ENERGY POLICY

SOME SOLUTIONS TO THE CENTRAL ASIAN REGION'S ENERGY COOPERATION PROBLEMS

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It stands to reason that the resource-rich Central Asian Region (CAR), which is located at the crossroads between the Near and Middle East, South Asia, China, and Russia and is also in direct proximity to the countries experiencing "energy starvation," is of important geostrategic significance. It is a well-known fact that CAR has vast energy potential. Kazakhstan, Turkmenistan, and Uzbekistan have large supplies of oil and gas resources, which enjoy demand on the world market. In particular, 22 raw hydrocarbon fields have been developed in Kazakhstan, particularly in the Caspian Depression and South Turgai.[1]

The State Development Program of the Kazakhstan Sector of the Caspian Sea (KSCS) bodes well for increasing the volumes of hydrocarbon production in the republic. The forecasted reserves of this raw material in the sections and structures where work has begun alone top 2 billion tons of oil equivalent. By 2010, oil production will amount to 90 million tons and gas production to 52.5 bcm, while by 2015, these figures will have risen to 150 million tons and 79.4 bcm, respectively (according

[1] See: G. Rakhmatulina, *Dinamika razvitiia integratsionnykh protsessov v gosurdarstvakh SNG i perspektivy formirovaniia Edinogo ekonomicheskogo prostranstva*, ed. by M.S. Ashimbaev, KISR under the Kazakhstan President, Almaty, 2004, p. 198.

to the data of the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan). In 2006, oil production reached 65 million tons, and natural gas production amounted to 27 bcm.[2]

Kyrgyzstan and Tajikistan have unique hydropower potential. Its rational use will make it possible to supply the energy-deficit regions (including in Kazakhstan's southern regions) with cheap electric power and water.

The CAR countries also have a certain amount of potential for developing the atomic power industry. Large fields of uranium ore have been discovered in Kazakhstan, Kyrgyzstan, and Tajikistan. As one of the four largest producers of natural uranium, Kazakhstan possesses 19% of the world's total supplies, yielding only to Australia in terms of this index.[3] On the world nuclear fuel and rare metals market, Kazakhstan is represented by the Kazatomprom National Nuclear Company. Its main production, 100% of which is exported, is natural uranium, nuclear fuel for atomic power plants, and items and semi-finished products made from beryl, tantalum, niobium, and their alloys. In 2006, 5,300 tons of uranium were extracted in Kazakhstan, and by 2010, there are plans to raise its production to 15,000 tons a year.[4]

The industry is focusing great attention on attracting foreign capital. Joint ventures have already been created with companies from Canada, France, Russia, and Japan. There are plans to engage in joint production with South Korea, the PRC, and the U.S., which, in light of the IAEA's prediction that world resources will be exhausted by 2020, should make Kazakhstan one of the monopolists on the uranium market. This is very realistic if we keep in mind that Kazakhstan has no equals in terms of ore supplies suitable for underground leaching.

The region also has coal resources; the main coal-producing states are Kazakhstan and Uzbekistan. In Kazakhstan, the production centers of this raw material are the Karaganda and Ekibastuz coal basins. There are 13 large coal-producing sites in the Karaganda Basin, where high-quality coke is extracted. At the mines of the Ekibastuz Basin, which is the third largest in the former U.S.S.R., subbituminous power station coal is mainly produced.

Kazakhstan is among the ten largest producers and exporters of coal on the world market (in 2006, the amount of raw material produced amounted to 91.5 million tons or around 2% of world production). The total volume of coal export was stabilized at a level of 22-27 million tons. The main importer is the Russian Federation. In recent years, the geographic area within which coal is exported has significantly expanded—Rumania, the Czech Republic, Poland, Estonia, Turkey, and Ukraine have become the consumers of Kazakhstani coal. Taking into account the production potential of Kazakhstan's coal industry, the republic has the opportunity to raise its export volumes to 30-35 million tons in the next few years.[5]

In Uzbekistan, the Angren field is the largest source of this energy resource, which produces most of the coal used at power stations.

The Central Asian countries have all the prerequisites for intensifying integration cooperation and forming a common energy resource market in the future, which will become an important factor in the sustainable development of these states. CAR is a region for which integration processes in the economy (especially in its energy sector) were and will continue to be vitally important. This was the case for many decades during the existence of the single economic complex of the former U.S.S.R., where a system of high energy interdependence and reciprocity formed among the republics which belonged to it (including among the CAR countries).

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[2] See: *Kazakhstan v tsifrakh*, Republic of Kazakhstan Statistics Agency, Almaty, 2006, p. 225.

[3] See: Information from RCC SPECA meetings on questions of regional and efficient use of energy and water resources in Central Asia, 2002.

[4] See: *Kazakhstan v tsifrakh*, p. 225.

[5] See: Information of the CIS Interstate Statistics Committee and sites [www.centran.ru], [www.gazetasng.ru].

This is the way it should be now, in my opinion—in a situation where the complicated inter-economic ties have broken down as a result of the collapse of the U.S.S.R. and not been restored during perestroika, or during the nascent process of market reform. The main purpose of intensifying integration among the CAR states should be to create a single economic space, the main element of which is a common energy market of the Central Asian countries. Its formation presupposes the preservation and development of mutually advantageous economic ties among the CAR states in the energy industry, filling the domestic market with cheap fuel and energy resources, and expanding the possibilities for delivering energy resources to third countries.

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The energy potential of the CAR states is drawing the attention of investors from the largest nations of the world. In this respect, Kazakhstan is the leader among the Central Asian and CIS countries in terms of investment volume. To be more precise, today the state has one of the most rapidly advancing economies of the world (Kazakhstan has achieved a 10-percent growth rate in the past five years). Among the former Soviet republics, Kazakhstan was the first to receive the status of a state with a market economy and high investment ratings. According to the World Bank, the republic is currently among the top twenty most investment-attractive countries in the world.

The republic is a large exporter of oil and is getting ready to become one of the five leading oil producers in the next ten years.

The main feature of Kazakhstan's economic policy is its multivector nature. The most important priority of our country's foreign policy is the development of cooperation with the Russian Federation, the U.S., China, and the EU countries. The implementation of a multivector policy promotes the strengthening of the country's energy security and helps to resolve the problem of export route diversification for oil and gas resources.

In particular, the following projects of raw hydrocarbon deliveries are being carried out in the republic:

a) Atyrau-Samara;

b) CPC;

c) Atasu-Alashankou;

d) Baku-Tbilisi-Ceyhan.

The country is also participating in the Baltic Pipeline System (BPS) project.

At present, questions are being considered with respect to laying a gas pipeline to the PRC. As the leader in the region, Kazakhstan is initiating many integration projects, in particular, a plan to create a Union of Central Asian States, the implementation of which could help to give the economy in these countries a powerful boost and remove the existing threats.

As already mentioned above, an important area in expanding the integration processes in the CAR republics should be the formation of a common energy resource market. But the studies carried out on the development of integration cooperation of the Central Asian states show that there are still serious problems with respect to their interaction in the energy sphere:[6]

1. The inefficient system of customs control of interstate electric energy crossflows.

The customs control procedure for energy resource crossflows in current effect does not promote the efficient functioning of energy systems in the concurrent mode. For example,

[6] See: G. Rakhmatulina, op. cit.

when two parties exchange regulation power and engage in the transit of electric energy, customs clearance of electric energy crossflows is carried out without taking into account the net power flow. In addition, in some Central Asian countries (particularly in Kazakhstan) regulation power must be declared (the latter is not a commodity, it is a service for maintaining standard frequency in the energy systems, so does not require declaration). Declaration of regulation power in Kazakhstan is a certain negative factor in the development of energy cooperation among the CAR entities and in the functioning of energy systems in the concurrent mode.

2. ***Absence of single approaches to forming tariffs for the transit of electric energy.***
When the CAR states conduct an uncoordinated tariff policy in electric energy, this hinders the development of the transit potential of the region's countries to a certain extent.

3. ***Lack of coordination in the use of fuel-and-energy and water resources.***
In keeping with the agreement on the use of hydropower resources of the Syr Darya River Basin, the Central Asian states annually enter intergovernmental agreements, according to which Kazakhstan and Uzbekistan assume responsibility for guaranteed deliveries of coal, heating fuel, and gas to Kyrgyzstan. In turn, Kyrgyzstan assumes the obligation to provide the economies of these countries with water resources during the vegetation period.

But due to the failure of Uzbekistan and Kazakhstan to fully execute their obligations under the intergovernmental agreements entered, Kyrgyzstan's thermal power stations cannot maintain the given electricity parameters, which is leading to an additional load on the hydropower plants of the Naryn Cascade, an increase in water passage from the Toktogul reservoir (Kyrgyzstan), and a decrease in the volume of the latter. If interruptions in energy resource deliveries continue in the future, this will lead to a drop in the Toktogul reservoir level to a critical, so-called dead storage.

In turn, the supply of water from the Toktogul reservoir is accompanied by electric power generation, which should be accepted in the corresponding volume by the energy systems of Kazakhstan and Uzbekistan. This gives rise to the need to intensify cooperation of the energy systems of the CAR states and to conduct a coordinated policy of consumer energy supply.

In this way, the priority tasks in the economic development of the CAR countries are expansion of integration cooperation in the energy industry and formation of a common electric power market. This presumes full satisfaction of the demands of the region's states for cheap electric power, favorable conditions for its export to third countries, rational use of hydropower resources, an increase in the possibilities of interstate electric power flows, and efficient use of the transit potential of the CAR countries.

These principles for creating an electric power market are reflected in the most important international agreements: the European Energy Charter of 17 December, 1991 and the Energy Charter Treaty (ECT) of 17 December, 1994. Insufficient development of the oil and gas transportation infrastructure in the CAR states is the main problem in the oil and gas sphere.[7]

a) In Kazakhstan, for example, many large gas fields (including Tengiz, Zhanazhol, and Uritau) do not have access to export pipelines. In this respect, expanding integration cooperation with the CIS states (primarily with Russia, as well as with other third countries, for example, China) regarding the development of the existing transportation infrastructure and the formation of new routes for delivering oil and gas resources is of pertinent importance for Kazakhstan (as it is for the other CAR republics).

[7] See: Information from RCC SPECA meetings on questions of regional and efficient use of energy and water resources in Central Asia, 2002.

b) The shortage of export routes and supply lines for transporting energy resources is just as acutely felt in Turkmenistan and Uzbekistan.

In Turkmenistan, foreign companies and financial institutions willing to invest and already investing funds in the creation of Turkmenistan's energy export infrastructure are actively searching for and creating new routes for transporting energy resources from the republic.

In Uzbekistan, which is the largest gas transit center from Turkmenistan to Russia, as well as a gas supplier to Kazakhstan, Kyrgyzstan, and the Russian Federation, export possibilities are still limited to the only gas pipeline linking CAR with Central Russia and other CIS countries.

In so doing, one of the most important priorities of economic policy of the Central Asian republics should be efficient use of their transit potential by creating new transportation systems and reconstructing current ones intended for increasing the export flows of oil and gas to the domestic and world markets.

The main problems of the coal industry of the CAR states is the low level of development of coal-washing plants, physical and moral wear and tear on mineshaft and mine transportation equipment, and the high level of railroad tariffs for coal delivery and transit. The aforementioned problems of energy cooperation among the Central Asian countries can be resolved by strengthening mutually advantageous ties among the CAR states in branches of the fuel and energy complex and forming a common energy market in the future, which presumes the following:

1. ***Joint drawing up of an overall fuel and energy balance (FEB) by the competent bodies of the Central Asian countries.***

   This balance will make it possible to estimate the demand and production of energy resources, and designate possible volumes of export and transit deliveries. Putting it into practice will help to carry out a coordinated transit and export policy for delivering energy resources to the domestic and foreign markets. In this respect, it is expedient to develop and adopt a corresponding agreement at the intergovernmental level, which should define a procedure for forming and implementing an overall FEB for the CAR states.

2. ***Developing an optimal system for transporting energy resources within CAR, creating new transportation systems, and reconstructing current ones intended for building up the export energy resource flows of the CAR countries.***

3. ***Forming coordinated principles of tariff, tax, and customs policy in the energy sphere of the CAR states.***

   - *In tariff policy, it would be expedient to:*
     - —draw up general methodological ways for calculating tariffs for the transit of energy resources (electric power and hydrocarbons); adopt corresponding agreements;
     - —optimize railroad tariffs for the delivery and transit of coal within CAR and to third countries; adopt a corresponding agreement in which unified approaches will be defined for forming tariff policy.
   - *In tax policy, it would be expedient to:*
     - —adopt measures to simplify the tax system in effect in the energy sector, raise its flexibility and adaptability;
     - —standardize the list of excisable goods.
   - *In customs policy, it would be expedient to:*
     - —draw up the corresponding regulatory legal documents for simplifying the customs clearance procedure of energy resource deliveries within CAR and to third countries (including

electric power flows of energy systems operating in the concurrent mode, taking into account the size of the net power flow);

— with respect to interstate electric power flows, adopt an Agreement on Customs Clearance and Control of Interstate Electric Power Flows via the Power Networks of the CAR States at the intergovernmental level.

4. ***Creating financial-industrial groups and joint ventures for producing and transiting energy resources, and for manufacturing energy equipment.***

An important factor in forming an energy market is expanding the trade and economic relations of the countries in the energy sphere. A good example is the development of mutually advantageous Russian-Kazakhstani cooperation in the energy sector, which resulted in the creation of the Ekibastuz GRES-2 Joint Venture, the KazRosGaz Closed Joint-Stock Company, and the oil pipeline system of the Caspian Pipeline Consortium (CPC) for exporting Kazakhstan oil; the contracts entered between Russian and Kazakhstani energy companies for developing and assimilating the Ekibastuz coal basins, "Severny" and "9-e Pole," and the Bogatyr section; and restoration of the concurrent mode in the Russian Federation and Kazakhstan energy systems, which ensures the transit of electric power via the power networks of Kazakhstan from Russia to Russia, as well as from other Central Asian republics to the Russian Federation.

The development of this mutually advantageous partnership is helping to draw investments into the industry, introduce contemporary standards of management, promote the exchange of experience, and renew the technological base.

In this respect, the things listed below are of prospective importance within the CAR.

- *With respect to forming a common electric power market:*

a) Functioning of an International Hydropower Consortium created in 2002 for the purpose of resolving questions relating to the rational use of hydropower resources.

As we know, 86% of Central Asia's water resources are formed in Kyrgyzstan and Tajikistan and, naturally, these republics are striving to develop the hydropower industry. Kazakhstan, Uzbekistan, and Turkmenistan have supplies of gas, oil, and other minerals; they need water resources in order to promote agriculture and industry. The mechanism of reciprocal deliveries of water and energy resources by the CAR states is very underdeveloped. The corresponding intergovernmental agreements entered every year are not executed to the fullest extent.

In this respect, a legal mechanism must be drawn up within the framework of the mentioned Consortium for adopting active measures to carry out a coordinated and mandatory policy for distributing hydropower resources.

b) Joint construction of the Kambaratinsk Hydropower Plant-1 and Plant-2 in Kyrgyzstan and the Rogun and Sangtuda hydropower plants in Tajikistan.

- *With respect to creating a common coal market:*

Creating coal-producing and coal-washing joint ventures.

Joint development of the fields of Kara-Keche (Kyrgyzstan), as well as of Ziddy, Nazar-Ailok, Mienadu, and Khakimi (Tajikistan) is a pertinent task.

The development of integration cooperation with other CIS countries is also promising. In so doing, the use of raw material resources of the CAR states and of the equipment produced in the Republic of Belarus, the Russian Federation, and so on could be an efficient way of investing money.

5. Creating an Energy Exchange in CAR.

Forming a common market of energy resources presupposes the creation of an energy exchange, the database of which should provide information about the supply and demand of energy resources, peak and idle power, and the price of the energy resources being sold.

The energy exchange should include electric power, oil, gas, and coal exchanges. The functioning of this structure will help to cover the consignors' demand for energy, establish a normal competitive atmosphere on the market, form equilibrium prices for energy resources, and define the pegged prices given by the market itself for the foreseeable future. The procedure for creating an energy exchange should be envisaged in a corresponding agreement. The functioning of a common market of energy resources will be an important factor of stable economic growth of the CAR countries.[8]

Reinforcement of economic security of the CAR entities presupposes adopting efficient measures for eliminating the existing transnational threats, which are the following:

a) the different levels of market reform in the states;

b) the manifestation of religious extremism;

c) the increase in illicit drug circulation;

d) the intensification in migration.

One of the main reasons these threats still exist is the low level of economic development of many CAR countries.

Kazakhstan is the only state where stable rates of economic progress can be seen. According to the results of the past few years, it is currently one of the leaders of the CIS states in terms of GDP and industrial production volume growth rates. In particular, according to the Kazakhstan Statistics Agency, the growth rate of Kazakhstan's GDP was 10.6% in 2006, and the increase in industrial production volumes was 7%.

In Kyrgyzstan, the rates of economic development have significantly slowed. Whereas at the end of 2004, the GDP growth rate was 7.1% in the republic, in 2005, the GDP decreased by 0.6% and amounted to 99.4%. In 2006, the GDP growth rate was only 2.7%, compared to the previous period. As for industrial production, during the past two years, trends are seen toward a reduction in its development rates. In particular, in 2005, the industrial production volume decreased by 12% compared with the previous year, and in 2006 it fell by 10.2% compared with 2005.[9]

The political events going on in Kyrgyzstan are the main reason for the situation that has developed in the country's economy. The opposition forces are literally ripping the state apart in their struggle for power. The second reason is the inefficient structure of the economy, which is mainly represented by two branches: electric power and the gold-mining industry.

But in these priority sectors there are also serious problems. In particular, the electric power industry is suffering from immense wear and tear of equipment (80%), hardly any new generating capacities are being introduced and no major construction is going on. In the gold-mining industry, there are problems with assimilating the Kumtor field.

Talking about the inefficient structure of the Kyrgyzstan economy, we should note, among other things, the weak development of the processing sectors in the republic (primarily of the food and light industry), as well as of tourism. The use of the potential of the above-mentioned branches with significant investments would have helped to affect structural changes in the country's economy and achieve stable growth rates.

[8] See: Information from RKC SPECA meetings on questions of regional and efficient use of energy and water resources in Central Asia, 2002.

[9] See: Information of the CIS Interstate Statistics Committee and sites [www.centran.ru], [www.gazetasng.ru].

In Uzbekistan, signs of regression clearly appeared as early as the mid-1990s with significant deterioration of the socioeconomic situation. The relative economic growth (annual GDP increase amounted to between 4% and 8% in the past few years and at the end of 2006 the GDP growth rate was equal to 7.3%) was of an exclusive extensive and resource-consuming nature.[10]

The low rates of market reform, high level of state economic regulation, which hindered the development of small and medium business in the country, the absence of favorable conditions for foreign investment, the closed nature of trading conditions, and the high level of corruption are the main reasons detaining Uzbekistan's economic progress.

According to international financial organizations, the official macroeconomic indices did not correspond to reality, but were two-fold higher, and the declared economic growth was not accompanied by high-quality development. In particular, the standard of living is still quite low.

Tajikistan is the poorest of the former Soviet republics in terms of per capita GDP, which amounts to 236 dollars, and is one of the most impoverished countries of the world. The UNDP Global Human Development Report for 2003 includes Tajikistan among the "priority states," in which poverty has led to a crisis requiring the international community's close attention and aid.[11]

The five-year civil war that ended in 1997, the emigration of qualified specialists, and the absence of beneficial conditions for attracting investments are only some of the many factors complicating economic development. The republic's geographic isolation is aggravating regional cooperation problems. More than 90% of Tajikistan's territory is mountainous, which creates a serious hindrance to transportation routes and communication.

The state's large foreign debt, which essentially did not exist before independence, is complicating fiscal and economic management. Almost all of the government's investment budget is financed by means of official aid to developing countries. According to an agreement with the IMF, the government set the limit of new loans at 3% of the GDP, which in 2005 was increased to 4% with the possibility of further review.

The most important problem of Tajikistan's economic development is the high level of corruption and organized crime. In particular, the shadow economy, which is mainly related to the transit of drugs through the republic, amounts to 100% of its GDP, according to some estimates. The government regards organized crime as a whole and drug trafficking in particular as interstate problems, the resolution of which requires coordinated international efforts, due to which it is striving for active interaction with foreign partners.

The situation that has developed in the region relating to illicit drug circulation is creating a multitude of problems for Tajikistan. Since the end of the 1990s, a period of economic stability has begun in the country. In the past three years, the average GDP growth rate amounted to approximately 10%, while at the end of 2006, it was equal to 7%.

Nevertheless, there is still a very low standard of living in the republic. In particular, almost two thirds of the population live in poverty, and one third of the entire workforce (or 630,000 members of the able-bodied population) migrate every year to other countries in search of work. Less than 50% of rural residents have access to running water. Most of the water supply system is unreliable and inefficient due to the absence of technical servicing. There is a very high infant and maternal death rate, as well as level of infectious diseases. The average wage in Tajikistan amounts to 10 dollars a month.[12]

As for Turkmenistan, it has a very low level of its economic development. There has always been a system in the republic that prevented progress in human rights, democracy, and the market economy. For example, the Turkmenistan government's decisions to stop the import of and subscription to foreign publications and to close down libraries and rural hospitals aroused great concern in

[10] See: Information of the CIS Interstate Statistics Committee and sites [www.centran.ru], [www.gazetasng.ru].
[11] Ibidem.
[12] See: Information of the following website [www.undp.tj/documents/CPAP%20Rus.pdf], 12 June, 2007.

the international community. The level of development in education is very low in the country, which of course will have a negative impact on the state's future.

There are still other serious problems in the country's socioeconomic sphere. "Latent unemployment is very widespread in the republic. Professional staff with diplomas received in countries of the Far and Near Abroad are not in demand because their diplomas are declared invalid. Neither does the population's low subsistence level do anything to help the existing conditions. The wages received by Turkmen citizens are one of the lowest in the region in terms of real purchasing power. Latent inflation has been observed for several years now. For example, the manta (Turkmenistan's national currency) has been devaluated 12,500-fold (!) since the day it went into circulation. All the problems in the economic and social sphere since Niyazov's death will only become clear after the most contradictory elements in Turkmenistan's economy are revealed."[13]

The existing problems of economic development of the Central Asian states and transnational threats can primarily be eliminated by resolving the economic integration question.

We believe it is important to carry out the following measures:

1. Draw up coordinated principles of customs, tariff, and trade policy.
   - *In customs policy*, it is expedient to develop standardized principles of customs legislation defining the introduction of free trade conditions among the Central Asian countries; draw up a general procedure of customs clearance and control of goods transported over the border; and establish regulations for transporting currency and means of transportation by physical persons across the border.
   - *In tariff policy*, a single system of tariffs in the real sector of the economy should be drawn up (for transportation and the energy industry).

     In transportation, it is expedient to introduce a single tariff system for all types of shipments (freight and passenger).

     In the energy industry, general methodological approaches to the transit of energy resources should be drawn up.
   - *In trade policy*, the following should be drawn up:
     a) mechanisms excluding the use of special protection, antidumping, and compensation measures in reciprocal trade among the Central Asian states;
     b) standardized regulations regarding tariff and non-tariff trade-regulating measures to be applied by the CAR countries.
2. Create a common finance market.
   - *In the financial sphere*, the following measures should be taken to:
     a) create a standardized mechanism of currency regulation and control, main types of taxes and their amounts, methodology and regulatory acts regarding price formation, and measures for ensuring the reciprocal convertibility of national currencies;
     b) ensure the freedom of capital movement;
     c) create conditions for developing national stock markets and their integration in the future.
3. Form a common market of goods and services.
   - With respect to *forming a common goods market*, it is expedient to estimate the total volume of commodity resources and production potential, make supply and demand balance settlements with respect to commodity classification, develop a mechanism for achieving a balance on the consumer market of the Central Asian republics, and draw up general principles for regulating interstate goods exchange.

[13] A. Grozin, "'Dubl' Niyazova ne predviditsia," available at [http://www.miningexpo.ru/news/714], 12 June, 2007.

- *When creating a common service market*, it is expedient to:
  a) ensure full liberalization of reciprocal trade in services;
  b) carry out a coordinated policy with respect to third countries.

4. Create a common energy market (the main areas of its formation are presented above).
5. Create a single transportation space.
   - The region's transportation system, in our view, should be developed on the basis of forming through routes to the European, Central Asian, and Asia-Pacific Region states.
   - In order to build up transit potential, a *General Transport Development Scheme* should be drawn up. It is presumed that this document will envisage the following mechanisms for:
     a) intensifying interaction among the transport complexes of the Central Asian countries;
     b) conducting a coordinated tariff policy with respect to transport.

     Priority routes of through transport corridors should also be included in this scheme, as well as a program for manufacturing and repairing technology and for building and operating roads.
6. Form a common agricultural market.
   - An important element in the creation of a common agricultural market is that the CAR republics carry out a coordinated policy of agricultural development.
   - It seems expedient to draw up a *Conception for Forming a Common Reciprocal Agroindustrial Complex of the Central Asian Countries*. This document should envisage the following mechanisms for:
     a) raising the productivity of land cultivation and animal husbandry;
     b) increasing the harvest yield of crops;
     c) encouraging specialization and cooperation among states to create reciprocal consumption resources;
     d) changing the structure of planted acreages and of types and species of crops taking into account the level at which the population is provided with foodstuffs and industrial raw materials;
     e) forming an infrastructure for storing and transporting vegetables and fruits;
     f) introducing advanced technology and creating joint ventures for processing agricultural production;
     g) ensuring conditions for developing direct market ties, forming stock exchanges;
     h) forming a network of post-delivery maintenance and technical servicing of agricultural technology.
7. Develop machine-building.
   - *In the machine-building complex*, the main areas could be:
     a) expanding integration in airplane-building on the basis of the Tashkent aviation plant and using Kazakhstan's resource potential (Turgai bauxite mines and electric power of the Ekibastuz State District Power Plant);
     b) creating an aerospace complex on the basis of the Baikonur space center;
     c) developing cooperation in the car industry, producing spare parts and units for UzDAEWOOavto vehicles.
8. Form free economic zones.

- The creation of *free economic zones* (FEZ) with the necessary production infrastructure is of great importance. It is expedient to establish privileged tax conditions for FEZs. Within FEZs, it is possible to develop the agroindustrial sphere, chemical and petrochemical industry, ferrous and non-ferrous metallurgy, manufacture of consumer goods (leather, fur, and wool items), and produce building materials. FEZs could be formed in Aktau and in the Tashkent, Shymkent, Andijan, and Osh regions.

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Implementing the above-mentioned vectors of integration cooperation of the Central Asian countries will promote their sustainable progress, raise the quality of economic growth in the CAR countries, and remove the existing transnational threats. The priority nature of integration cooperation is due to the need to restore and develop mutually advantageous economic ties among the CAR republics in the energy industry, which has the goal of filling the domestic market with cheap types of energy resources, covering demand for their consumption and increasing the possibilities of export deliveries of energy resources to third countries.

Today within the CAR, a certain legal base has been created for expanding integration cooperation in the energy sphere, but the development of the integration processes in Central Asia did not reach the desired rates with the signing of corresponding treaties and agreements. The main reason is that the competent CAR state bodies have still not fully drawn up a specific mechanism for putting the adopted decisions into practice. In this respect, at present, the development of a legal mechanism for creating and operating a common energy market is acquiring great significance. Its implementation presumes the adoption of specific measures for intensifying integration interaction of the CAR countries in the energy sphere, achieving a balance between the supply and demand of energy resources on the domestic market, ensuring the efficient development of the transit potential of the Central Asian states, and increasing the export potential of energy resource deliveries to third countries.