

**THE LONG-RUN IMPACT OF TRADE OPENNESS ON  
ECONOMIC GROWTH IN CENTRAL ASIA: EVIDENCE  
FROM UZBEKISTAN AND KAZAKHSTAN**

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**Abstract.** *This thesis investigates how trade openness shapes long-run economic growth in Central Asia through a focused comparison of Uzbekistan and Kazakhstan. Trade openness—commonly proxied by the ratio of exports plus imports to GDP—can raise growth by enlarging markets, improving resource allocation, intensifying competition, and enabling technology diffusion through imported capital goods. Yet it can also transmit external shocks, deepen import dependence, and lock economies into narrow export structures if diversification and institutions lag.*

**Keywords:** *trade openness; economic growth; Central Asia; Uzbekistan; Kazakhstan; ARDL; VECM; foreign direct investment; trade balance.*

**INTRODUCTION**

Trade openness has a reputation for being the “obvious good” in growth policy: open the border a little wider and prosperity supposedly walks in by itself. In practice, prosperity is pickier—it wants functioning logistics, predictable rules, and firms capable of competing, not just lower barriers. For landlocked Central Asian economies, the openness–growth relationship is even more nuanced because trade costs are shaped by geography, corridor reliability, and border administration, not only tariffs. Uzbekistan and Kazakhstan offer a useful pair for analysis: they share regional proximity and transition legacies, but differ in external balances and integration paths, which can lead to different long-run growth effects even under similar openness ratios [1].

## MAIN PART

A practical starting point is to look beyond slogans and examine what “openness” looks like in each economy. According to recent development indicators, Uzbekistan’s trade share is higher than Kazakhstan’s in 2023 (66.11% versus 61.96%), but the composition differs sharply: Uzbekistan’s imports (41.68% of GDP) substantially exceed exports (24.42%), while Kazakhstan shows a positive trade balance of about 7.06% of GDP [1]. This distinction matters for long-run growth because persistent import-heavy openness can be either a healthy modernization phase (if imports are capital goods that raise future output) or a structural vulnerability (if import growth outpaces export capacity). In contrast, export-strong openness can support foreign-exchange earnings and investment, yet it can also mask underlying weaknesses if exports are narrowly concentrated or driven by external price cycles rather than productivity.

Conceptually, trade openness affects long-run growth through several interlinked mechanisms. First, openness enlarges markets and can raise total factor productivity via competition and “learning-by-exporting,” especially when firms must meet foreign standards and improve quality. Second, openness increases access to intermediate inputs and capital goods; imported technologies often deliver growth not by volume of trade itself, but by improving domestic production processes. Third, openness can strengthen investment by attracting FDI, particularly when trade rules are predictable and cross-border transactions are less costly. Fourth, openness can influence institutions: the need to facilitate trade can push improvements in customs, transparency, and regulatory coherence. However, each mechanism has a counter-channel: competition can eliminate weak firms faster than new ones emerge; imported inputs can create dependence; FDI can concentrate in enclaves; and poor governance can turn openness into rent-seeking at the border. For landlocked economies, these trade-offs are amplified because

logistics bottlenecks raise the “effective tariff” even when formal tariffs are low.

Kazakhstan’s long-run evidence illustrates how openness can be constrained by structure and institutions. A country-focused study using Kazakhstan data from 1992 to 2020 applies stationarity tests and an ARDL bounds-testing approach and reports a long-run relationship among GDP per capita and explanatory variables including trade, investment, labor force, human capital, and natural resources; its results conclude that trade is negatively associated with growth in both the short and long run [4]. Interpreted carefully, this does not mean “trade is bad” in general; rather, it suggests that during the sample period, the way trade functioned—through the balance between exports and imports, sectoral composition, and the quality of domestic absorption—did not translate into sustained productivity-led growth. In such settings, openness can amplify volatility and structural dependence: export revenues may not sufficiently diffuse into broad-based productivity improvements if diversification, competition policy, and institutional capacity lag.

Uzbekistan’s long-run evidence points to a different dynamic in which openness, investment, and growth reinforce each other. A study covering 1997–2023 uses ADF testing, Johansen cointegration, and a VECM framework and reports at least two long-run cointegrating relationships among FDI, economic growth, and trade openness, with bidirectional causality among these variables in both the short and long run [5]. The policy implication is important: if openness and growth interact through investment, then a coordinated strategy—improving the investment climate while reducing trade frictions—can create a virtuous cycle. This aligns with Uzbekistan’s current institutional direction, where the WTO accession process is framed not only as market access, but as a broader reform package involving legislative alignment and a more predictable trade regime [3]. In a long-run sense, predictability is an

economic input: it encourages firms to invest in export capacity, quality upgrading, and logistics networks.

### **CONCLUSION**

The long-run impact of trade openness on growth in Central Asia is neither uniformly positive nor uniformly negative; it is conditional on macro-structure, institutions, and the investment–productivity pipeline. Recent indicators show Uzbekistan and Kazakhstan are both fairly open in 2023 by trade-to-GDP measures, but they are open in different ways: Uzbekistan’s imports exceed exports by a wide margin, while Kazakhstan posts a positive trade balance share of GDP [1]. This difference alone implies that openness will create different long-run pressures—Uzbekistan must continuously raise export competitiveness to finance modernization imports, while Kazakhstan must reduce vulnerability to export concentration and ensure trade gains diffuse beyond narrow sectors.

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