

Economic Development Strategies of Major Central Asian Countries and Their Implications for Korea

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I. Introduction

Amid global economic uncertainties arising from prolonged oil prices, China's economic slowdown, and increased protectionist US trade policies, the Central Asian governments are developing and pursuing individual economic development strategies which reflect their own socio-economic characteristics and key policy goals.

Central Asia's three resource-rich countries, Kazakhstan, Uzbekistan and Turkmenistan, have several common obstacles threatening further economic growth: inadequate transportation and logistics networks due to landlocked locations, high dependency on primary commodity exports, among others. Thus their economic development strategies aim to promote economic diversification for sustainable growth.

The purpose of this study is to focus on Kazakhstan, Uzbekistan and Turkmenistan, analyzing the new economic development strategies of these countries, and to discover opportunities and demand for economic cooperation.

II. Economic Development Strategies of Central Asian Countries

In recent years, major Central Asian countries such as Kazakhstan, Uzbekistan and Turkmenistan, have been actively implementing a "new economic strategy." First and foremost, they are in need of diversifying their industrial structure and strengthening economic competitiveness.

1. The Kazakhstan Case

Kazakhstan is shifting its policy direction from maximizing exports of raw materials to qualitative economic development. The country has pursued an open foreign policy and trade liberalization to overcome its geographical limitations as a small landlocked country. The open economy originally focused on exporting energy resources and attracting foreign capital, but with some control by the government in energy resources management. However, as the structural changes in the external economic environment occurred after the global financial crisis in 2008, the government

started to focus on improving the structure of the economy, which remained dependent on energy resources.

Key tasks for Kazakhstan were to upgrade its competitiveness, improve the investment climate, build infrastructure, diversify its industries through technological innovation, expand the role of private sectors, improve the efficiency of national asset management and develop human resources.

Accordingly, the government adopted the State Program of Industrial-Innovative Development for 2015-2019 and announced the Nurly Zhol plan for promoting infrastructure development in 2014, followed by the “100 Concrete Steps to Implement Five Institutional Reforms” in 2015. This was a strategic attempt to build a foundation for sustainable economic growth by responding to changes in the external economic sector, through securing new growth engines in the economic sector, promoting industrial diversification and implementing structural reform.

2. The Uzbekistan Case

Uzbekistan has been pursuing an import substitution policy while maintaining a closed economy since independence. Uzbekistan’s government-led closed-economy essentially followed policy goals which prioritized the protection of its domestic market and economic stability from external volatility. Thereby, the country concentrated its efforts in developing domestic industries among the five Central Asian countries. Thanks to this, the country has been able to accomplish considerable achievements in the manufacturing sector, but still has many limitations in cultivating its export competitiveness, as its main export items

are weighted towards raw materials (cotton, gold, gas, etc.) and its manufacturing sector is mostly composed of labor-intensive industries.

Recently, the Uzbek government is putting the highest emphasis on enhancing competitiveness and efficiency in import substitution while promoting export-oriented industrialization. Through these efforts it aims to pursue stable economic growth based on strategic cultivation of the export industry and to drive a shift from labor-intensive industries to technology-intensive business. The government set key initiatives in reducing excessive governmental involvement in the economic sector, expanding the role of the private sector, deregulating trade activities and exchange rates, etc.

In this context, the government formulated a comprehensive global financial crisis recovery plan in 2009, and such initiatives as the “Priorities for Economic Policy” and the “Short-term and Long-term Action Plan of the Uzbekistan Cabinet” were rolled out in 2015.

In particular, in February 2017, the new government announced its “Development Strategy for 2017-2021,” and presented key economic policy goals: diversifying export and industrial base, enhancing private sector competitiveness, improving the investment climate.

3. The Turkmenistan Case

Turkmenistan’s government-led closed-economy has its key policy objective focused on natural gas exports, based on strong national control over its energy resources and the financial sector. However, such obstacles as excessive dependence on exports of raw materials, strong governmental control over the economy, and inefficiencies in the economic

system have hampered sustainable economic growth.

In response, the government adopted the “National Program of Socio-Economic Development of Turkmenistan for 2011-2030” in 2010, identifying sustainable economic development as a major goal of its national strategy. Modernization of the energy sector, industry diversification through cultivation of non-energy sectors were selected as priority goals. Currently, the government is aligning its efforts with the “Socio-economic Development Program 2012-2016,” while formulating the next “Socio-economic Development Program 2017-2021.”

In particular, in 2016, President Verdi Muhammedov presented the “2017 Socio-economic Policy Direction,” and selected three major projects: attracting active investment, fostering companies with international competitiveness, and developing the private sector. According to this agenda, future projects such as the construction of a mineral processing complex, production of petrochemical products, and construction of industrial infrastructure will be carried out.

III. Policy Suggestions for Enhancing Economic Cooperation with Korea

1. An Individual Approach

This paper presents plans to promote economic cooperation specialized for each country.

In the case of Kazakhstan, it is necessary to formulate plans for economic cooperation in areas that contribute to Kazakhstan’s econom-

ic modernization, industrial diversification and infrastructure development. Regarding industrial diversification, the six major manufacturing industries (nonferrous metals, chemicals, petrochemicals, machinery, building materials, groceries), agricultural modernization, four major innovation sectors (mobile multimedia technology, aerospace and nanotechnology, robotics and genetic engineering, future energy), tourism cluster creation and energy efficiency are promising areas. For infrastructure development, promoting cooperation in the areas of transportation and logistics, and industrial and energy-related infrastructure can be considered. In addition, technology cooperation in high-tech industries such as medicine, biotechnology, information and communication, as well as knowhow sharing in national land development and renewable energy industries are also promising directions to be considered.

In the case of Uzbekistan, cooperation measures should be established in the fields of industrial diversification and localization, and infrastructure development. Regarding industrial diversification and localization, it is most desirable to seek economic cooperation in the ten priority industries (electric power, oil and gas chemistry, chemicals, machinery, textile and leather, electronics, building materials, pharmaceuticals, groceries, and minerals), the seven most promising industries for localization (agricultural products, minerals, chemical and related industrial products, textile materials, building materials, metal products, machinery and equipment), and the agricultural sector. Regarding infrastructure development, we can cooperate in the areas of transportation, and the industrial and energy sectors. In addition, the healthcare industry, construction of a joint industrial complex, eco-friendly green technology, tourism industry are also desirable

areas for bilateral cooperation.

Lastly, with Turkmenistan, it is necessary to prepare cooperation plans linked with industrial diversification, localization and infrastructure development, which is quite the same with Uzbekistan's case. However, the details within each sector are different. In the industrial diversification and localization sector, we should focus on industrial modernization (oil and gas, chemicals, light industry, food processing, building materials, machinery, textile, agricultural products), localization (building materials, chemicals, household appliances, grocery products), and export promotion industries (chemicals, agriculture, pharmaceuticals, light industry, grocery products). Regarding infrastructure development, the development of tourism-related infrastructure connected with transportation infrastructure (north-south and east-west corridors, complex transportation and logistics hub, and tourism cluster), and infrastructure related to the information communication and agricultural sectors (processing facilities for dairy products, fruits, vegetables, fish) are promising areas of economic cooperation. In addition, further cooperation measures should be explored in the tourism sector, which has recently been designated as one of the priority industries in the non-energy sector.

2. A Comprehensive Approach

Overall, approaches for expanding economic cooperation between Central Asian countries and the Republic of Korea can be summarized as follows.

Firstly, based on the holding of regular high-level talks, our government should continue strengthening relations with key Central Asian

figures, especially through summit diplomacy with key nations in the region. In addition, we should upgrade the Korea-Central Asia Cooperation Forum, which has been held at the vice-ministerial level, to a summit-level meeting. Through this, we can pioneer the “3.0 era of cooperation between Central Asia and Korea” while further strengthening the responsibilities and performances of cooperation.

Secondly, deciding on the main actor of economic cooperation between Central Asia and Korea is highly essential. An organization to formulate short- to mid- and long-term strategies for major Central Asian countries is needed in order to promote deeper economic cooperation. To this end, a Korea-Central Asia economic cooperation committee should be established, under the Korea-Central Asia Cooperation Forum, to coordinate Korea's economic cooperation with major nations in the region. In principle, the committee should be composed of 1.5 tracks, in which all public organizations and representatives of private enterprises in every country participate. In this way, efforts to establish systematic supportive measures and cooperation policies targeting domestic SMEs can also be made.

Thirdly, we should seriously consider establishing a fund for industrial cooperation between Korea and Central Asia to promote industrial cooperation between countries. It is highly important to reduce investment and cooperation risks for private companies which have limited financial resources. Funds can be sought by national banks in each country and be reviewed to see if our official development assistance (ODA) fund can also be made available to support infrastructure development.

Finally, since the future development of the Central Asian countries will depend on human

resources, a systematic supporting system that includes professional technical training, industrial specialists training, academic and technical exchanges, should be provided by establishing a “Korea-Central Asia Future Generation Promotion Committee” under the Korea-Central Asia Cooperation Forum. For example, we should prospectively consider establishing vocational training schools and operating technical education programs in Central Asia, as well as supporting international students from Central Asia through various special programs. **KIEP**