TOPIC "PREREQUISITES FOR COUNTRIES' PARTICIPATION IN TRADE AND ECONOMIC COOPERATION"

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Abstract: The article considers the issues of the importance of the Central Asian countries in the global political system. The Central Asian region became one of the major geopolitical centers of the modern world. The geopolitical importance of the region is determined by its Intercontinental importance for trade and other relations between the countries of Europe, the Middle East and Asia. The Central Asian region is a unique geopolitical hub between four nuclear powers — Russia, China, India and Pakistan.

Key words: Central Asia, Republic of Kazakhstan, Kyrgyz Republic, Republic of Tajikistan, Republic of Turkmenistan, Republic of Uzbekistan, Silk Road, integration, economic, political cooperation, trade, foreign trade.

Introduction.

At the present stage, despite the contradictory trends in the development of the world economy and international trade, the growth of protectionism, countries retain high interconnectedness and interdependence, significant needs in mutual trade, including for development purposes. The formation of such conditions was facilitated by the processes of liberalization of trade and investment cooperation in the second half of the 20th - early 21st centuries, with deepening international specialization based on existing competitive advantages.

Over time, the architecture of the world economy has become more complex and can be described not so much by the flows of bilateral trade and investment, but by the interconnections of economies at the level of global value chains (GVC), which reflect the existing formats of international industrial and technological cooperation. In this regard, the realization of national competitive advantages through foreign economic interaction with other countries is closely related to the current position of the country's economy in the system of global value chains.

The concept of "three divisions" in international production. The development of globalization and the formation of global value chains can be considered within the framework of the concept of “two great divisions”. [1]

The first separation took place with a reduction in transport and trade costs and a reduction in incentives for locating production near markets. This gave impetus to the development of international trade, the formation of industrial specialization, the realization of the comparative advantages of different countries in the world market at the level of

[1] Baldwin, R. E. Globalisation : the great unbundling(s) / R. E. Baldwin // Economic Council of Finland. – 2006. – Vol. 20, № 3. – P. 5-47.

sectors and companies, and led to the transfer of production stages of value chains to developing countries, to the gradual internationalization of production processes.

The ***constraints*** for this process were ***the costs of trade (access to information, trade barriers, logistics and transportation, etc.)*** and the costs associated with managing and coordinating the production process at a distance.

In this regard, production processes, brought abroad, still remained undivided from each other, at least within the same country, trade in raw materials and finished products dominated.

The active development of information and communication technologies since the 1990s has contributed to a reduction in the costs of interaction between companies in the production process, which has led to the possibility of geographical separation of already individual stages of the production process, the inclusion of new countries in ***global value chains***. This is how the second division took place within the framework of the development of globalization and global value chains.

However, the separation process did not end there, and in the mid-2010s, the concept was supplemented by the third stage of separation [2], which occurs with the ***development of digitalization of industry and the service sector.***

The remote format for the provision of certain types of services (mainly professional services), automation and robotization processes make it possible to manage and control production processes at a distance, allow outsourcing not of individual production stages, but of individual tasks, which in modern digital realities can be done in global format.

Thus, the prerequisites for competition are no longer formed at the sectoral level, but at the level of individual functions and tasks between their performers in the global market: engineering, design, system administration, information security, automated systems management, consulting, marketing, advertising, etc. This affects on the conditions for creating value at different stages of global value chains, affects ***costs and the competitive environment*** in the market.

With the development of international cooperation, competition at the production stages has increased dramatically due to the possibility of reducing costs when locating industrial production in other countries and the absence of the need for specific skills. This put downward pressure on the level of labor costs involved in these stages and the ability of the company to generate a markup. Thus, the added value at the main production stage is lower than at the pre-production and post-production stages.

In the formation of value chains, the effects of agglomeration, external economies of scale, and monopoly power become important factors [3]. External economies of scale along uplinks and downlinks are realized by companies connected by production or other interactions, which can benefit from proximity to each other by reducing transportation, trading and coordination costs. As coordination costs decrease over time with the development of information and communication technologies, differences between countries

[2] Baldwin, R. E. The Great Convergence : Information technology and the New Globalisation / R. E. Baldwin. – Harvard University Press, 2016. – 344 p.

[3] Baldwin, R. E. Value creation and Trade in 21st Century Manufacturing / R.E. Baldwin, S. J. Evenett // Journal of Regional Science. – 2015. – Vol. 55, № 1. – P. 31-50.

(in particular, differences in labor costs) can become a more significant incentive to separate the business agglomeration and move separate stages to other countries.

This process can take place in different ways at different stages of the value chain, in different sectors. In some cases, such a separation may not be justified, such as the spatial separation of the production of raw materials and their primary processing, in the case of costly or complex transportation of the raw/processed product.

Another factor is ***the concentration of market power*** and the level of competition in certain sectors and at different stages of the value chain. Since companies that have market power in an imperfectly competitive market can set prices that exceed average costs, they have the opportunity to generate greater profits, increase wages, and generate greater added value.

Market power can be formed due to high barriers to entry into the market (sunk costs, government regulation, intellectual property, possession of technology, etc.). These stages include research and development, design, brand building, and post-production. In addition, within the framework of the value chain, there is such a phenomenon as a margin on the entire value added created earlier at different stages of the creation and sale of goods on the market, including imported ones. This makes the lower rungs of the chain less attractive.

On the scale of global cooperation, value added will mainly be formed in countries where the stages of the chain associated with the implementation of a differentiated product are located, where there are significant barriers to entry, such as the protection of intellectual property rights and know-how. At the same time, as noted above, in modern formats of international industrial cooperation within the framework of global value chains, we are no longer talking about industries, but about the fulfillment of individual tasks, the availability, formation and development of competencies, the desire to create more added value per unit of labor force.

The UNCTAD report, published during the development of the COVID-19 pandemic, discusses in detail the development of global value chains and possible scenarios for further modifications of international industrial cooperation. In particular, it is noted that the processes of robotization and automation increase the added value generated at the stage of the direct production and assembly process and make the value chain curve flatter. These phenomena carry risks for the labor market and the need to replace workers with certain competencies (assemblers, packers, etc.) with workers with other competencies and knowledge (control of automated systems, robots, cloud and other information technologies).[4]

Increasing production potential. Economic development strategies in terms of the use of foreign trade policy instruments refer to the implementation of two areas: ***the policy of import substitution and the policy of export orientation.*** This is traditionally shared approaches to industrialization in developing countries. At the same time, import substitution is often criticized in relation to its implementation in Latin American countries, while export orientation is perceived as one of the key factors in the rise of Asian economies.

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[4] World Investment Report 2020. Chapter 4 : International Production : A Decade of Transformation Ahead// UNCTAD : [web-site]. – 2020. https://worldinvestmentreport.unctad.org/world-investment-report- 2020/ch4-international-production/.

The article traces the history of the application of this strategy in the economic development and industrialization of the economies of the developing world since the 1950s. The basis for the development of the concept of protectionism was the unfair division of labor between developed and developing countries in free trade conditions: raw materials were supplied from developing countries to developed ones, and manufactured goods were exported in the opposite direction. This put the developing countries in conditions of technological dependence on the developed ones and prevented the buildup of industrial and technological potential within the country. At the same time, the task of import substitution was to limit not all imports, but only purchases of consumer goods, while investment goods were to become a key import item for the purposes of industrialization and development of the manufacturing industry.[5]

Gradually, supporters of import substitution realized the limitations of such a policy, in particular, the restraining effect on exports and economic growth. Irrational, unsupported by comparative advantages, import substitution in the absence of competitiveness of manufactured products in “new” sectors often becomes the reason for the non-viability of companies and the very concept of import substitution.[6]

Such a policy hindered the development of not only international, but also domestic competition. Soft budget constraints did not allow inefficient companies to leave the market and give way to more successful competitors. All this resulted in a reduction in production in different countries, an increase in the price level, debt crises (in Latin America, Africa, India) on various scales. At the same time, the use of import substitution tools as part of more comprehensive economic development strategies, which included the openness of the economy, export orientation, attraction of FDI, investment in infrastructure and education, has brought positive results. Such steps were taken by Asian countries, the so-called. *"Asian tigers": Taiwan, The Republic of Korea, Singapore, Hong Kong.*

Performance of companies, export activity, import of components. Within the framework of global value chains and the realization of competitive advantages at different stages of the chain, the ability to use available imported components plays an important role. The use of imported components can affect the productivity of the company [7], and trade liberalization helps to reduce the prices of imported intermediate goods and thus leads to *an increase in their productivity by improving companies' access to cheaper resources*.[8]

The link between imports and exports becomes more pronounced when companies involved in export activities are part of international production chains. According to an OECD study, in this case, even a slight increase in trade restrictions on imports can have a significant impact on a country's exports. When goods cross borders multiple times throughout the supply chain, even the low import tariff rates applied in each new customs territory the chain passes through can eventually accumulate to account for a significant portion of the total

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[5] Irwin, D. A. The Rise and Fall of Import substitution/ D. A. Irwin // Peterson Institute for International Economics : – 2020. https://www.piie.com/publications/working-papers/rise-and-fall-import- substitution.

[6] Bruton, H. J. A Reconsideration of Import Substitution / H. J. Bruton\ Journal of Economic Literature. –1998. – Vol. 36. – P. 903-936.

[7] Ethier, W. Internationally decreasing costs and world trade / W. Ethier // Journal of International Economics. – 1979. – Vol. 9, № 1. – P. 1-24.

[8] Schor, A. Heterogeneous Productivity Response to Tariff Reduction : Evidence from Brazilian Manufacturing / A. Schor // Journal of Development Economics. – 2004. – Vol. 75, № 2. – P. 373-396.

costs. This effect is further enhanced when import duties are levied on the gross rather than the value added of the product. All this ultimately leads to a significant increase in costs for companies that use imported raw materials, components and components in the manufacture of their products.[9]

In general, the following conclusions can be drawn from the above analysis.

1. First, restricting imports in order to support domestic production and simultaneously seeking to stimulate the export of domestic products are two contradictory tasks. This is because restricting imports most often results in higher costs for exporters, limiting their competitiveness.

Second, with most international trade carried out along value chains, the problem becomes even more acute, as any small increase in tariff or non-tariff import protection is multiplied in costs, especially for complex goods whose components cross borders many times during production. At the same time, the practical implementation of national competitive advantages and a change in the position in global value chains is associated both with technological development at the expense of own resources and technology transfer, and with the use of imported investment and intermediate goods to ensure higher productivity and competitiveness of domestic products.

[9] Interconnected Economies : Benefiting from Global Value Chains// OECD : – 2013. https://www.oecd.org/publications/interconnected-economies-9789264189560-en.htm.

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