

Public Speaker Series

**Social Research Center
American University-Central Asia (AUCA)
Bishkek, Kyrgyzstan**

Summary

“Trade Promotion in Central Asia: Opportunities and Obstacles”

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Mr. David Akopyan is Chief and Technical Adviser of Regional Trade Promotion Program in Central Asia, a program funded by the Swiss Government and implemented by the International Trade Centre UNCTAD/WTO.

Mr. Akopyan has over 27 years of professional experience, of which the past 12 years were spent with the UN system. Before joining ITC in Central Asia, he was Senior Program Advisor with UNDP/Afghanistan, where he developed a regional program on trade and economic cooperation for Afghanistan, Central Asia, Iran and Pakistan.

In 2001-2004 he was the UNDP Deputy Resident Representative in Kyrgyzstan and before worked on shorter assignment with UNDP in Tajikistan, Moldova, Latvia.

In 1994-2001 Mr. Akopyan was a senior programme officer and Assistant Resident representative with UNDP in Armenia.

Prior to joining the UN Mr. Akopyan gained 15 years of experience in R&D, hi-tech production, marketing, business consulting, private business and commercial trading. He worked on business development in many countries in the region and is well aware of the existing opportunities and obstacles.

Mr. Akopyan holds MBA from the American University of Armenia, he is among the first AUA graduates in 1993. Additionally he holds a Ph.D. in Laser Physics and has around 45 publication in the field of laser physics.

The New Global Agenda

What is globalization? When people speak of globalization, they usually imply that the world which existed for many centuries as a collection of separate countries, each living in their own reality, has begun to intermix, producing a great force of diffusion. The trade aspect of globalization entails that goods and services are moving from one country to another, that whatever is produced is being partially exported and moved to other countries. The average consumer in the world today probably consumes about 1/3 imported goods. This is more or less the arithmetic of the issue, but to provide a better perspective: If, at the beginning of the twentieth century, about 3-5% of the global GDP was traded, that is, imported or exported, by the mid-twentieth century this figure stood at 10%. Today, it is about 25-30%.

A second aspect of globalization is the foreign direct investment, the movement of capital. The pattern is again the same: capital which was once kept static in certain countries, in certain banks and accounts, is now moving around very dynamically. Inflow of direct foreign investment is one of the critical issues related to the development of a country. Another aspect, the Global financial system, is more about banking. One simple plastic card can be used to get money anywhere in the world.

Global governance refers to organizations such as the United Nations, World Trade Organization, World Intellectual Property Organization, and many other such organizations which are establishing a sort of *para-state* above nation states, with rules and laws for nations to follow. Labor migration and tourism involve people moving in and out of countries. Finally, “multinational corporations” refers to business that was previously seen as being a part of country A or B, and which is now seen covering the whole world.

Still, trade is the cornerstone of all these phenomena. Trade is the reason why all other movement occurs. Annually, trade grows at about 7-10% per year, while the global GDP grows between 3-5%. Trade is growing much more quickly than is the world GDP.

The WTO and the Global Trade Agenda

The World Trade Organization regulates and legislates trade-related factors all around the world. Important, high-level, ministerial conferences take place every second year. The only successful conference on global trade was held in Doha, Oman, during which the Doha Development Agenda was agreed upon. Further meetings took place in Cancun, Mexico in 2003, and just recently in Hong Kong. These meetings were widely covered by the international press, but again, unfortunately, not very successful.

Why are these high-level meetings not very successful? One of the points that developing countries are raising, which Kyrgyzstan and other Central Asian countries will also begin to raise, is that they don't need much aid or international assistance, but more open markets. They need, for instance, to be able to sell their own agricultural products to western markets. Aid needs to be provided continuously, while open markets, the European or American markets for the goods of the developing world, will solve the problem of poverty in those countries once and for all. There is some anecdotal evidence on this subject. For instance, the average European cow receives a subsidy of almost three dollars per day, while most poor people in Africa do not get even one dollar per day. This kind of discrepancy operates in their purchases, and these meetings address ways to make the approach fairer. Some say, “open your markets for us and help us to develop trade, and eventually we'll get to your market and have enough sales to generate money and move out of poverty.”

This situation demonstrates the combination of trade, aid, and development, which are very much interrelated. The recent UNDP human development report presented a global report on

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this relationship. Opening up markets and helping countries to trade better is often enough to counterbalance the issue, equally important as organizing assistance. For this reason it is important to emphasize how important trade is for countries, especially for developing countries.

Trade and International Competitiveness

The debate continues over which is better – for countries to substitute imports, or to pursue export-led growth. Import substitution means that a country tries to close its borders and stimulate domestic production, as existed in the Soviet Union, the aim being to produce everything independently from the rest of the world. Other cases exist, such as a competition of trade concepts in the 1960s and 70s between Chile and Argentina. The policies of Argentina were geared towards import substitution, while Chile practiced export-led growth, whereby whatever a country produces, it produces it in such a way as to be competitive on the world market. Argentina was acting just to protect its own borders, hoping to stimulate local production, which eventually failed. Thirty years ago, Argentina had three times a greater GDP per capita than Chile, whereas today Chile has almost 50% more GDP per capita than Argentina. One of the Central Asian countries, Uzbekistan, has the same policy; they are trying to substitute as many imports as possible, which again has not been very successful.

International competition is what drives trade. You must be able to compete internationally, globally. Trade is the career of all progressive changes. There is a very important chain of foreign direct investments. In Kyrgyzstan and in many other countries, much attention is given to promoting foreign direct investment. When foreign direct investment comes, it turns into production facilities, and the production is exported. A country like Kyrgyzstan, which has a very small internal market, cannot produce much if it only produces for itself. Production should be traded. Thus, there is a chain: investment, production, trade. The last part of the chain, the trade, is what drives the rest of the chain. Investment will only come to countries where there is opportunity for trade.

There are two major trade theorists. David Ricardo presented a theory about the comparative advantages of nations. At the beginning of the 19th century, all nations operated in a clear division of labor. Every nation had a certain advantage because of their soil, the sun, their port location, etcetera, and they divided global labor more or less clearly. In the late 1980s, Michael Porter proposed the concept of the competitive advantage of nations.

For him, nations are not static structures of production with only one moment of establishment. Rather, there is dynamic competition among nations. For instance, whereas nobody knew about Japan as a producer fifty years ago, today everyone knows that “made in Japan” means something. They created this niche for themselves. There has been some discussion in Kazakhstan and my own country of Armenia about how this growth in production could be accomplished.

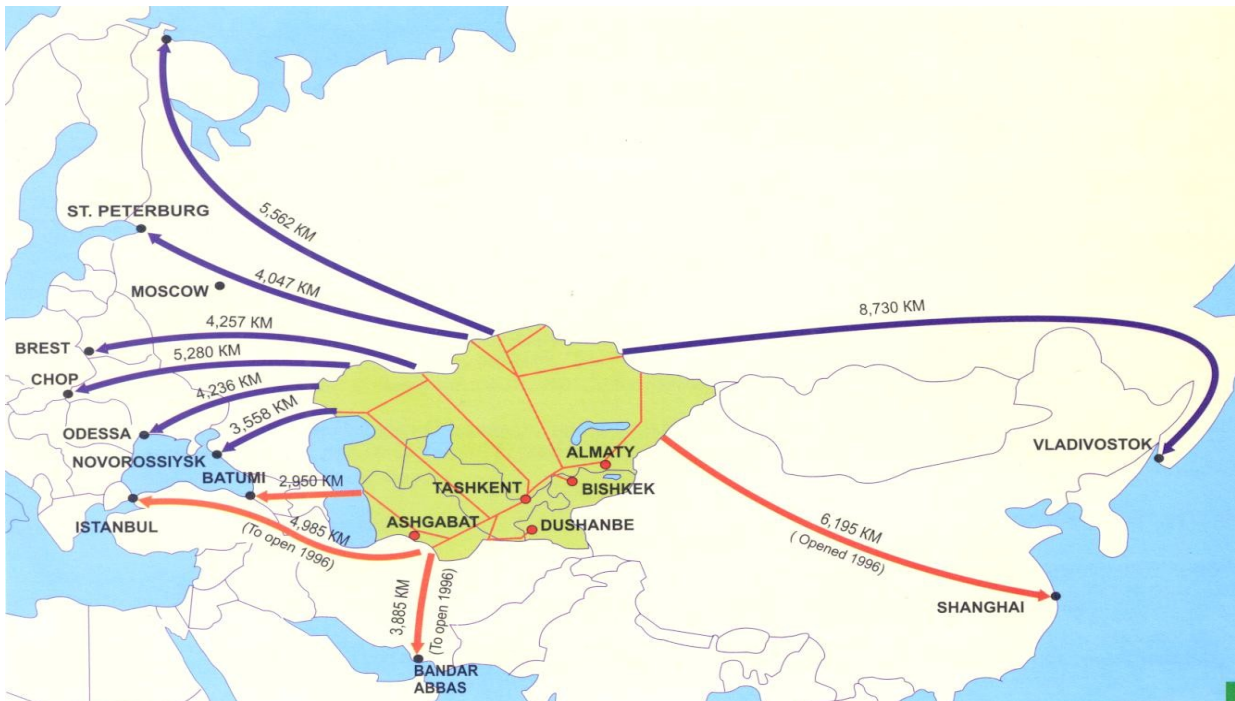
Trade Development: Promotion and Facilitation

There are two aspects of export development, or trade development. One depends on the businessmen of the country, the entrepreneurs and producers. This aspect is about promoting their products – product design, packaging, and marketing. The other aspect is outside of their control, and has more to do with governments, such as borders and customs. This second aspect is called trade facilitation. When people speak about trade in Central Asia, they mostly speak about trade facilitation. Nobody speaks much about export promotion in the way we understand it, though there are concrete things which enterprises can do to make their products more competitive.

Central Asia: Regional Cooperation to Global Competition

As a part of the Silk Road, Central Asia lay along the major trade route from China to Europe. This common past joins these countries together, and should make their cooperation more natural. Many international organizations and structures have been created to facilitate trade here. The routes of trade are very important. Aside from the Silk Road and trade with China, Russia, and Europe, trade through Afghanistan into Southeastern Asia and Pakistan is a significant issue. Although this route has not been explored much, there are many opportunities. Trade within the region, between the countries of Central Asia, is also critical.

If we look at a map of Central Asia with the distances to various ports, we see that the shortest route seems to be that which goes down from Ashgabat to Bandar Abbas. However, there is another route, connecting Termes and Tashkent to the same port, which is shorter, but more difficult because of the passage through Uzbekistan. There is an-other road that is being built now, a bridge from Dushanbe to Afghanistan, which will open a route down to Pakistan and Southeastern Asia, providing the easiest connection to ports.



In addition, there is a theory that states that Central Asia could again become the land bridge between China, Russia, and Europe. China is an enormous emerging economy, much of whose exports goes to the European Union. There are many goods which, if shipped by sea, take three to five months to reach Europe, but if sent by land take much less time, for instance textiles and fashion goods. A land route may have the ability to better provide for the rapidly changing demands of some European markets, potentially providing great opportunities for increased trade between Central Asia and the rest of the world. The major challenge is to first promote greater trade and harmony between the states of Central Asia.

The Central Asian Economies

I discussed the geography of Central Asia; now about the economy of Central Asia. These are the figures for the GDP of the various countries for different years:

GDP (US\$ million)

	1995	2000	2001	2002	2003	2004	2005
KAZ	20,374	18,292	22,153	24,637	29,749	40,700	44,377
KGZ	1,661	1,370	1,525	1,606	1,909	2,144	2,275
TJK	1,232	991	1,089	1,235	1,553	1,900	2,222
TKM	2,482	2,853	3,443	4,606	5,800	6,200	7000
UZB	13,350	13,760	11,401	9,688	9,949	11,598	12,570
AFG					4,600	5,800	

Kazakhstan now has more than all others together, maybe even twice more, whereas if you compare Kazakhstan and Uzbekistan ten years ago, they had nearly the same size economy. Clearly, dynamic changes are taking place, and Kazakhstan is aggressively taking the lead.

The figures for exports are presented below:

Exports (US\$ million)

	1996	2000	2001	2002	2003	2004	2005
KAZ	5,911	8,812	8,639	9,670	12,927	20,096	27, 849
KYR	506	504	480	487	583	719	674
TJK	772	770	652	737	791	760	908
TKM	1,693	2,505	2,555	2,816	3,449	3,576	4 700
UZB	2,620	2,180	2,077	1,556	1,983	2,708	5 000
AFGH			81	79		471	

Again, we see that Kazakhstan has the biggest share of exports in the region. The next table gives more information on the precise composition of trade:

Country	Key exports – US\$ million
Kazakhstan	oil-58%, ferrous metals-24%, chemicals-5%, machinery 3%, grain, coal
Uzbekistan	cotton and textiles 41.5%, gold 9.6%, energy 9.6%, fertilizers, ferrous metals, food products, automobiles
Kyrgyzstan	gold-35%; oil and energy-12%; light industry and cotton - 12%, food 11.5%
Tajikistan	aluminum-57%; cotton and textile-18%, energy-30%; precious metals; fruits
Turkmenistan	gas, oil, petrochemicals, cotton and textiles
Afghanistan	opium, fruits and nuts, carpets, wool, cotton, hides and pelts, precious and semi-precious gems

What are the overall issues of trade development for Central Asia? Accession to the WTO is a major issue for these newly established states. Kyrgyzstan is already in the WTO; the others are in the process of accession, but face the issue of protecting their own local industries and markets. The private sector is very weak, not mature enough, established enough, or knowledgeable enough. There are many problems on the level of enterprises and sectors. There are many barriers to communications, standards, and quality control. In addition, these countries are not very well known across the world. When one says “Kyrgyzstan” or “Tajikistan” to people from outside the region, they only understand “stan.” “Stan” to them simply means Central Asia. For this reason, from even the promotional perspective, it is easier to promote Central Asia together than to speak about separate countries as such.

Now for a touch on each country. Kazakhstan, first of all, is very dynamic. In addition to the oil sector, which is the major sector, they are now implementing a significant cluster-industrial approach. They have identified seven sectors, for all of which they are trying to

build cluster strategies. In each sector, there are many interesting elaborations, the point here being that Kazakhstan is now the obvious economic leader in the region.

I call Uzbekistan “the country of lost opportunities,” because it once had a very diversified economic base. It was producing airplanes, cars, and many other things, and had very rich agriculture as well. Unfortunately, there has not been very much development at all.

Tajikistan is a very poor country with very weak opportunities. One aluminum factory is responsible for 60% of their national exports. The only advantage that they have for the moment is very cheap hydroelectricity, which is used to produce aluminum. They also have cotton and some textiles.

The most interesting quantitative fact about Afghanistan is that it has three nearly equal shares of its economy. One share, the formal GDP, stands at about \$6 billion. Foreign aid comes in the amount of \$4 billion annually. Finally, there is more than \$3 billion which comes from illegal opium exports, almost equal to the other segments of the economy. Even when the World Bank and other organizations make reports and analyses on Afghanistan, they specify the economy with drugs or without drugs.

With Kyrgyzstan, gold constitutes 35% of exports. The volume of gold is expected to increase in 2007, and will start to go down thereafter. However, some other sectors provide potential: for instance, cotton, as a raw material, and especially textiles, which stand at 23 million dollars, quite a significant figure for volume of production. Fruits, vegetables, dairy products, sugar, tobacco, canned foods, and glass are exported to many countries. Cement and electric bulbs all represent production volume, not just raw materials which are given to the country by nature. These figures partially depict the nation’s competitive advantage, meaning its capacity to produce.

As for the markets for Kyrgyzstan’s exports: the United Arab Emirates and Switzerland are purely markets for gold. They will eventually disappear, possibly sometime soon, because the gold will be exhausted. Russia is a major market, and I think there is great potential to maintain this trade and expand it more. Kazakhstan is a second diversified partner in trade. Interestingly, Tajikistan is the one country with whom Kyrgyzstan has a highly positive trade balance. Kyrgyzstan exports to Tajikistan roughly \$22 million, and receives only \$2 million back in return.

International Trade Centre joint approach to export promotion

I want to make a point about the way in which our program, Regional Trade Promotion Program in Central Asia, cooperates with countries in the region and their business sectors. ITC cannot help make all of the businesses in the region be competitive. Our mandate is about waking up people’s innovative minds, expediting the creation of new, innovative products and designs by the entrepreneurs themselves. We cannot simply teach them to innovate, but we can make success stories to identify two or three winners. We can show how these people operated, the way they designed their products, the way they innovated, the way they discovered new markets and managed to compete. We can document these cases to make a success story, showing how they started, and how they ended. The goal is then to make the same story attainable for the rest of the people.

Our gathered approach emphasizes micro-level intervention; we promote certain changes at the level of enterprise. From this level, we hope to produce mezzo-level changes, changes in the sector. There are many ways in which we can make life easier for multiple enterprises in a single sector through one decision. On the macro-level, there exist factors such as national and international standards, GOST and ISO standards, conformity assessments, and many other factors, which must be harmonized in order to make a country’s economy compatible with the world economy.

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Conclusions

There are sixty million customers in the region, ninety million if we include Afghanistan. There are production clusters which could be developed across borders. The supply of materials or sales should not be limited by borders. I recently went to Moscow with a group of suppliers from Central Asia. The big buyers were saying that they needed, let's say, tomato paste in a volume of 10,000 tons, while each producer was able to supply only 300-500 tons. The challenge is for all of them to get together and make the same label, a standard product, and then negotiate with the big buyers as a group. This is an issue of joint promotion. Branding, standards and quality control can be made general for Central Asia, but not country-specific. It will be better for Central Asia to penetrate into the global economy as a region rather than as separate countries.