

**Regional trade integration in Central  
Asia : Obstacles and Opportunities**

*Ahliddin Malikov*  
*17 November 2021, WIUT*

- Since the collapse of the Soviet Union, each Central Asian state charted its own independent economic and political trajectory (Pomfret 2006; Cummings 2013).
- Until very recently, the Central Asia was a region where poor connectivity and limited cooperation have been dominant (Fazendeiro 2017).
- There have been practical steps to support greater interaction and cooperation, such as relaxation of visa regimes, deescalating and resolving border disputes, and increased coordination over cross-border water management.
- However, these are still early and cautious signs of an improved economic and political framework for intra-regional integration in Central Asia.
- Despite the common border, cultural similarity, there remain significant barriers and obstacles to trade integration in the region.

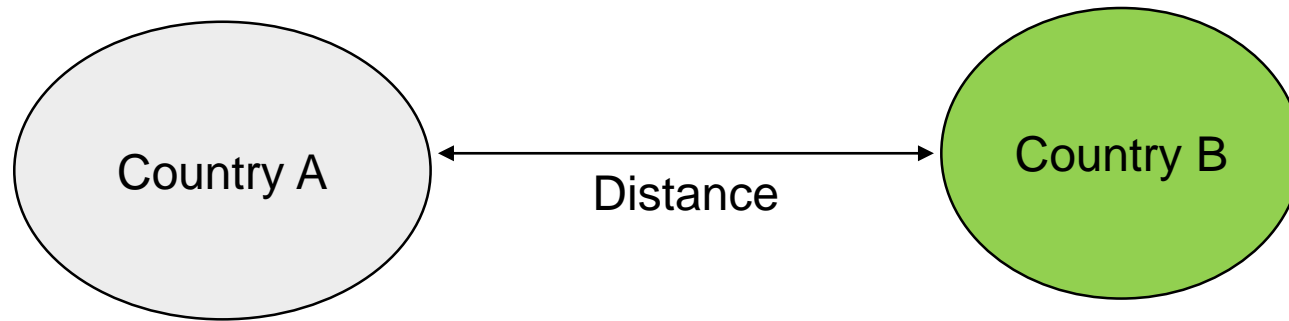
Why have Central Asian states not been able to achieve trade integration despite having common borders, ethnic, cultural and language similarity?

What are the obstacles and opportunities for greater Central Asian trade cooperation and integration in the future?

- Assess factors which potentially enhance but also can at times constrain bilateral trade flows between Central Asian countries and thus regional trade integration.

- Economic size (Linneman 1966)
- Distance (Beckerman 1956; Ullman 1956)
- Transportation costs
- Language and cultural similarity
- Commodity composition of trade Krugman (1985)
- Population
- Institutional quality (Anderson and Marcouiller, 2002)
- Foreign direct investment
- Free trade areas

## Newton's Law



$$F_{ij} = \frac{Y_i Y_j}{D_{ij}}$$

Y = Size (GDP, POP)    D = distance

$$\ln_{btf_{i,j}} = \beta_0 + \beta_1 * \ln(GDP_{ij}) + \beta_2 * \ln(dist_{ij}) + \beta_3 * \ln(Exp\_con_{ij}) + \beta_4 * \ln(Inst\_Q_{ij}) + \beta_5 * \ln(Trade\ cost_{ij}) + \beta_6 * \ln(FDI_{ij}) + \varepsilon_i$$

$btf_{i,j}$  – The volume of bilateral trade flows between country  $i$  and  $j$

$GDP_{ij}$  – Gross Domestic Product of country  $i$  and  $j$

$Dist_{ij}$  - Distance between the capital cities of the two countries

$Exp\_con_{ij}$  – Merchandise product concentration index of export by country  $i$  and country  $j$

$Inst\_Q_{ij}$  – Institutional quality index of country  $i$  and country  $j$  (WGI indicators - PVA, RL, CC, PS, RQ, GE)

$Trade\ cost_{ij}$  – Bilateral trade costs in agriculture and manufactured products of country  $i$  and country  $j$

$FDI_{ij}$  – Foreign direct investment, net inflows (% of GDP) of country  $i$  and country  $j$

- Baseline regression result

<b>Dependent variable: Bilateral Trade Volume</b>	<b>(1)</b>
GDP_A	-0.45 (-0.283)
<i>GDP_B</i>	1.027*** (-0.266)
<i>Distance (Country A and Country B)</i>	-1.199 (-0.79)
<i>Constant term</i>	8.126 (-5.353)
R-squared	0.53
Observations	84
Countries	4
Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1.	



<b>Dependent variable: Bilateral Trade Volume</b>	<b>(1)</b>	<b>(2)</b>	<b>(3)</b>
<i>GDP_A</i>	-0.45 (-0.283)	-0.325 (-0.213)	-0.102 (-0.133)
<i>GDP_B</i>	1.027*** (-0.266)	0.634*** (-0.164)	1.069*** (-0.141)
<i>Distance (Country A and Country B)</i>	8.126 (-5.353)	-0.315 (-0.375)	-1.584*** (-0.495)
<i>InstQ_A</i>		0.843** (-0.424)	0.124 (-0.317)
<i>InstQ_B</i>		1.427*** (-0.394)	1.648*** (-0.452)
<i>Ex_Concentration_A</i>			-4.421** (-2.091)
<i>Ex_Concentration_B</i>			-2.091*** (-0.664)
<i>FDI_A</i>			-0.00943 (-0.0412)
<i>FDI_B</i>			-0.00459 (-0.00893)
<i>Trade costs</i>			-0.00633* (-0.00282)
<i>Constant term</i>	8.126 (-5.353)	3.782 (-2.833)	8.368*** (-2.957)
R-squared	0.53	0.66	0.98
Observations	84	76	36
Countries	5	5	4

Standard errors in parentheses. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1.

Thank  
you

