Globalization Challenges in Central Asia

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Abstract

Economic *globalization* is the global integration of goods, technology, labor, information, and capital; that is, firms implement global strategies, which link and coordinate their international activities on a worldwide basis. It is a process based on change, which can lead Central Asian countries to the globalization of their operations: political, technology, market, cost and competitive. Globalization is also international business, which includes any activity or transaction for monetary gain, and it considers the entire world as a single marketplace. Central Asian countries, despite their globalization challenges, can chalk out a path for global engagement with proper management of their resources, especially oil and gas.

Introduction

Hout, Porter, and Rudden (Harvard Business Review, 1982) explain how global companies win out. The dollar value of total world exports in 1996 was greater than the gross national product of every nation in the world except United States. Globalization process on one hand creates openness to international trade, and an increased flow of capital, goods, people, services, and information across nations. However, the positive results of globalization are distributed unevenly due to lack of openness characterized by the absence of democracy, free markets systems, rule of law, quality of life and internationalization. Critiques argue that trade openness brings little prosperity to the host developing country and greater benefits to MNCs and their home countries. This paper prefers responsible globalization as discussed in 1999 World Economic Forum. Pointing fingers at the advanced industrial countries and multinational corporations (MNCs) for the income inequality, lack of quality of life, and the underdevelopment of human capacity in poor countries is not the position taken by this author.

How Central Asia's Present Competes with Past Values

Central Asian republics are bounded by Russia in the north, China in the east, the Caspian Sea in the west, and Iron and Afghanistan in the South. The largest land mass is occupied by the Republic of Kazakhstan; It has almost 1,177 mi (1,894 km) of coastline on the Caspian Sea. Kazakhstan is slightly more than twice the size of Texas. The territory is mostly steppe land with hilly plains and plateaus.

Source: Michigan State University: Global edge, 2003.

Past

Humans have inhabited present-day Central Asia since the earliest Stone Age, generally pursuing the nomadic pastoralism for which the region's climate and terrain are best suited. The earliest well-documented state in the region was the Turkic Khanate, which came into existence in the sixth century A.D. The Qarluqs, a confederation of Turkic tribes, established a state in what is now eastern Kazakhstan in 766. In the eighth and ninth centuries, portions of southern Central Asia were conquered by Arabs, who also introduced Islam. The Oghuz Turks controlled western Kazakhstan and Southern Uzbekistan from the ninth through the eleventh centuries; the Kimak and Kipchak peoples, also of Turkic origin, controlled the east at roughly the same time. The large central desert of Kazakhstan is still called Dashti-Kipchak, or the Kipchak Steppe.

In the late ninth century, the Qarluq state was destroyed by invaders who established the large Qarakhanid state, which occupied a region known as Transoxania, the area north and east of the Oxus River (the present-day Syrdariya), extending into what is now China. Beginning in the early eleventh century, the Qarakhanids fought constantly among themselves and with the Seljuk Turks to the south. In the course of these conflicts, parts of present-day Central Asia shifted back and forth between the combatants. The Qarakhanids, who accepted Islam and the authority of the Arab Abbasid caliphs of Baghdad during their dominant period, were conquered in the 1130s by the Karakitai, a Turkic confederation from northern China. In the mid-twelfth century, an independent state of Khorazm (also seen as Khorezm or Khwarazm) along the Oxus River broke away from the weakening Karakitai, but the bulk of the Karakitai state lasted until the invasion of Chinggis (Genghis) Khan in 1219–21.

After the Mongol capture of the Karakitai state, Central Asia fell under the control of a succession of rulers of the Mongolian Golden Horde, the western branch of the Mongol Empire. (The horde, or *zhuz*, is the precursor of the present-day clan, which is still an important element of Kazak society). By the early fifteenth century, the ruling structure had split into several large groups known as khanates, including the Nogai Horde and the Uzbek Khanate.

Russian traders and soldiers began to appear on the northwestern edge of Central Asian territory in the seventeenth century, when Cossacks established the forts that later became the cities of Oral (Ural'sk) and Atyrau (Gur'yev). Russians were able to seize Kazak territory because the khanates were preoccupied by Kalmyk invaders of Mongol origin, who in the late sixteenth century had begun to move into Kazak territory from the east. Forced westward in what they call their Great Retreat, the Kazaks were increasingly caught between the Kalmyks and the Russians. In 1730, Abul Khayr, one of the khans of the Lesser Horde, sought Russian assistance. Although Abul Khayr's intent had been to form a temporary alliance against the stronger Kalmyks, the Russians gained permanent control of the Lesser Horde as a result of his decision. The Russians conquered the Middle Horde by 1798, but the Great Horde managed to remain independent until the 1820s, when the expanding Quqon (Kokand) Khanate to the south forced the Great Horde khans to choose Russian protection, which seemed to them the lesser of two evils.

The Kazaks began to resist Russian control almost as soon as it became complete. The first mass uprising was led by Khan Kene (Kenisary Kasimov) of the Middle Horde, whose followers fought the Russians between 1836 and 1847. Khan Kene is now considered a Kazak national hero (Source: The Library of Congress Country Studies**).**

Present

Kazakhstan, the largest of the former Central Asian republics in territory, excluding Russia, possesses enormous fossil fuel reserves as well as plentiful supplies of other minerals and metals. It also is a large agricultural producer of -livestock and grain. Kazakhstan's industrial sector rests on the extraction and processing of these natural resources and also on a growing machine-building sector specializing in construction equipment, tractors, agricultural machinery, and some defense items. The breakup of the USSR in December 1991 and the collapse in demand for Kazakhstan's traditional heavy industry products resulted in a short-term contraction of the economy, with the steepest annual decline occurring in 1994. In 1995–97, the pace of the government program of economic reform and privatization quickened, resulting in a substantial shifting of assets into the private sector. Kazakhstan enjoyed double-digit growth in 2000–01, and a solid 9.5 percent in 2002, thanks largely to its booming energy sector, but also to economic reform, good harvests, and foreign investment.

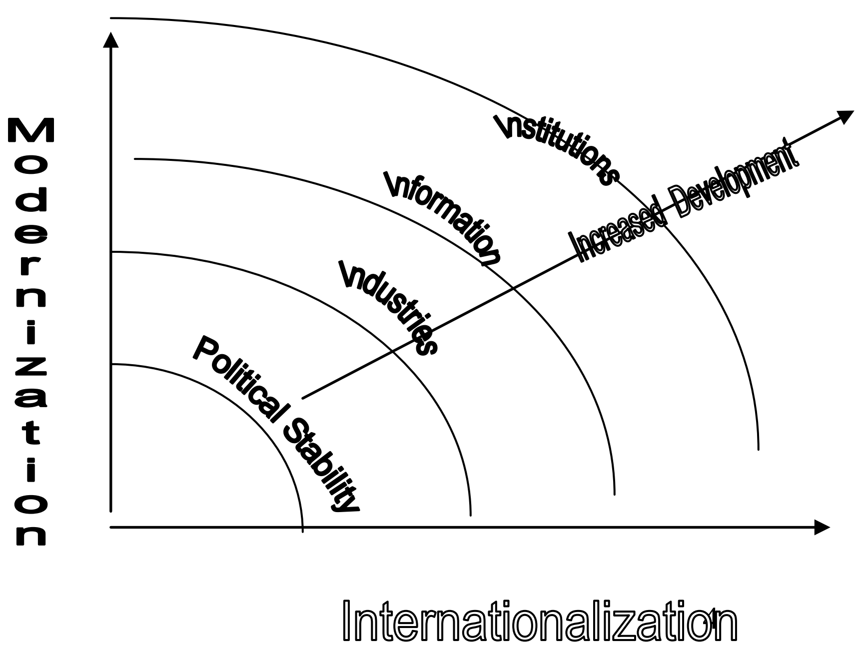
The Central Asian economy is highly dependent upon a few commodities – in particular, Oil and Gas. In 2002, oil production, transportation, and processing accounted for about 16 percent of GDP, while exports of oil and fuel products accounted for 56 percent of the total. Metallurgy (ferrous and non-ferrous metals) and grains are the only other significant export products. Exports of non-extractive commodities mainly grain, cotton and meat products, have been stagnant since 2000, and the economy faced the daunting challenge of diversification.

Although income per capita reached US $1510 in 2002, substantial inequalities remain. The Central Asia also has some of the lowest social indicators in the Europe, including those of access to safe drinking water and the incidence of tuberculosis. In addition, environmental degradation, such as the receding level of the Aral Sea, poses a major challenge for the country.

Globalization, scope, and challenges

Addressing the issues of wealth creation in poor and less developed countries began only after World War II. Studies after studies show that poor countries should seek opportunities through openness, promote FDI, and engage to modernize and globalize their businesses. There is also a significant multiplier to infrastructure investments in the bottom of pyramid markets in various countries. Both modernization and internationalization efforts with simultaneous increases in political stability, industries development, information systems, and institutions can increase national economic development. As some of the evidence and trade statistics show, the total value of world trade has grown substantially during the decades of the 1980s and 1990s. In the global era, trade matters since it sustains both economic and human capacity developments. There are many countries have not benefited from the economic integration called for in globalization. These countries should evaluate their problems and challenges in attracting foreign direct investments. There are a number of countries--small and large—doing well under modernization and internationalization and now is the time for Central Asian countries to learn from their experiences.

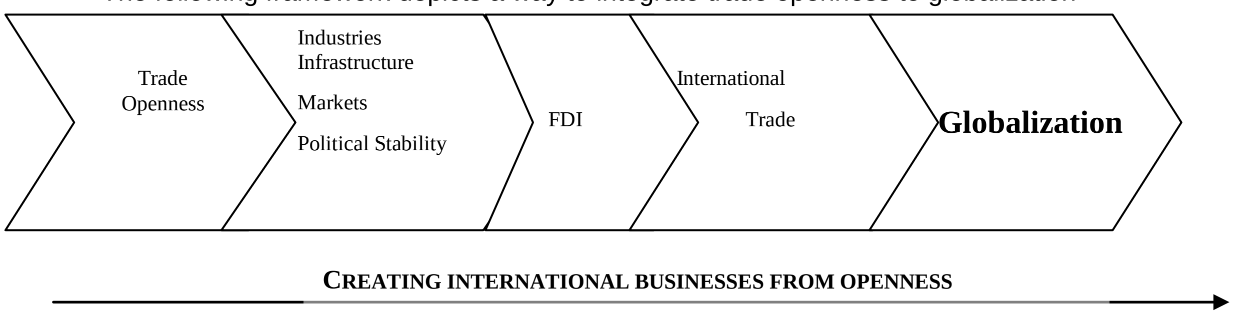
The following paradigm aptly describes how Central Asian countries can move outwardly in the path of increased development. To move from an agrarian society, a country must seek modernization of domestic businesses, while at the same time internationalization of its industries. Recent studies and statistics show such a commitment and direction has worked well for such countries as China, South Korea, Singapore, Taiwan, among others. Political stability—not necessarily a democratic form—has assisted countries in their developmental efforts. We can safely say "modernization without democracy" is possible. A major example: China.



If there are some lessons to be learned from the industrialized advanced nations of today, that would be political stability, institutional (education, health, legal, transportation) infrastructures, diverse industries, and information systems development and innovation. The examination of industries in the developed nations shows that modernization has occurred *only* with significant international trade and internationalization of domestic businesses.

Central Asia's Internationalization Chain

The following framework depicts a way to integrate trade openness to globalization



Present competes with past values

Concepts of value, price, supply and demand interactions, and how market economy functions are commonly understood in Western societies. Price as a measure of value under market economies is a useful measurement to compare markets of everything from housing, cars, and computers, to groceries. Since 1991, former Soviet Central Asian countries have experienced the incursions of Western economic values in a variety of ways: individual ownership, business education, and privatization of state assets. However, the old ways and mindsets still persist today in these countries.

"Culture is Business and Business is Culture**,**" this dictum is prevalent and it is true in the business and world economies of today. Which is why more than seventy percent of international trade is among countries that use price as a determinant of value, and the import and export revenues reflect supply and demand interactions. Property ownership, functioning banking and financial institutions, international legal structures, value-adding industries, entrepreneurship, and international business leadership are to be valued parts of business culture in Kazakhstan.

Business operation in the former Soviet Union is not oriented toward the creation of wealth, but rather toward the seizure of wealth for consumption. Prestige, power, and social obligation motivate enterprise management, rather than the pursuit of the creation of economic value (profit). The sudden appearance of *biznesmeni* in the former Soviet Central Asia since 1991 was probably the first sign that market valuation was trying to legitimize itself in the pseudo-vacuum of state controls. Business meant one thing: engaging in exchange for profit, an activity the Soviet state had spent seventy years trying to stamp out. This irony certainly was not lost on the general public, who naturally viewed the *biznesmeni* with a jaundiced eye, as people changing ideologies overnight for personal gain. Management of business operations, on a daily basis—both for short and long-term goals—is a Western idea, foreign to Soviet Central Asia; so are the concepts of individual ownership and privatization of state assets.

Conceptually, therefore, the value of privatization is to the public akin to that of seizure of wealth, and as described above, with the same negative attitude. People jokingly refer to *privatizatsiya* as *prikhvatizatsiya*, or “grabbing” of assets by former state ministerial higher-ups, using their proximity and control in the bureaucratic chain to convert state factories, *otdelenie*, and coffers into profit-oriented self-interests. Such suspicious and cynical views from the former Soviet Central Asian citizenry reflect a general discomfort, and in some cases alienation, toward the value of individual ownership. This could very well be traced to the cultural attitude toward privacy, shaped by socialist values of having a society completely in the public domain.

With the burdens of the past, the present Central Asia is still driven by “Kiosk Mentality.” That is, “grab, as you go,” whatever you can find on the way. Concepts of value, price, supply and demand interactions, and how market economy functions are not part of management education; the ideas of entrepreneurship and wealth creation are mostly absent in Central Asian countries. However, since 1991, former Soviet Central Asian countries have experienced the influences of Western economic values in a variety of ways: individual ownership, business education, and privatization of state assets. However, the old ways and mindsets persist today in this region.

Addressing the issues of wealth creation in poor and less developed countries began only after World War II. Studies after studies show that poor countries should seek opportunities through openness, promoting FDI, and engaging in the modernization and globalizations of their businesses. There is also a significant multiplier to infrastructure investments in the bottom of pyramid markets in various countries. Both modernization and internationalization efforts with simultaneous increases in political stability, industries development, information systems, and institutions can increase national economic development. As some of the evidence and trade statistics show, the total value of world trade has grown substantially during the decades of the 1980s and 1990s. In the global era, trade matters since it sustains both economic and human capacity developments. There are many countries that have not benefited from the economic integration called for in globalization. These countries should evaluate their problems and challenges in attracting foreign direct investments.

There are a number of countries--small and large—doing well under modernization and internationalization and now is the time for Central Asia to learn from their experiences. If there are some lessons to be learned from the industrialized advanced nations of today, these would be of political stability, institutional (education, health, legal, transportation) infrastructures, diverse industries, and information systems development and innovation.

How Proper Management can Sustain Economic Development and Global Engagement in Central Asian countries

Management is about meeting goals consistent with the mission set up by the organization. This applies to both profit and non-profit governmental and private organizations. When managing such diverse resources as capital, labor, technology, knowledge, land, information, and various stake holders, it is imperative that leadership understand focus, direction, measurement, and control in achieving the goals and specific objectives. To get the full benefits of proper management, the leadership MUST make decisions that are both effective and efficient; effective means making the right choices and decisions; efficiency means, executing the right choices and decisions.

Recommendations for mitigating globalization challenges in Central Asia

1. Develop clear mission for each of the public enterprises (PEs).
2. Identify responsibility and accountability structures.
3. Identify leadership skills that are needed for the success of each PEs
4. The reporting structure with each ministry and stakeholders are to be clearly defined.
5. Where a management has clearly failed in an enterprise, a committee of experts should be formed to assess the root cause of failure and non-performance. If needed, one or two foreign experts are included in the deliberations.
6. It is essential to revisit the mission, and it may be necessary to completely

reengineer the whole organization.

7. It is also suggested to have public-private (both foreign and domestic corporations) partnerships in key sectors.
8. Good governance is the key for good performance.