (000 Km ²)	Population (Million)	GDP (US\$ m)	Exports (US\$ m)
CIS Countries	21998	281.4	415273	145861
Armenia	30	4.0	2118	340
Azerbaijan	87	8.1	5717	2314
Belarus	208	10.0	12219	7525
Georgia	70	5.1	3138	345
Kazakhstan	2671	14.9	22135	8647
Kyrgyzstan	192	4.9	1527	477
Moldova	34	4.3	1479	570
<i>Russia</i>	<i>17075</i>	<i>144.8</i>	<i>309951</i>	<i>103100</i>
Tajikistan	143	6.3	1807	652
Turkmenistan	470	4.8	5962	2505
Ukraine	604	49.1	37588	16265
Uzbekistan	414	25.1	11632	3121
Baltic States	175	7.4	25066	9895
Estonia	45	1.5	5525	3310
Latvia	65	2.4	7549	2000
Lithuania	65	3.5	11992	4585
All NIS	22173	288.8	440339	155756
<i>Excluding Russia</i>	<i>5098</i>	<i>144</i>	<i>130388</i>	<i>52656</i>
OIC-CACs	3977	64.1	48780	17716
As % of:				
All NIS	17.9	22.2	11.1	11.4
<i>Excluding Russia</i>	<i>78.0</i>	<i>44.5</i>	<i>37.4</i>	<i>33.6</i>
OIC Countries	12.5	4.9	3.5	3.5

Sources: SESRTCIC Database & World Bank, World Development Indicators 2003.

TABLE A.3: AZERBAIJAN

	1991	1993	1995	1997	1998	1999	2000	2001	2002
Land area (000 km ²)	86.60	86.60	86.60	86.60	86.60	86.60	86.60	86.60	86.60
Population (million)	7.38	7.49	7.68	7.84	7.87	7.95	8.02	8.08	8.14
GDP (US\$ m)	10059	4992	2417	3962	4446	4581	5273	5717	6090
% of GDP:									
Agriculture	31.0	22.0	27.0	22.0	18.0	18.2	15.9	14.8	14.2
Industry ¹	40.0	52.0	32.0	18.0	35.0	39.1	42.5	43.4	45.7
Services	29.0	26.0	41.0	60.0	47.1	42.7	41.5	41.6	40.2
Per capita GDP (US\$)	1363	666	315	505	565	576	657	708	748
Real GDP (% change)	-0.7	-23.1	-11.8	5.8	10.0	7.4	11.1	9.9	10.6
Real per capita GDP (%)	n/a	-24.2	-13.9	3.7	9.6	6.3	10.1	9.1	9.8
Inflation rate ²	105.6	1129.7	411.8	3.7	-0.8	-8.5	1.8	1.5	2.8
Exports (FOB, US\$ m)	1571	993	547	781	607	929	1745	2314	2168
Imports (CIF, US\$ m)	998	635	668	791	1077	1034	1172	1430	1665
Trade balance (US\$ m)	573	358	-121	-10	-470	-105	573	884	503
Current account (US\$ m)	n/a	-97	-401	-916	-1365	-600	-168	-52	-769
Fiscal balance (% of GDP)	-0.2	-4.3	-2.8	-1.6	-3.9	-4.7	-0.6	-0.4	-0.4
Reserves - Gold (US\$ m)	n/a	1	120	460	447.3	672.6	679.6	896.7	721.5
FDI (net US\$ m)	n/a	155	591	1114.8	1023	510.3	129.9	226.5	1392.4
External Debt (US\$ m)	n/a	n/a	321.0	506.7	708.1	1038.1	1274.2	1219	1400
Exchange rate ³	n/a	100.0	4413.5	3985.4	3869	4120.2	4474.1	4656.6	4860.8

Sources: SESRTCIC Database & "Azerbaijan: Country Profile 2003, the Economist Intelligence Unit Limited 2003, London, UK".

Notes: (1) including construction. (2) Annual average % change of consumer prices. (3) Annual average (Manat per US\$ 1). (n/a) Data not available.

TABLE A.4: KAZAKHSTAN

	1991	1993	1995	1997	1998	1999	2000	2001	2002
Land area (000 km ²)	2670.73	2670.73	2670.73	2670.73	2670.73	2670.73	2670.73	2670.73	2670.73
Population (million)	16.52	16.48	16.07	15.75	15.00	14.90	14.86	14.85	14.86
GDP (US\$ m)	34542	24728	17211	21272	22070	16956	18295	22135	24412
% of GDP:									
Agriculture	28.0	29.0	12.0	13.0	8.6	9.9	8.1	8.7	7.9
Industry ¹	42.0	42.0	30.0	30.0	29.3	32.9	38.5	37.4	35.4
Services	30.0	29.0	58.0	57.0	62.1	57.2	53.4	53.9	56.6
Per capita GDP (US\$)	2091	1500	1071	1351	1471	1138	1231	1491	1643
Real GDP (% change)	-13.0	-12.0	-8.2	1.6	-1.9	2.7	9.8	13.5	9.5
Real per capita GDP (%)	n/a	-11.8	-5.8	3.7	3.3	3.4	10.1	13.6	9.4
Inflation rate ²	91.0	1662.3	176.3	17.4	7.3	8.4	13.4	8.4	6.0
Exports (FOB, US\$ m)	1183	957	5256	6498	5871	5989	9288	8647	10067
Imports (CIF, US\$ m)	2546	1688	3807	4304	6672	5645	6848	6363	7646
Trade balance (US\$ m)	-1363	-731	1449	2194	-801	344	2440	2284	2420
Current account (US\$ m)	n/a	n/a	-213	-799	-1225	-171	676	-1092	-596
Fiscal balance (% of GDP)	-9.0	-6.9	-3.1	-2.6	-4.1	-4.8	-1.8	-0.4	0.0
Reserves - Gold (US\$ m)	n/a	n/a	1136	1697	1461	1479	1594	1997	2550
FDI (net US\$ m)	n/a	660	1137	1321	1151	1587	1283	2823	2561
External Debt (US\$ m)	n/a	n/a	3750	4078	6084	6122	11805	14372	10081
Exchange rate ³	n/a	6.31	60.95	75.44	78.30	119.52	142.13	146.74	153.28

Sources: SESRTCIC Database & "Kazakhstan: Country Profile 2003, the Economist Intelligence Unit Limited 2003, London, UK".

Notes: (1) including construction. (2) Annual average % change of consumer prices. (3) Annual average (Tenge per US\$ 1). (n/a) Data not available.

TABLE A.5: KYRGYZ REPUBLIC

	1991	1993	1995	1997	1998	1999	2000	2001	2002
Land area (000 km ²)	191.80	191.80	191.80	191.80	191.80	191.80	191.80	191.80	191.80
Population (million)	4.49	4.54	4.59	4.72	4.76	4.83	4.90	4.92	5.00
GDP (US\$ m)	5538	3915	1492	1768	1640	1250	1370	1527	1603
% of GDP:									
Agriculture	39.2	37.0	34.7	52.0	35.9	34.8	34.2	34.5	35.6
Industry ¹	27.6	33.1	28.0	19.0	20.8	24.7	27.1	26.3	24.2
Services	28.2	29.9	30.9	29.0	43.3	40.5	38.7	39.2	40.2
Per capita GDP (US\$)	1233	862	325	375	345	259	280	310	321
Real GDP (% change)	-7.9	-15.5	-5.4	9.9	2.1	3.7	5.0	5.3	-0.5
Real per capita GDP (%)	n/a	-16.4	-6.4	7.0	1.2	2.2	3.5	4.9	-2.1
Inflation rate ²	85.0	772.4	52.5	22.6	10.5	35.9	18.7	7.0	2.1
Exports (FOB, US\$ m)	315	247	483	609	514	454	505	477	498
Imports (CIF, US\$ m)	410	290	392	709	842	610	554	467	552
Trade balance (US\$ m)	-95	-43	91	-100	-328	-156	-49	10	-54
Current account (US\$ m)	-101.0	-88.0	-235.0	-138.5	-412.5	-252.4	-125.8	-52.6	-34.7
Fiscal balance (% of GDP)	-1.2	-14.6	-11.6	-4.7	-3.0	-2.5	-2.0	0.4	-1.0
Reserves - Gold (US\$ m)	n/a	35	67	169.8	163.8	229.7	239.1	263.5	288.9
FDI (net US\$ m)	n/a	10	61	48	109	44	-2	5	n/a
External Debt (US\$ m)	n/a	n/a	608	1341	1505	1736	1827	1717	1700
Exchange rate ³	n/a	3.80	10.82	17.36	20.84	39.01	47.7	48.38	46.94

Sources: SESRTCIC Database & "Kyrgyz Republic: Country Profile 2003, the Economist Intelligence Unit Limited 2003, London, UK". Notes: (1) including construction. (2) Annual average % change of consumer prices. (3) Annual average (Som per US\$ 1). (n/a) Data not available.

TABLE A.6: TAJIKISTAN

	1991	1993	1995	1997	1998	1999	2000	2001	2002
Land area (000 km ²)	143.12	143.12	143.12	143.12	143.12	143.12	143.12	143.12	143.12
Population (million)	5.30	5.64	5.84	6.05	6.10	6.24	6.17	6.31	6.50
GDP (US\$ m)	4306	2520	1042	1131	1304	1345	1807	2512	3345
% of GDP:									
Agriculture	33.0	33.0	38.0	33.0	27.1	24.9	25.4	27.0	26.7
Industry ¹	35.0	35.0	35.1	35.0	21.8	24.0	27.1	27.3	26.7
Services	32.0	32.0	26.8	32.0	51.1	51.1	47.5	45.7	46.6
Per capita GDP (US\$)	812	447	178	187	214	216	293	398	515
Real GDP (% change)	-7.1	-11.1	-12.5	1.7	5.4	3.7	8.3	10.2	9.1
Real per capita GDP (%)	n/a	-16.2	-15.4	-1.7	4.5	1.4	9.5	7.8	6.0
Inflation rate ²	111.6	2194.9	610.0	88.0	43.2	27.5	32.9	38.6	12.2
Exports (FOB, US\$ m)	424	350	749	803	597	689	784	652	n/a
Imports (CIF, US\$ m)	706	532	810	750	711	663	675	688	n/a
Trade balance (US\$ m)	-282	-182	-61	53	-114	26	109	-36	n/a
Current account (US\$ m)	n/a	-209	-70	-60	-108	-36	-62	-74	-33
Fiscal balance (% of GDP)	-26.8	-24.8	-10.1	-3.3	-2.7	-2.4	-0.5	0.2	n/a
Reserves - Gold (US\$ m)	n/a	n/a	n/a	36.5	53.6	55.2	92.9	92.6	n/a
FDI (net US\$ m)	n/a	9	15	18	25	21	22	22	36
External Debt (US\$ m)	n/a	n/a	634	1065	1250	1282	1041	1086	1100
Exchange rate ³	n/a	n/a	135.0	564.0	777.00	1238.00	1.82	2.38	2.78

Sources: SESRTCIC Database & "Tajikistan: Country Profile 2003, the Economist Intelligence Unit Limited 2003, London, UK".

Notes: (1) including construction. (2) Annual average % change of consumer prices. (3) Up to 1999, Tajik Rouble per US\$ 1, annual average. The Somoni replaced the Tajik Rouble in October 2000 (S 1: Tr 1000). (n/a) Data not available.

TABLE A.7: TURKMENISTAN

	1991	1993	1995	1997	1998	1999	2000	2001	2002
Land area (000 km ²)	469.93	469.93	469.93	469.93	469.93	469.93	469.93	469.93	469.93
Population (million)	3.75	4.31	4.51	4.24	4.86	4.38	4.74	4.84	4.80
GDP (US\$ m)	5361	5156	909	2761	2862	3327	4404	5962	6134
% of GDP:									
Agriculture	32.2	32.0	16.9	32.0	25.0	27.0	27.0	26.5	26.2
Industry ¹	29.8	31.0	61.3	31.0	43.0	45.0	45.0	48.5	48.5
Services	38.0	37.0	21.8	37.0	32.0	28.0	28.0	25.0	25.3
Per capita GDP (US\$)	1430	1196	202	651	589	760	929	1232	1278
Real GDP (% change)	-4.7	-10.0	-7.2	1.7	7.0	16.5	18.0	20.5	3.2
Real per capita GDP (%)	n/a	-20.3	-11.1	8.6	-5.1	30.8	9.7	18.1	4.1
Inflation rate ²	102.5	3102.4	1005.2	83.7	16.8	23.5	8.0	11.6	n/a
Exports (FOB, US\$ m)	146	416	1881	751	593	1187	2505	1184	n/a
Imports (CIF, US\$ m)	618	497	1364	1201	968	922	1787	1554	n/a
Trade balance (US\$ m)	-472	-81	517	-450	-375	265	718	-370	n/a
Current account (US\$ m)	n/a	442	23.5	-579.9	-934.5	-571	412	-200	-150
Fiscal balance (% of GDP)	1.7	-4.1	-1.6	0.3	0.0	-2.7	0.9	0.4	0.9
Reserves - Gold (US\$ m)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
FDI (net US\$ m)	n/a	79	223	108	62	89	131	130	n/a
External Debt (US\$ m)	n/a	n/a	402	1771	2259	n/a	n/a	2350	n/a
Exchange rate ³	n/a	n/a	449	4143	4890	5200	5200	5200	n/a

Sources: SESRTCIC Database & "Turkmenistan: Country Profile 2002, the Economist Intelligence Unit Limited 2003, London, UK".

Notes: (1) including construction. (2) Annual average % change of consumer prices. (3) Annual average (Manat per US\$ 1). (n/a) Data not available.

TABLE A.8: UZBEKISTAN

	1991	1993	1995	1997	1998	1999	2000	2001	2002
Land area (000 km ²)	414.24	414.24	414.24	414.24	414.24	414.24	414.24	414.24	414.24
Population (million)	20.86	21.85	22.69	23.56	24.05	23.93	24.75	25.07	25.25
GDP (US\$ m)	23335	20425	10168	14705	14948	17041	13717	11632	9682
% of GDP:									
Agriculture	37.2	23.0	33.0	26.0	28.2	26.4	26.9	30.4	24.1
Industry ¹	35.8	36.0	34.0	27.0	22.9	22.5	21.3	19.9	25.2
Services	26.3	41.0	33.0	47.0	48.9	51.1	51.8	49.7	50.7
Per capita GDP (US\$)	1119	935	448	624	622	712	554	464	383
Real GDP (% change)	-0.5	-2.3	-0.9	2.4	2.1	3.4	3.3	3.8	2.8
Real per capita GDP (%)	n/a	-6.5	-4.4	-1.2	0.1	3.9	0.0	2.5	2.1
Inflation rate ²	105.0	534.2	304.6	70.9	16.7	44.6	50.7	48.9	38.8
Exports (FOB, US\$ m)	1257	636	2708	2890	2447	2888	3309	3121	n/a
Imports (CIF, US\$ m)	2048	813	3030	4538	3055	2676	2956	3283	n/a
Trade balance (US\$ m)	-791	-177	-322	-1648	-608	212	353	-162	n/a
Current account (US\$ m)	-237	-429	-49	-906	-103	-164	184	290	-78
Fiscal balance (% of GDP)	-4.5	-2.1	-4.7	-2.2	-3.3	-1.7	-1.0	-2.5	n/a
Reserves – Gold (US\$ m)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
FDI (net US\$ m)	9	48	120	167	140	121	73	71	n/a
External Debt (US\$ m)	n/a	n/a	1787	2782	3213	4773	4373	4627	4360
Exchange rate ³	n/a	n/a	30.0	40.20	94.8	124.9	237.5	423.8	771.0

Sources: SESRTCIC Database” & “Uzbekistan: Country Profile 2003, the Economist Intelligence Unit Limited 2003, London, UK”.

Notes: (1) including construction. (2) Annual average % change of consumer prices. (3) Annual average (Som per US\$ 1). (n/a) Data not available.

TABLE A.9: STRUCTURE OF TRADE (% of total, 2002)

	Main Exports	Main Imports
Azerbaijan	Oil products (88.9%), food products (3.1%), petrochemicals (1.7%).	Machinery (23.8%), petroleum products (17.6%), metals (16.9%), food (14.3%).
Kazakhstan	Oil products (61%), metals (23%), food & agricultural goods (5%), chemicals (4%).	Machinery (43%), chemicals (15%), energy (13%), food (8%).
Kyrgyz Republic	Metals (40.7%), building materials (14%), light manufacturing (13.4%), agricultural products (11.6%), oil/gas (7.4%), electricity (4.5%).	Oil/gas (23.8%), machinery (22.1%), agricultural products (14.7%), chemicals & metals (14%) light manufacturing (12.8%).
Tajikistan	Aluminium (61%), electricity (12%), cotton (11%).	Aluminium oxide (24%), oil & gas (13%), electricity (12.7%), grain (8%).
Turkmenistan	Natural gas (57%), oil & refined products (26%), cotton (12%), electricity (5%).	Machinery (45.4), building materials (28%), consumer goods (17.3%), food (9.3%).
Uzbekistan	Cotton (26.6%), energy (11.5%), gold (10%), metals (7.9%), machinery & equipment (3.4).	Machinery (41.8%), chemicals (15.3%), foodstuffs (12.6%), energy products (3.8%).

Sources: Country Profiles 2003 (Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, Uzbekistan), the Economist Intelligence Unit Limited 2003, London, UK.

TABLE A.10: MAIN TRADING PARTNERS, 2002 (% of total value)

AZERBAIJAN				KAZAKHSTAN			
Exports to	%	Imports from	%	Exports to	%	Imports from	%
Italy	50.0	Russia	16.9	CIS	23.0	CIS	31.9
Israel	7.1	Turkey	9.4	Bermuda	20.7	Russia	26.8
Russia	4.4	Kazakhstan	9.0	Russia	15.7	Germany	8.7
Turkey	3.8	USA	5.9	China	10.5	China	4.7
Georgia	3.7	Ukraine	4.8	Non-CIS	76.9	Non-CIS	68.1
KYRGYZ REPUBLIC				TAJIKISTAN			
Exports to	%	Imports from	%	Exports to	%	Imports from	%
Switzerland	19.8	Kazakhstan	21.1	CIS	39.1	CIS	81.0
Russia	16.5	Russia	19.9	Uzbekistan	21.1	Uzbekistan	30.0
China	8.5	Uzbekistan	10.3	Russia	14.4	Russia	17.0
Kazakhstan	7.6	China	10.1	Europe	46.9	Europe	11.0
USA	7.4	USA	8.1				
TURKMENSTAN				UZBAKISTAN			
Exports to	%	Imports from	%	Exports to	%	Imports from	%
Russia	41.1	Russia	14.3	Russia	16.7	Russia	15.8
Germany	16.2	Turkey	14.1	Switzerland	8.3	South Korea	9.8
Iran	9.7	Ukraine	12.0	UK	7.2	USA	8.7
Turkey	7.4	UAE	8.2	Ukraine	4.7	Germany	8.6
Ukraine	6.6	Japan	8.1	South Korea	3.3	Kazakhstan	7.3

Sources: Country Profiles 2003 (Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, Uzbekistan), the Economist Intelligence Unit Limited 2003, London, UK.

TABLE A.11: DIRECTION OF TRADE: EXPORTS (Million US \$)

	1993			1997			2001		
	Total exports	Intra-OIC	Rest of the world	Total exports	Intra-OIC	Rest of the world	Total exports	Intra-OIC	Rest of the world
Azerbaijan	993	358	635	781	262	519	2314	165	2149
Kazakhstan	957	84	873	6498	629	5869	8647	972	7675
Kyrgyzstan	247	7	240	609	228	381	477	123	354
Tajikistan	350	6	344	803	214	589	652	211	441
Turkmenistan	416	127	289	751	305	446	1184	625	559
Uzbekistan	636	30	606	2890	540	2350	3121	387	2734
Total	3599	612	2987	12332	2178	10154	16395	2483	13912
% of total Exports	100.0	17.0	83.0	100.0	17.7	82.3	100.0	15.1	84.9
% of total OIC	1.3	2.0	1.2	3.0	4.8	2.7	3.2	4.4	3.0

Sources: SESRTCIC Database & Table A.3 to Table A.8 above.

TABLE A.12: DIRECTION OF TRADE: IMPORTS (Million US \$)

	1993			1997			2001		
	Total Imports	Intra-OIC	Rest of the world	Total imports	Intra-OIC	Rest of the world	Total imports	Intra-OIC	Rest of the world
Azerbaijan	635	208	427	791	335	456	1430	471	959
Kazakhstan	1688	-	1688	4304	444	3860	6363	351	6012
Kyrgyzstan	290	9	281	709	294	415	467	190	277
Tajikistan	532	15	517	750	368	382	688	351	337
Turkmenistan	497	141	356	1201	440	788	1554	459	1095
Uzbekistan	813	261	552	4538	880	3658	3283	432	2851
Total	4455	634	3821	12293	2761	9559	13785	2254	11531
% of total Imports	100.0	14.2	85.8	100.0	22.4	77.6	100.0	16.4	83.6
% of total OIC	1.6	2.1	1.6	3.2	6.3	2.8	3.3	3.8	3.2

Sources: SESRTCIC Database & Table A.3 to Table A.8 above.

TABLE A.13: OIC-CACs: REGIONAL ECONOMIC COOPERATION SCHEMES

Scheme	Date of Establishment, Member States, Objectives and Progress
<p>Commonwealth of Independent States (CIS)</p>	<p>The CIS was established on 8 December 1991 by the Minsk Agreement signed by Belarus, Russia and Ukraine. The Agreement sealed the end of the Soviet Union. Currently, the CIS includes all the FSU republics except the Baltic States (see Table A.2 above). The CIS sought to fill in the institutional vacuum resulting from the disintegration of the Soviet Union and to coordinate the cooperation among the member states in economic, social and other spheres. The CIS introduced a certain order into post-Soviet affairs and serves as a useful forum for discussion and ‘networking’ of the FSU republics. However, the overall record of the CIS has been disappointing where integration and levels of cooperation among members have so far lagged behind most of the initial expectations.</p>
<p>Central Asian Cooperation Organisation (CACO)</p>	<p>The CACO’s origins date back to June 1990 when Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan signed a treaty to regulate economic integration between themselves and called it at that time the Central Asian Regional Union (CARU). The CARU was created formally by Kazakhstan, Kyrgyz Republic and Uzbekistan in January 1994 in order to provide stability and security through the establishment of a common market. In July 1998, the name of the Union was changed to the Central Asian Economic Community (CAEC) in order to reflect the intensification of economic links between the members and in January 2002 it was renamed the Central Asian Cooperation Organisation (CACO).</p>
<p>Black Sea Economic Cooperation (BSEC)</p>	<p>The BSEC was formed when the leaders of Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Rumania, Russia, Turkey and Ukraine established a framework for cooperation among them at a summit in 1992. Yet, the BSEC began operation in 1999. The BSEC was formed with the goal of extending economic cooperation by facilitating contacts between businesses and eliminating barriers to trade. The BSEC members set up a number of bodies to meet these goals. The Black Sea Trade and Development Bank was set up in 1999 to finance and implement joint regional projects. A BSEC coordination Centre was established in Ankara to promote the exchange of statistical data, and the Istanbul-based BSEC Business Council is charged with identifying private and public investment projects. Yet, the results to date have been limited.</p>

TABLE A.13: OIC-CACs: REGIONAL ECONOMIC COOPERATION SCHEMES (continued)

Scheme	Date of Establishment, Member States, Objectives and Progress
Eurasian Economic Community (EEC)	In 1995, Belarus, Kazakhstan, Kyrgyz Republic and Russia formed a Customs Union, which was joined by Tajikistan in 1999. This has, however, proved largely ineffective in boosting trade relations between the five states. A treaty on the setting up of a Eurasian Economic Community (EEC), which augments the customs union with sanction and enforcement powers, was signed by the five countries in October 2000, and entered into force in May 2001.
Economic Cooperation Organisation (ECO)	The ECO replaced the earlier Organisation of Regional Cooperation for Development (RCD), established by Iran, Pakistan and Turkey in Ankara on 21 July 1964. The RCD existed until 1979 and, then, it was re-established under its present name in January 1985. The basic Charter of the ECO, known as the Treaty of Izmir, was amended by the Ministerial Conference held in Islamabad, Pakistan, in June 1990. The ECO became operational on 11 January 1991. Afghanistan, Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan joined the ECO in November 1992. The Treaty of Izmir was revised and signed at the Extraordinary Meeting of the ECO Council of Ministers in Izmir, Turkey, on 14 September 1996. The main objective of the ECO is to increase cooperation in various fields with the aim of attaining sustainable economic development and the expansion of trade among the member countries.
GUUAM	This loose organisation groups together the five members of the CIS (Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova) (GUUAM) that have traditionally been most wary of Russia's strong influence in the region. GUUAM was established in 1997 with the unstated aim of excluding Russia from the exploitation and transport of Caspian Sea oil. The group hopes to establish east-west trade corridor and energy transportation routes, deepen political cooperation, and foster closer ties with NATO. However, GUUAM's significance remained limited. It served as a consultative forum, but has met infrequently and has no formal structures. Although GUUAM's Heads of state agreed in September 2000 to deep economic cooperation, the outlook for further integration among them is not promising, mainly due to the lack of convergence in their political interests.

TABLE A.13: OIC-CACs: REGIONAL ECONOMIC COOPERATION SCHEMES (continued)

Scheme	Date of Establishment, Member States, Objectives and Progress
European Bank for Reconstruction and Development (EBRD)	The EBRD was set up in 1991 to help finance the development of central and eastern Europe after the collapse of communism. The EBRD's clientele has grown from just a handful of transition countries in the early 1990s to 27 countries today (almost all the CEECs and the CIS countries). By contrast with most other multilateral organisations involved in the region, the EBRD's mandate compels it to focus on the private sector projects. The EBRD initially found it difficult to carve out a niche for itself, and was in its early years beset by scandals and a leadership crisis. Although it recovered from these, in 1998 the Russian financial crisis resulted in heavy losses for the Bank. However, the EBRD has so far funded hundreds of projects in member countries, ranging from bank privatisation to road-building projects.
The CIS-7 Initiative	The CIS-7 Initiative was launched at the Spring meetings of the IMF and World Bank in April 2002, following a seminar in London in February 2002. The principal aim of the Initiative is to draw attention to the plight of the seven low-income CIS countries (Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Tajikistan and Uzbekistan). The CIS-7 countries committed themselves to strengthening their reform programmes, while the international community pledged increased assistance to countries meeting these commitments. During its first year, the international financial institutions, mainly the IMF, continued to help those countries to strengthen the design and implementation of their reforms, thereby enhancing their growth potential and unlocking the financial assistance pledged by the international community. Given its broad objectives, actions under the Initiative are invariably closely intertwined with regular assistance activities by the international community.

Sources: Country Profiles 2003 (Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, Uzbekistan), the Economist Intelligence Unit Limited 2003, London, UK.