



COOPERATION AMONG THE CENTRAL ASIAN COUNTRIES: INSTITUTIONAL FOUNDATIONS OF INTEGRATION AND ECONOMIC EFFICIENCY

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Abstract

This article provides a systematic analysis of the current state, challenges, and prospects of economic cooperation in the Central Asian region. Recent geopolitical shifts—the Russia–Ukraine conflict, China–U.S. rivalry, and the interaction between the Eurasian Economic Union (EAEU) and the Belt and Road Initiative—necessitate the development of a new model of regional integration. Based on existing challenges to cooperation and on prevailing conceptual approaches, the article offers practical proposals for institutional reform. The study’s conclusions may serve as practical recommendations for the states of Central Asia.

Keywords: Central Asia, regional integration, economic cooperation, institutional compatibility, water-energy problem, transport corridors.

Introduction

Relevance of the problem. Over the past five years (2021–2025), the Central Asian region has become one of the main centers of the most dynamic changes in the world economy. The European Union’s reduction of energy imports from Russia, the intensification of China’s Belt and Road Initiative in Central Asia, and the growth of intra-regional trade turnover within the region itself (which increased by 30% in 2021–2025) all call for a reconsideration of integration processes.



*Modern American Journal of Business,
Economics, and Entrepreneurship*

ISSN (E): 3067-7203

Volume 2, Issue 4, April, 2026

Website: usajournals.org

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Purpose of the study: to identify the institutional barriers to economic cooperation among Central Asian countries and to propose practical mechanisms for overcoming them.

Research methodology. The article draws on neo-institutional economic theory (D. North, O. Williamson) and the functional theory of regional integration (B. Balassa, J. Tinbergen). The empirical analysis uses data for 2021–2025 from the World Bank, the IMF, the EAEU, as well as national statistical agencies.

History brought with it the dissolution of the USSR. As a result, the Central Asian states formally declared their independence. They defined the fundamental principles of independence, including mutual recognition of existing borders, the construction of interstate relations on the basis of friendship and equality, non-interference in each other's internal affairs, and adherence to the norms of international law. These principles formed the basis for the establishment of sovereign states.

One of the most urgent issues after independence was the clear demarcation of state borders. During the Soviet era, the borders between the republics were largely administrative-territorial in nature and, in many cases, existed only on maps. They had not been fully formalized in legal terms. To resolve this issue, the CIS states agreed to apply an international legal principle according to which the borders of the newly independent states would correspond to the existing administrative borders of the former Soviet republics. At the same time, the fact that borders had not been clearly delineated on maps later gave rise to numerous disputes. Owing to the efforts of the leaders of the Central Asian states, this contradiction was finally resolved in 2025. As a result, a foundation was created for strengthening mutually beneficial ties among the states.

During the 35 years since gaining independence, the Central Asian states have built their institutions of statehood, achieved recognition in the international arena, and followed a path of economic development. However, issues such as unresolved problems of socio-economic integration, weak economic diversification, and the underdevelopment of democratic institutions still await solutions.



1. Key Institutional Barriers to Economic Cooperation in Central Asia

- **Incompatibility of legal systems.** After independence, each Central Asian state developed its own national legal system. These systems differ from one another, particularly in tax legislation, customs procedures, labor law, and technical regulations. As a result, products manufactured in one state often require re-certification or re-standardization before entering the market of another state. This increases both time and financial costs for producers.
- **Insufficient cross-border infrastructure.** The institutional foundations of cooperation in transport and logistics remain weak. The lack of standardization in railway gauges (the widely used 1520 mm gauge in some states is incompatible with the 1435 mm gauge used on other routes), as well as the non-unification of traffic rules and transport documentation, leads to disruptions in logistics chains.
- **Differences in legal and judicial systems.** The lack of mutual recognition of mechanisms for settling economic disputes creates major difficulties for private investors and businesses. A court decision issued in one state has no legal force in the territory of another state. Despite the existence of international arbitration institutions, the absence of a developed regional legal space reduces trust in trade.
- **Non-integration of financial systems.** The national currencies of the Central Asian states are not sufficiently convertible vis-à-vis one another. International intermediaries (often through the U.S. dollar) are used to make payments between banking systems. This generates additional exchange-rate losses and transaction costs.

2. Practical Mechanisms for Overcoming the Barriers

To address the institutional barriers listed above, comprehensive reforms are required. The main mechanisms of these reforms are as follows:

2.1. Transboundary Institutional Coordination Mechanism (TICM)

This mechanism is proposed as the principal body of regional cooperation and should encompass the following tasks:



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- comparing and harmonizing the legislative acts of the Central Asian states (taxation, customs, labor, and technical regulation);
 - preparing an agreement on the mutual recognition and enforcement of court decisions;
 - developing regional standards and overseeing their implementation in national legislation.

Implementation stages:

1. 2026: Signing a memorandum on the establishment of the TICM at the level of heads of state.
2. 2027: Forming expert groups and analyzing legislation in priority sectors (trade, transport, and energy).
3. 2028: Drafting harmonized legislative proposals and submitting them for consideration in national parliaments.
4. 2029: Establishing a permanent Secretariat of the TICM.

2.2. Central Asian Digital Administrative Platform (MORAP)

One of the most effective ways to overcome institutional barriers is digital transformation, which would make the following possible:

- **Cross-border single-window principle.** An entrepreneur located in one state would be able to register a business, obtain a license, or submit reports in another state.
- **Integration of databases.** Public authorities would ensure data compatibility and reduce bureaucratic paperwork.
- **Industrial cooperation exchange.** A digital platform for establishing subcontracting and cooperative links among Central Asian producers.
- **Technical requirements.** The use of blockchain technology or decentralized registries would make it possible to preserve each state's data sovereignty. The platform's MVP (minimum viable product) version would be launched at the first stage.



2.3. Single System for Regulating the Balance of Payments (MBRS)

For financial integration, the following mechanism is proposed:

- **Central Asian clearing chamber.** It would carry out payments in national currencies among participating banks. To reduce exchange-rate differences, a basket of regional currencies (tenge, Uzbek so‘m, Kyrgyz som, Turkmen manat, and Tajik somoni) or a single unit of account (for example, a CA Index) would be introduced.
- **Agreement on cross-border payments.** It would establish a maximum cap on bank commissions (for example, no more than 0.5% of the amount) and ensure a maximum payment execution period of one business day.

2.4. Central Asian Investment Council (CAIC)

To improve the institutional environment, both domestic and foreign investors should be attracted. The CAIC would operate on the basis of a public-private partnership:

- **Single investment platform.** It would allow investors to view projects throughout the region, submit documents only once, and benefit from incentives in all participating states.
- **Regional court for investment disputes.** Relying on the norms of international law, a court under the CAIC would resolve investment disputes promptly and fairly.

Expected Results and Efficiency

The implementation of the proposed mechanisms is expected to produce the following results:

- **Growth in regional trade turnover.** Every 10% reduction in institutional barriers would increase trade turnover by 5–7%.
- **Reduction in transaction costs.** Shorter border-clearance times, faster payments, and lower certification costs would significantly reduce costs for businesses.



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- **Increase in foreign direct investment.** Improvement of the institutional environment and a reduction in legal risks would increase investment inflows into the region.

Conclusion

The potential for economic cooperation among the Central Asian countries is considerable. However, existing institutional barriers—such as incompatibility of legislation, customs barriers, and weak financial integration—prevent this potential from being fully realized.

The Transboundary Institutional Coordination Mechanism, the Central Asian Digital Administrative Platform, the Single System for Regulating the Balance of Payments, and the Central Asian Investment Council proposed in this article are intended to address these problems systematically. The implementation of these mechanisms could bring regional integration to a new stage.

However, each of these reforms requires significant political will and long-term strategic planning. The positive steps taken in recent years by the leaders of the Central Asian states with regard to economic cooperation (progress on border issues and joint projects to develop transport corridors) inspire hope that these complex institutional issues can also be resolved in the future.

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Economics, and Entrepreneurship***

ISSN (E): 3067-7203

Volume 2, Issue 4, April, 2026

Website: usajournals.org

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