BROOKINGS INSTITUTION

UNITED NATIONS DEVELOPMENT PROGRAM

Conference

THE CHALLENGES AND OPPORTUNITIES OF REGIONAL COOPERATION AND INTEGRATION IN CENTRAL ASIA

Tuesday, March 27, 2006

9:00 a.m. - 6:00 p.m.

The Brookings Institution
Falk Auditorium
1775 Massachusetts Avenue, NW
Washington, D.C.

[TRANSCRIPT PRODUCED FROM A TAPE RECORDING]

MILLER REPORTING CO., INC.
735 8th STREET, S.E.
WASHINGTON, D.C. 20003-2802
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Panel One: The Future of Central Asia

Moderator: STROBE TALBOTT

Presenters: KALMAN MIZSEI
JOHANNES LINN

Panelists: JOHN FOX
KEMAL DERVIS
LIQUN JIN
SHIGEO KATSU

Panel Two: Opportunities for Regional Cooperation & Integration in Central Asia

Moderator: FIONA HILL

Panelists: ADRIAN RUTHENBERG
DENNIS de TRAY
ANARA TABYSHALIEVA
CASSANDRA CAVANAUGH
DREW W. LUTEN III

Panel Three: Prospects of Regional Cooperation as Seen from the Governments in Central Asia

Moderator: KALMAN MIZSEI

Panelists: KANAT SAUDABAYEV
AMBASSADOR NURBEK JEENBAEV
AMBASSADOR ASLOV SIRODJIDIN
ALISHER VOHIDOV

Panel Four: Political and Institutional Obstacles for Regional Cooperation and Integration in Central Asia

Moderator: S. FREDERICK STARR

Panelists: KATHLEEN COLLINS
MARTHA BRILL OLCOTT
ERIC McGLINCHEY
TALAIBEK KOICHUMANOV

Panel Five: Broader Regional Context for Central Asia: Afghanistan, China, Russia, and South Asia

Moderator: CARLOS PASCUAL

Panelists: ASHRAF GHANI
BEN SLAY
MARTHA BLAXALL
FIONA HILL
FRED STARR

P R O C E E D I N G S

MR. TALBOTT: I'm Strobe Talbott of the Brookings Institution and I want to welcome all of you here today. As you all know, we're here to talk about a topic that is every bit as timely as it is important. We're here to discuss an immensely complex and highly dynamic region of the world.

When I think about Central Asia, I sometimes recall something that Winston Churchill famously said about the Balkans, which is he said of that region that it had--and still has--too much history for local consumption. And I think the same could be said of Central Asia. Fortunately, it also has too much oil and gas for local consumption, although that fact is not without its problematic aspects that we will be getting into.

Central Asia, of course, is not just an issue of immense importance to its immediate neighborhood. It represents a genuinely global challenge. China, Russia, India, Japan, the European Union, the United States--and that's not an exhaustive list--all have huge stakes in the stability and, I might add, the prosperity and the political development of that region, which of course are intimately related to its stability.

Now, the importance of our topic is fully matched, I think, by the distinction and the expertise of the people who will be addressing the issue in this first panel, that I will be moderating, as well as during the course of the day.

We are very honored to have with us today five ambassadors from Central Asian countries. I think that the prize for the person who came the greatest distance to be part of this program today goes to Ashraf Ghani, the rector of Kabul University, who has come here from Kabul to be part of this conference.

I want to say just a few words about my co-panelists. They're well-known to all of you, I think, and you have their biographies, of course, and I won't summarize their CVs.

I'm particularly glad that Kemal Dervis could be here. Kemal is an extraordinarily busy guy. He is also a very, very dear friend and mentor to me personally. And he is, of course, the administrator of the UNDP. Having him with us is an honor and, I think, indispensable to the quality of the proceedings that we're going to have.

We're also very glad to have with us his colleague who is responsible for the region, Kalman Mizsei, who is assistant administrator of the UNDP.

Another former colleague of mine, John Fox, who has stayed on at the Department of State to be the director of the Office of Caucasus and Central Asian Affairs. Very glad that John could be with us.

Liqun Jin, vice president of the Asian Development Bank responsible for Central Asia, is with us as well.

Shigeo Katsu, vice president of the World Bank and also responsible for Central Asia, is part of our panel.

And last but by no means least, I want to say a word about Johannes Linn, who is my colleague here at Brookings and the executive director of the Wolfensohn Initiative on Development.

Johannes's title gives me a chance to express my admiration and gratitude to Jim Wolfensohn. Jim is, in the Socratic sense, a citizen of the world. He is also truly a world leader in his own right. And we are very fortunate to have him as a trustee and a benefactor of the Brookings Institution, and he will soon be the chairman of the new Wolfensohn Center on Development here at Brookings.

Jim had very much hoped to be with us today. He does, however, have a day job, and that is serving as the special envoy for the quartet. He sends us his greetings, and I assure you we will be sending him a full report on the proceedings.

Let me now review the order of the day. Johannes and Kalman are going to open the discussion with a summary of the UNDP Central Asia Human Development Report. The other panelists are then going to comment briefly, in no more than about 5 minutes, in order to leave us plenty of time to pursue as a group discussion on various dimensions of the topic before us, and particularly the importance of natural resources to a world where energy security is integral to other forms of security, including, I might add, human security. And we also

want to have time to talk a bit about the risk of internal or cross-border conflict and the emergence of failed states as a danger that we face in the region.

At about 10:30 we will have a coffee break and then reconvene at 11 for a second session, which will give us a chance to explore some specific sectoral issues--trade and transport, water and energy, social development, disaster prevention, migration, private-sector development. After lunch, we will hear from the ambassadors from the Central Asian region. Then we'll have a discussion of political and institutional constraints on cooperation.

And then will come the last session of the day and of the conference, which is to put all the issues that we've talked about in a broader regional context. That session will be moderated by my old friend, my former colleague in government, my new colleague at Brookings, Carlos Pascual, who is director and vice president in charge of our Foreign Policy Studies Program. He has devoted a great deal of his career as a Foreign Service officer to the issues that we're going to be focusing on today. Many of you in the room know him. Those of you who don't know him, after you've had a chance to get to know him a little bit during the last part of the program today, will understand why all of us at Brookings are so very grateful that he would agree to join us here.

So Kalman, if you would be good enough to get us started.

MR. MIZSEI: Excellencies, ladies and gentlemen, dear friends. As Strobe Talbott mentioned, Central Asia is posing us with one of the most intricate, complex developmental challenges of the world. Strobe also quoted

Churchill about the Balkans. I will not quote, because it is long, but you can look up in Adam Smith's The Wealth of Nations, where he spends a considerable amount of time describing the geographical determinants of a very, very difficult what we call today developmental situation of both Africa and Central Asia. At that time, the geographical name of Central Asia was slightly different. It was called the Parion [ph].

And yet, if we look at the way the international developmental community is handling the issue of Central Asia--and where is a better place, really, to discuss this than Brookings?--one has the impression that Central Asia is an orphan of the developmental community. It is an orphan because I think both Johannes and Kemal, who has also spent a great deal of time in the post-communist region in his professional life, will testify somehow the developmental community assumes that our region is sort of a developed region where some perhaps historical mistakes or accidents happened sometime around the end of the 1980s. But basically, we are in the post-communist countries and the former Soviet Union a fundamentally developed region, and it only takes time to recover this status.

September 11th has given us a perhaps slightly perverse hope that this situation is going to change because the Central Asian countries, neighbors to Afghanistan, became important geopolitically. But five years after, we can say this enthusiasm for Central Asia hasn't really resulted in as much concrete action, both by the international community as well as in terms of response from

the countries, as one could have hoped. So we are still in a very, very dire economic situation in many countries in Central Asia. That is also characterized by recently, again, refocused interest on the region, but for the reasons of bad governance, of human rights issues, et cetera.

So I'm very, very glad that we have this conference here, a full-day conference. I'm extremely grateful to Johannes Linn both for leading up, really, to this conference, but also being the--really the engine, the main author, but in so many other ways the leader of this publication that no doubt you have picked up outside and you will read with great interest. I think it is just really a marvelous book on Central Asia. And Johannes is going to speak a lot more about the content of the book than I will.

Speaking of the developmental challenges, I just wanted to show you this one single chart to really illustrate the point I have made. This shows the per capita GDP of the Central Asian countries in comparison with many African countries on PPP basis, but it would be a very similar picture on a nominal GDP basis. Nominal GDP, all of them look even worse. Tajikistan's per capita GDP is about $250. So it's real. It's not an overdramatization of the situation. These countries face an extreme challenge.

Besides geography, of course, history or, I should even say not "besides," but together with geography and in interaction with geography, history has played an enormous role in rendering the Central Asian challenge so grave.

As to geography, one of the facts that, again, is not very well-known is that it's not only that all the five Central Asian countries are basically land-locked, but also the distance of the Central Asian capitals from seaports, usable seaports, is by far the largest in the world. As an example, Bishkek, the capital of Kyrgyzstan, and Dushanbe, the capital of Tajikistan, are, respectively, 2,300 and 1,700 kilometers away from the closest seaport; as compared to Niamey, the capital of Niger, which is only 900--"only" 900 kilometers away from the sea; or N'Djamena, the capital of Chad, 1,200 kilometers away.

So again, an illustration of how extraordinary the geographical challenge of Central Asia is. And Uzbekistan, of course, as we all know, is, besides Liechtenstein, the only double land-locked country; that is, surrounded only with land-locked countries. So geography matters.

History also matters. These countries were locked up in a social, political, and economic system that turned out to be really a dead-end for the nations of the Soviet Union and of the East European countries. And the collapse of the Soviet Union, on the other hand, was for this very, very isolated part of the world that relied so heavily on transfers from the main centers of the Soviet Union as well as on the infrastructure of the Soviet Union. So the collapse, or the disintegration of the Soviet Union, of course, caused a tremendous dislocation in these countries.

I should also say that in some respects the Soviet Union, of course, was a bit of a modernizer for Central Asia. I'm coming from Hungary; I can say

that in Hungary, of course, the situation is different. But in a couple of critical aspects for Central Asia, the Soviet Union brought a secular state as well as a status for women which is a far cry from the status of women in neighboring countries further east and further south. So in that sense, the Soviet Union was a relatively modernizing factor. And anyway, the collapse of the empire really caused a great dislocation.

Now, from the late 1990s there has been a rapid economic growth in Central Asia, but really--and this is perhaps the last point I would like to make so that I leave room for Johannes to do his presentation about the book itself. This rapid economic growth that we have had in the last few years, if any historical experience is any guidance, is increasingly going to be constrained by major, major governance problems. The governance structures of these countries are rather obsolete. They are extremely centralized, and market reforms also are very timid.

So I just would like to conclude by saying that the challenges in Central Asia are huge. We discussed with Johannes what would be the most important issue, perhaps, to focus on for the Human Development Report, the presentation of which you will hear in a moment. And Johannes's strong recommendation, that I happily accepted, was that we should really look at cooperation. If it is true that these countries are isolated, then cooperation for them is vital--among themselves, but also by their big neighbors China, Russia,

India, but also by the whole developed community of market economies. So it is vital.

It's also, obviously, interrelated with the governance issues. If you in a country have a very, very centralized vertically managed system—"vlast vertikal" nowadays is identified in the Russian-speaking world--then it's of course very difficult for the countries among themselves to engage in a kind of horizontally oriented cooperation of equals.

So the challenges are huge and I am very happy to leave the floor and give room for Johannes presentation. Thank you very much.

MR. TALBOTT: While Johannes comes up, a technical point for my colleagues at the back. When Johannes finishes, would somebody come up and mike me up? Otherwise, I'm going to be at a severe disadvantage in trying to moderate this extremely unruly group.

[Laughter.]

MR. LINN: Thank you, Strobe, and thanks to all of you today here in the audiences, Your Excellencies, including especially the ambassadors, and of course our many panelists who have come together to debate, discuss, and really take us forward, frankly. Because I see the report that we prepared only as a basis on which to build, not by any means the last word.

What I thought I'd do is briefly summarize, and it's really at the level, and the most generic level, of superficiality, I'm afraid, given the time constraints and given that we really need to move on. So let me advise you there

are copies of the report around. It's also on the Internet, of course. You can download it. So if anything of this sounds strange or interesting, please dig deeper because I think there is a lot of information that my colleagues, and a little bit I, have pulled together.

Now, starting with the overall picture, I think it's very important to remember--now, most of you do, because some of you in fact are from the region or many of you work on the region--the absolutely central location that Central Asia has. And it isn't just really in Asia; it's really a central location in the Eurasian super-continent, as I like to call it. And so bordering on Russia, on China, on the south Indian subcontinent, of course the very volatile questions of the Middle East and Europe on the western side, a stable, prosperous Central Asia has to be--and I'll come back to that towards the end--absolutely an interest not only of the 60 million people in Central Asia but in fact of the entire larger surrounding region and indeed, I would argue, the world.

Now we've already heard this morning a few words about the challenges, opportunities that Central Asia faces. Of course, the disintegration of the Soviet Union has left a legacy of very difficult human development and human security challenges for the Central Asian republics. They have become, much as we might have from the outside thought that they were quite homogenous to start with, they certainly have become now highly differentiated in terms of size, resource endowment, human development, political orientation, and indeed--and that's important for our topic today--their readiness to cooperate

and integrate. And as we've heard from Kalman, some indeed have are very poor.

Now fortunately in recent years, there has been rapid economic recovery and some efforts--and let's not minimize those--some efforts and some progress towards regional cooperation among the countries in the region and with their neighbors. But surveys and case studies that we and others have carried out make it very clear that the people of Central Asia are very much affected by and care deeply about the barriers created by the new borders that now separate the countries from each other and from much of the rest of the world.

Let's look briefly at the map. This is perhaps to me--and I've looked at maps of the world--I can't think of any part of the world that has jigsaw-puzzle borders like this. In the center here, is the Ferghana Valley, which is totally carved up with borders that used to be pretty meaningless but now in many ways are very hard borders indeed--divide people, divide families, divide businesses, of course, and make it very difficult to cross.

With the assistance of the World Bank and with Brookings, we did run some surveys how people felt. Six thousand people in Central Asia. And it's very clear, and this is just the tip of the iceberg of the information, that the majority of people--on the left-hand side you see the answer to the question, What impact have borders had on trade, transport, and transit?, about 56 percent of people felt negatively or very negatively affected. What impact have borders

had on access to families, friends and business associates, well, almost 60 percent felt negatively or very negatively affected. And that's a large number, considering that actually many people don't ever necessarily even get across or close to borders.

The borders physically divide people now. And I've talked about a hard border. This is the bridge between Karasu and Kyrgyz Republic and Korasuv in Uzbekistan, which was destroyed in 2002 by the Uzbek government because it basically wanted to create a hard border here. Now, people obviously want to cross that river and want the bridge, because temporarily, during the Andijan events in May of 2005, people were able to temporarily rebuild the bridge. And you can see, it was the second or third day that a privately informally rebuilt bridge was opened and people actually cross and want to cross.

So this is, in a sense, the pent-up demand for crossing the borders that one can see and certainly feel.

Now, regional cooperation is key, we have concluded in the report; that is, regional cooperation, not only an integration among the countries of the region but of course also with the rest of the world, and it will determine the success, in our view, the success of the region.

We've estimated--these are rough estimates, but I think they are, in order of magnitude, certainly indicative -- that improved and intensive regional

cooperation could double regional GDP in 10 years, --the impact would be especially good for the poor and for border communities.

Therefore, in our view, it's important to move forward with regional cooperation intended to achieve what we call bringing down the barriers and create borders with a human face, both of which are currently not warranted in the situation that we face.

Now, let me briefly, and in a sense in preparation for discussion in today's panels today, give you a summary of some specific findings for particular areas.

On trade, transport, and transit, we--not surprisingly, given what I just said--we found that the barriers are great. On the other hand, the opportunities are great. Trade, indeed, we estimate could be much expanded despite the land-locked location of the countries in the region, but because the borders are difficult and expensive and time-consuming--and dangerous, of course--trade is now restricted, especially for shuttle traders who are often women and, of course, among the poorest.

Now, we found that our estimates indicate that with reduced trade, transport, and transit barriers the costs of trading could actually be, including through and especially through better border administration, could be halved compared to what they are currently in terms of monetary costs and in terms of cost of time. And our models indicate that lowering trade costs significantly increases incomes, employment and consumption in the region, and conservative

estimates indicate an increase on the order of 20 to over 50 percent and perhaps more, again especially for the poor.

Another important area that we think about, of course, when we think about Central Asia and have worked there, is water-energy environment, where regional public goods, as I put it here, are in search of regional approaches. Central Asia actually has a lot of natural resources, not only energy but also water, and great export potential in terms of, of course, oil and gas but also increasingly of electricity. And of course water-energy environment in the region are tightly linked with each other in a sectoral nexus, if you wish, but also very tightly linked across borders, partly because during the Soviet Union a huge regional structure for water and energy was constructed.

Unfortunately the poor national policies and weak regional institutions do create – increasing, by the way--obstacles to effective regional resource management, and indeed create the potential for conflict, certainly at the community level--and we've seen such conflict--and, if not dealt with constructively, as they have been in some ways so far, also possibly conflict at the regional level. On the other hand, region-wide solutions could bring large common benefits, but they do require some sharing of sovereignty among the countries, which at the moment seems to be particularly difficult.

Turning, then, to a third area which I hadn't thought much about before I started working on this report, but I'm now absolutely convinced is a key issue for the region, and it's natural disasters. Natural disasters, especially

in terms of seismic risk--earthquakes. As you can see, the dark red areas are the highest risk areas for earthquakes to be found in the world, equivalent to those of Turkey, of Iran, and other high-risk areas. And they happen to be covering exactly the areas of highest population density, the largest cities. And indeed, as you probably know, some of the large cities have in the past already been destroyed by earthquakes of major proportions.

Now, regional response capacity, given the nature, the geography, and the way people are located, would be absolutely essential. But unfortunately, national regional institutions lack adequate capacity and budget for risk assessment, risk management, prevention, preparedness, and response. Our advice is that the international community and the countries work together in creating this capacity. In addition, experience shows that community involvement is an absolutely essential element for effective disaster preparedness.

A fourth area which many of us think about when we think about Central Asia is illegal drug trafficking as a regional scourge, and it's one that clearly needs a broader approach. Central Asia is a major transit corridor for illicit drugs, especially from Afghanistan, and it faces indeed a growing risk of national production and use. It's linked to HIV/AIDS, crime and terrorism. There's a two-way link, a very important two-way link between weak institutions and poor governance on the one hand, and drug trafficking on the other hand.

And regional cooperation is really the only way you're going to begin to try and get on top of this very serious problem.

But unfortunately, the real answer, or the long-term answer to the drug trafficking problem of Central Asia has to be found in control of drug supply on the one hand, and control of drug demand in the hubs of demand--in Western Europe and, increasingly, Russia and China. So just focusing on Central Asia to try and deal with this issue is not going to be enough.

Another area which we focused on, which we don't necessarily think about when we think about regional issues, are communicable diseases. Central Asia faces serious risks from HIV/AIDS, TB, avian flu, and with sort of natural contagion in the problems of communicable diseases, the regional spillovers clearly require regional approaches. Regional cooperation networks or public, professional, and civil society organizations are critical. And I'm happy to say that the international community and the countries have started working together, particularly in the area of HIV/AIDS on regional programs.

Now, if we could all agree--and in fact, most people that I talked to in the region and elsewhere would agree--that regional cooperation, integration is such a great thing for Central Asia, is absolutely essential, in fact, for long-term development, why do we see so little, or at least relatively little happening? Why do we see, if anything over the years, borders become harder and obstacles become more severe?

So the report does look at the political and institutional constraints. And it concludes that while overall there of course are benefits from regional cooperation, not everybody benefits. Indeed, there are political and economic interests, and often they are in the [inaudible] of the countries, that do not benefit, that in fact lose if regional cooperation were to proceed. And even where there's interest--and often it's many times been professed by the presidents of the region that cooperation is the objective--it may be blocked by those who lose as result.

Furthermore, the endemic corruption, poor administrative capacity, lack of accountability actually hinder reform and better administration, which are necessary for actually proceeding to implement effective regional cooperation, get effective border management into place, deal with the problems that people face every day as they try to cross borders, as businessmen or as private people.

Now, one thing that we suggest would very much help--but of course, again, it's linked up to the political constraints--is that more participation, more listening to the people, to the communities, giving a voice to those who suffer from poor border management and controls would indeed help very much.

In terms of looking at scenarios for the future, we think the most likely scenario for the future in terms of integration in Central Asia, bearing in mind the regional, political, institutional constraints, is actually a two-speed

integration process, where some countries, most likely Kazakhstan, Kyrgyz Republic, and Tajikistan will actually open up, work with each other to a significant extent and with their big neighbors, while on the other hand, especially Turkmenistan and, it looks like, Uzbekistan remain rather mired in their--self-inflicted, one has to say--isolation, which I believe will only hurt the countries themselves.

Now, finally, turning to the neighbors and international partners as an important factor that will determine what the region will experience in the future, the good news, I feel--and I'm quite convinced, going back also to the beginning of what I was talking about--is there's a shared interest in a stable and prosperous Central Asia among all partners. All neighbors, all major players, international community.

And indeed, we see growing engagement by neighbors in regional issues and bodies. I list some of these regional bodies here. We see a greater focus on regional issues and programs by the international donors even though they're quite constrained by limited size of engagement. But we do see differing political perspectives among the major partners, especially on governance, and fragmented support among donors.

From our perspective, the neighbors and international partners should try to seek the common ground that I believe does exist and could be found. And here, particularly, of course, the countries of Russia, China, the European Union, Japan, and the U.S. are absolutely key in supporting political

and economic development, and that they should coordinate better their programs.

Turning finally to a set of recommendations, which is very summary and very general but provides a general direction in which we think the region should go. Priority areas for action to bring down barriers and create borders with human face are, first of all, where we see the biggest gains, namely, trade, transport, transit as well as water and energy, but also we should not neglect where the greatest risks and the greatest threats that could be prevented, namely, natural disasters, communicable diseases, and regional conflict.

Now, these are the key areas but I think there are others, and the report explores those, particularly in the social, education, health, culture, and so on, where cooperation could also be promoted because--not only in their own right, because cooperating in those areas might also create trust necessary for making progress in the priority areas.

And then, of course, domestic reforms are a very essential complement to regional cooperation, especially improvement in governance, trade investment climate, and some of the social environmental policies that link back directly to the regional cooperation.

In our view for the region it would be best if all countries would cooperate with each other and with their neighbors and international community. If they don't, they risk being left behind. It's not just governments that should cooperate, in fact. Business, academia, and civil society should be free and

should also seek to cross borders and work together. National strategies, poverty-reduction strategies should incorporate regional dimensions. Key regional institutions need to be strengthened with clear mandates, and the neighbors and international organizations should join in support of regional cooperation and integration.

And finally, we recommended that the U.N. Secretary General appoint a special envoy for Central Asia to help put his weight and the United Nations' weight, and thus the international communities weight, behind this what we regard absolutely key agenda of regional cooperation and integration of Central Asia.

Thank you very much.

[Applause.]

MR. TALBOTT: Kemal?

MR. DERVIS: Thank you, Strobe, and let me start by thanking you for hosting this meeting here at Brookings. Strobe Talbott, as you all know, is one of the best analysts of what I would call the Eurasian space and, of course, in terms of the whole history of the Soviet Union and Russia. So having him here--and I hope you will not only moderate, but contribute once our panel is over.

It's also great to be at Brookings, to be together with representatives of the Asian Development Bank, the World Bank, and be able to say a few words on this report.

Let me start by just giving you a quick perspective on the Human Development Report. You all know the Human Development Report is something UNDP encourages. There is the Global Human Development Report, there are National Human Development reports, and regional ones. And I want to stress that maybe the two key dimensions of this approach, the Human Development Reports approach, is, one, that the development is seen as a very multi-dimensional process, including governance issues and the quality of human development--so it's not a narrow economic focus, and you can see this in this report also; and second, that there is editorial independence.

UNDP provides the facilitating framework, a certain focus, of course, on quality, but beyond that, the writing team and the leader--in this case, Johannes Linn and his team--have latitude, really, in putting forward their views. And these views do not necessarily reflect, you know, the kind of views of UNDP as an organization. This has served us well in other contexts. You all know about the Arab Human Development Report, always very controversial but, I think, a great contribution to the debate in the Arab world. And I think the same is true for Central Asia.

Now, on Central Asia, let me perhaps just remind you of something most of you probably know very well, but remind you of the extent of the economic collapse that came with the fall of the Soviet Union. The numbers are really staggering. Kyrgyzstan, the GDP falls by 60 percent in the first few years, you know, after the early '90s. In Tajikistan it's almost 70 percent.

Kazakhstan, 35 percent. The least affected country in terms of GDP is actually Uzbekistan, which I think is interesting.

But just compare this to figures of GDP recessions in the rich countries. If there was a 2 percent fall in GDP in the U.S., I mean, it would create major problems in Western Europe. Western Europe grows at 1 percent. You know, it's not a very stellar growth performance. But it's almost unthinkable that you would have in the OECD countries contractions of this size. So in judging and in analyzing what has happened in Central Asia and what's happening now, also the politics of it, including, I think, in Russia. You know, one has to keep in mind this tremendous post-Soviet contraction, economic catastrophe that really occurred in these countries and how it affected people, poverty, politics, and all that.

So that's one point I wanted to make.

The second point, in terms of integration and trade-- Johannes, I think, described it very well--a big part of the story of this contraction, of this collapse was that the old links between productive structures and trade and so on also collapsed and were severed. And there is now a real building, in a different context, of course, in a more open context, more turned towards the world economy, but this rebuilding is very, very difficult. So how to rebuild the trade systems, the links within a medium-term strategy I think is one of the key issues for Central Asia, and I think the report contributes a lot on that, as Johannes stressed.

There's a very good description of what's called in trade circles the spaghetti bowl effect of multiple agreements, multiple attempts at creating custom union, free trade zones, and so on. As a result, we have, really, a very kind of incoherent system now. And I think one of the orders of business is to try to clean this up, have a medium-term trade strategy, have a medium-term strategy of linking more to the world economy but with some protection. I don't think that, quite honestly, Central Asia is ready for free trade. I think there has to be a gradual opening, a gradual integration into the world economy, with the final aim of, you know, a lot of integration but with a lot of focus on the constraints--on the infrastructure constraints, on the human resource constraints, and also one thing that I don't think is mentioned that much in the report, the fiscal constraints. One has to have fiscal space for trade liberalization because, as in many other countries, part of fiscal revenue comes from trade tariffs and one has to replace it by something else.

The third point I want to make just to start the discussion is in terms of policy regimes. Johannes and Kalman both stressed very strongly that the countries are very, very different--an extremely resource-rich country like Turkmenistan compared to Kyrgyzstan, which really has very little of these resources. Population densities, economic structures, everything is extremely different.

So I don't think there is a general policy prescription for Central Asia. In fact, I think the recent growth literature on the developing countries,

the diagnostic of growth studies that have come out in the recent years I think all emphasize that cookie-cutter approaches--apply the same medicine to every structure in every country--do not work. I think what is needed beyond this report, which sets the framework which, I think, describes the challenges extremely well, is to develop very specific country-based approaches to development in Central Asia. What is a good policy for Turkmenistan is very unlikely to be a good policy for Kyrgyzstan. One has to focus on the country-specific constraints, the binding constraints, and just a general advice that one should liberalize and one should, you know--there should be reform--I think is only a first step. The next step is really to be very specific in terms of the kinds of reforms and also the time phasing of these reforms for the individual countries.

Again, just to make it a little more specific. A very resource-rich country will have to manage that rent very carefully, will have to try to isolate it, will have to create funds where the excess revenues coming from high commodity and oil prices are not immediately injected into the economy. I think this is one of the key issues for resource-rich countries. Of course, that problem does not at all arise in the resource-poor countries, where labor-intensive export strategies, I think, have to be at the center of the developing strategy.

But that is just an example of why general advice isn't really useful and one has to be much more country-specific.

Thank you.

MR. TALBOTT: Thank you very much, Kemal.

John?

MR. FOX: Well, thank you very much. And I'd like to thank the authors for a very detailed and thoughtful report that I think is going to be an invaluable compass to all of us in the coming years as we try to puzzle out how best to encourage development in this region.

I'd also like to start with apologies that you don't have Ambassador Richard Boucher here before you today. Ambassador Boucher recently took over as Assistant Secretary at a new bureau in the State Department, the Bureau of South and Central Asian Affairs. What had happened was that the Secretary of State decided to move the five Central Asian states into what had been the South Asia Bureau--Afghanistan, India, Pakistan, and so forth--to create a new Bureau of South and Central Asian Affairs. And Ambassador Boucher is now actually in the region and getting to know it a little bit better. So he's sorry that he can't be here today.

Now, the United States government has long given a high priority to the question of integration within Central Asia, ever since the independence of these countries. And I myself well remember working in Uzbekistan almost 10 years ago, dealing with issues such as the exchange of water and energy, particularly in the countries bordering the Ferghana Valley. And also in those days, trying to encourage kinds of military cooperation among the countries of the region. There was the idea for the so-called Central Asian Battalion, which

was to be a peacekeeping battalion incorporating companies from Kyrgyzstan, Kazakhstan, and Uzbekistan. And I'm quite familiar with both the importance of these questions of integration and also the challenges that we face as we try to work with the countries of the region and with other partners to try to realize this.

And nothing has been lost, in the United States' view, in the importance of these tasks. But more recently, we've begun to look at integration in a broader perspective, and it's fair to say that over the last year, that encouraging integration on the level of South and Central Asia, including Afghanistan, has become an important thrust in American foreign policy toward the region.

Well, why is that? I think the starting point for understanding of this point of view has got to be Afghanistan and the idea that you can only do so much to stabilize Afghanistan and help it develop by looking at Afghanistan itself. And there's the important question of how to dis-enclave Afghanistan, to connect it to the wider world.

This idea was given, I think, a real impetus by the recent visit of Secretary of State Rice last October to the region. And you may recall, some of you, that she traveled to Afghanistan, Tajikistan, Kyrgyzstan, and Kazakhstan. Now, these countries can be viewed as a possible corridor through which goods, services, telecommunications, energy might one day travel, and farther down

south, of course, through Afghanistan to the other countries of South Asia, Pakistan and perhaps eventually also to India.

This idea, I think, was at least facilitated by the bureaucratic reorganization that I mentioned within the State Department and the fact that now there is one Assistant Secretary who is in charge of policy for all of the countries that I just mentioned. It certainly would not have been impossible to realize under the old arrangement, but I think that there is, at least on the margins, a help that this gives to us as we try to look at this region in a coherent way.

Now, we're looking specifically at road links, at telecommunications, at energy, and I'm particularly thinking here, particularly in the shorter term, at hydroelectric power. Of course, Kyrgyzstan and Tajikistan are very rich in hydroelectric potential. There is also a nice complementarity of demand. Central Asia is cold in the winter, needs a lot of electricity in the winter; South Asia is hot in the summer, needs a lot of electricity in the summer.

And above all, we consider this kind of trading in hydroelectric power to be something that's feasible within the relatively short term. You can string electric wires across Afghanistan, into Pakistan. We think that this is actually feasible to do--and there actually is some commercial interest in doing so--much more feasible in the short run than some of the projects that perhaps are more often discussed; for example, gas pipelines going through Afghanistan and down into South Asia.

We think that these kinds of schemes will help, in the first instance, the development of Afghanistan, but also the development of the region as a whole. And for us, this is not just a question of development or even of economics and trade--although obviously those are very important aspects of it--but also broader foreign policy considerations, of the political stability of the entire region, that we think that these sorts of links can contribute to.

Now, what is the United States' role? First of all, I want to hasten to say at the outset that we know that there is a great deal that is already going on in the region in these directions--roads that are being built, tunnels that are being built, dams that are being built. And we certainly don't think that we invented this idea or that we're in some way going to control it or coordinate it. But we do think that we have a contribution that we can make, on several different levels.

One would be to carry out projects that match our pocketbook. And by this, we intend mostly to concentrate on opening up bottlenecks in these routes. A good example is the bridge that the Army Corps of Engineers is now building on the Pyanzh River in between Tajikistan and Afghanistan. And others are there doing complementary projects. The government of Japan, for example, is building a road which will link the north end of that -- to the Tajik road system.

Another example might be border crossing points, where you can have, of course, very long backups of trucks. While one is being inspected, the

others are backed up behind it simply because you don't have a bypass road that goes around it. Or they wait for 24 hours because the customs point is only open a few hours a day. Those are things that we can help out on, on a project level.

We're also able to use our diplomatic good offices where, for example, there might be a need for agreements to be negotiated between countries. And probably, when you're talking about all of these aspects together--roads, eventually railroads, telecommunications, hydroelectric power, possibly in the future better coordination of air traffic control--there are many, many such agreements that are going to need to be negotiated and we may be able to contribute with a diplomatic nudge and assistance here and there.

So this is the kind of thing that we have in mind. We're very glad that others are doing so much in this area. We want to do our part. We want to work with everybody else, the countries of the region. We think that this is an exciting area to be working in. It's important on a lot of levels, including the strategic level. And we think that it's an area of work in which we can accomplish together a great deal of concrete good within just the few coming years, 5 years, 10 years.

And I'll stop there.

MR. TALBOTT: Thank you, John.

Liqun?

MR. JIN: Thank you. Thank you very much.

We can't talk about economic development without talking about trade and investment. And Central Asia conjures up thoughts of the famous Silk Road and the menage of many cultures in the highly successful pursuit of trade. And the historical centers of [ph]--Osamakan, Bakuhar, Abokhara, Baku, Kabor, and Kashkar and Kudistan, and including Xian--[ph] at the east end of the Silk Road in China.

So I think this is a very important point everybody knows about. But the rich cultural diversity is as much a challenge as a kind of historical diversity, as much a challenge as a kind of opportunity for them. So I think it is important for us to find ways to help these countries to work together against the background of globalization.

The region, as everybody knows, was hard hit by the breakup of the former USSR. Trade was badly disrupted by new borders, particularly increased the trade costs, illegal checkpoints, demand for unofficial payments, extortions of all kinds, and other impediments. And also, as we know, civil wars in Tajikistan, Azerbaijan, and Afghanistan greatly deepened the distress.

So region-wide, the incidence of poverty increased to over 40 percent. And I think all these numbers were sometimes very much alarming. Education, health, and social security services deteriorated sharply, or even ceased, as did the maintenance of transport, energy, irrigation, and other infrastructure. We know today that poverty, unemployment, the hopelessness provide a breeding ground for discontent and radicalism and will lead to

political instability. So all these are big challenges for the Central Asia countries to address.

On the positive side, however, we also see that the region's economic prospects could be very good indeed, given its strategic location as a land link for East and South Asia and Europe, its extensive natural resources, and the fact that it neighbors the fast-growing economies, like People's Republic of China, India, and Russian Federation. So we also have this positive side.

The overall growth rate of the Central Asian republics is now about 10 percent per annum, with some variance--sometimes, you know, quite a big difference. For instance, the oil- and natural gas-rich countries of Azerbaijan, Kazakhstan, and Turkmenistan enjoy very high growth rates, whereas Uzbekistan, Kyrgyz Republic, and Tajikistan trail by a big distance. We see probably the difference, the variance in growth will continue unless something can be done about it. So we believe there is no room for complacency. We believe that the UNDP Human Development Report for Central Asia describes very well the problems and challenges which lie ahead.

Now, relatively isolated Central Asian countries cannot afford to stay isolated and fractured by the borders that divide rather than unite these jigsaw puzzles and, I think, adversely affect the growth of these countries.

So Central Asian countries cannot afford to stay fractured. Those impoverished by the collapse of the Soviet Union cannot continue to be impoverished. So we believe stability demands better, and the people there

deserve better. So resolved in a cooperative manner, per capita income could double over the next decade and poverty incidence could all be cut by half.

In this context I would like to stress the point that ADB attaches great importance to the regional economic cooperation, for it is an essential building block for countries striving to reorient themselves from [inaudible] policies to trade liberalization and a market-based development. Our conviction is shared by other development partners, and together we have forged a strong program of regional economic cooperation for Central Asia. The Central Asia Regional Economic Cooperation, or CAREC, program is a true partnership of eight countries and six multilateral financial institutions.

Here I don't really want to use the word "reintegration" of the Central Asian countries. It's my view that probably few things in this world were as contrary to all appearances as that the Central Asian republics under the former USSR were integrated, or integrated on the basis of market. I don't think so. All roads lead to Moscow. Horizontally we didn't see much kind of cooperation. That is why the collapse of former USSR could be such a disastrous effect on these countries. And if the cooperation and integration were on a market basis, there could be disruptions anyway, but I think it could not be as disastrous as the so-called artificial integration.

So when we look at this CAREC program, we would like to see that this program would provide benefits to the people, to these countries on the basis of regional cooperation through practical consensus-based and results-

oriented initiatives. And the results under CAREC must be reassuring to the people.

We believe that through a growing number of relatively small road investments since 1997, when the CAREC program first began, transport corridors linking Central and South Asia are beginning to take shape. And I think it's going to happen. And also, through an intensive series of country, bilateral, and regional initiatives, customs procedures and facilities are being streamlined and modernized and the knowledge base greatly improved--all key elements in facilitating trade.

And also, this program will help on the basis of the well-documented studies on the costs of trade barriers, and benefits of their removal. Trade policy measures to reduce time and costs of transit trade are being implemented. Again on the basis of well-documented studies, the groundwork has been prepared for reintegrating the energy markets of Central Asia.

So CAREC's focus is on outputs, on outcomes, not on inputs. However, I would like to say inputs are important. We have been highly successful in mobilizing resources in support of regional cooperation. Our combined loan and technical assistance under CAREC is expected to exceed $1.5 billion during 2005-2006. An important next step in promoting regional cooperation is completion of a comprehensive action plan for the CAREC program. This would include performance indicators for each of the sectors so as to monitor the effectiveness of CAREC's input in expanding trade, cutting

transport costs, including time, and improving energy access for all of the households.

We in ADB work on the GMS program, Greater Mekong Subregion program. And as you know, there were some similarities between GMS program and the CAREC program. When the GMS program was started in 1992, just years after the conclusion of the regional conflicts, it was a huge task for ADB to work with these countries to strengthen cooperation, building up the mutual trust, and the building of the physical infrastructure, and now we are moving to the software part. For instance, a single-stop customs clearance, you know, working together to improve the governance. And we have achieved quite a lot in the GMS program.

If GMS countries can achieve economic integration and cooperation, why not in Central Asia? And we are very much confident about that. We are looking forward to cooperation with our other development partners and with you, and I think the prospect for Central Asia could be very good indeed.

Thank you.

MR. TALBOTT: Thank you very much.

Shigeo?

MR. KATSU: Thank you. Good morning, everybody. I'm delighted to be here. It's great to see so many current and former colleagues, to whom I am very indebted and who know much more about Central Asia than I will ever learn. And I see already in the first row my ex-colleagues who are really the

specialists on Central Asia. So I do hope that we're going to have a good panel discussion afterwards.

Let me, maybe, because it's a little bit difficult to answer all these presentations that really have already addressed a lot of the core issues, maybe let me switch tracks a little bit and talk about what is it that we have actually maybe learned out of the process of trying to engage in Central Asia, especially on the regional side.

And it may be tantamount to tautology, but regional cooperation, regional projects are difficult, I think. They require quite a different approach, in particular in Central Asia, for all the reasons that were mentioned from doing national projects. So one has to keep that in mind. That's something that we have learned over years, given that some of the records of our region projects were not necessarily how we would like them to be, especially on the environmental side and so on.

So I think the lesson is one has to be realistic, one has to be patient, one has to stay engaged for the very long haul. And as difficult as it is, at the same time that one sort of tries to push and encourage regional cooperation, unless there is genuine ownership by the countries themselves, the push from the outside only can go so far. That goes to, I guess, the host of the things that we've just heard this morning.

What it tells me is that--again, this may also be tautology--one has to simply continue to pursue both. One has to be willing to push the regional

agenda yet at the same time also make sure that what cannot be achieved immediately as a regional approach you try to pursue at the national level with all of the countries involved, that hopefully go in the same major direction. And that would be on water resource management in Central Asia; we've done electricity as well as trade and other areas that were just discussed.

What are sort of, then, looking ahead for us, for the international community, some of the key challenges, again, that follows from that? I think we need to really strike a right balance between the policy advice and the technical and financial advice. And I think Kemal has already indicated the very first rule number one, in a way, that we certainly cannot afford any cookie-cutter approaches, because the binding constraint for each country is different at a certain time. Just to illustrate, what we would advise Kazakhstan today, obviously, has to be different from what we advise Kyrgyz or Tajikistan.

Yet at the same time, I think, if you want regional cooperation and regional sort of integration to move forward--and in this context I also include Afghanistan, for instance, as was mentioned by John--it is important that the policy advice and direction go in the same direction. We cannot, probably, realistically see regional cooperation, integration, if, for instance--integrated trade and otherwise--if the trade regimes are too different. Which points also, therefore, to the importance of the reforms behind the borders and not just the international trade agreements and otherwise that often are featured.

Interestingly enough, the one thing we have also noted through some of our research is that actually the reintegration of the trade links of Central Asia with Russia have actually proceeded much stronger than what we thought would happen. Obviously, part of it is the resurgent Russia in recent years and so, but it's actually the links are the trade volume as well as also the peoples flows. The volume is actually growing. And that's, in a way, maybe, something that we ought to discuss a little bit also later on in the panels, including, obviously, the role of migration, the linkage of migration with the other aspects that Johannes has also mentioned in terms of the challenges. Remittances do play an important part in, for instance, Tajikistan's income. And the question then all boils down to--

So, what we see from the official statistics is not necessarily what we see on the ground, and I think that's an important part to keep in mind.

And together with that, I think the whole issue of therefore creating good entry points of cooperation which, in the first instance, may not touch upon, necessarily, the political sensitive areas but which where people can cooperate. Customs, trade is certainly one part, but also lifting restrictions on remittances is, for instance, another part. Allowing what is also debated in other parts of the world, the whole issue of migration and temporary permits and all the other things is going to be a very important part for Central Asia as well.

Let me just come back to one more point as I had also started out. Unless we gain strong ownership within the countries and their leadership, it's

going to be a very much donor-driven plethora of initiatives that we are going to see for the future ahead, and I think the key is on how we are going to create this ownership for change and reform and renewal within the governments themselves and the countries themselves.

MR. TALBOTT: Thank you, Shigeo.

I think Shigeo's very good menu of topics is a reminder of one of the virtues of the day, and that is that in subsequent panels we're going to have a chance to come back and bore down more deeply in some of these issues.

That said, with Johannes's permission, I'd like to suggest that we have a classic Washington tradeoff and cut in a little bit on your coffee hour, or coffee half-hour, and make it more of a coffee 15 or 20 minutes in order to get a bit more time for some discussion involving all of you.

What I would like to do to get the discussion started is to put a question to Kemal and to John about the U.N. and the U.S. specifically, and then throw the proceedings open to the entire room. And I'll cluster the two questions.

Kemal, as you knew before, of course, and as Johannes pointed out in his summary of the report, there is a recommendation that the Secretary General appoint a special envoy for the region. And of course it will be up to the Secretary General, ultimately, to decide whether that idea makes sense. But given your own intimacy with the U.N. as an institution and how very busy--and, I might add, stressed--the U.N. is in many ways right now, do you feel that it is

within the capacity of the United Nations in the next several years to increase both the level and degree of focus that it gives to this region? And if you have any thoughts, without prejudicing what Kofi Annan ultimately decides to do with this particularly recommendation, on how the U.N. can institutionally, beyond what the UNDP is doing, help in this region, that would be useful.

John, in your case, I want to pick up on the fact that Richard Boucher is traveling in Asia and that the State Department has now put South Asia into the same bureau with Central Asia, and ask a question about India.

During the several years that I spent a lot of time shuttling in South Asia, I was very struck by the degree to which our Indian friends simply were not paying much attention to Central Asia--a region they call Transoxiana, by the way--in marked contrast to what I would hear when I would travel up to Islamabad, where there was a great deal of attention given to Central Asia.

Given the dynamism of the Indian economy, given the extent to which India is becoming not just a regional leader but a global player, do you see a way of perhaps putting onto the agenda of the U.S.-Indian strategic dialogue the idea of India playing a thoroughly positive and constructive role in the region, advancing the goals that we're talking about here? And of course the subtext there would be to find a way of doing so that is not perceived as being competitive vis-a-vis the roles that China and Pakistan are playing.

So with those two questions, Kemal, you first, and then John.

MR. DERVIS: Well, as you said, Strobe, of course the decision on these things is always the Secretary General's. And let me just say a few things that may bear on this decision. Of course, you know, we're sharing the recommendation with him.

But one of the key principles of appointing special representatives if, of course, that the countries involved would like to have that, would like to work with a special representative. So clearly one of the first questions would be to the countries, whether they would find that useful.

The second point worth making is that when you look at what the Secretary General's special representatives have done in the past, broadly speaking they've been involved in conflict, open conflict or post-conflict situations. Whereas here, I think the recommendation would be much more on the economic side, the economic cooperation side and maybe also conflict prevention. Thank God there's no open conflict now in Central Asia, if we look at the current situation. But there may be a need for conflict prevention.

So it would be somewhat, I think, an unusual--not unusual, but a new kind of special representative. And of course as we are debating the role of the United Nations in the future, particularly in the economic and social fields, and also putting a lot of stress on conflict prevention, I think this becomes a very interesting question. It could in some ways be one step in the direction of making the U.N. more proactive, not only in conflict resolution, but also in

prevention, and also on the economic side. But I can't prejudge how that will work out.

On conflict prevention, as an economist particularly, of course, one has to always stress that if you're able to prevent or natural disasters--and Johannes stressed that--you gain, you know, billions of dollars, sometimes maybe hundreds of billions of dollars. The problem is nobody notices. You know, there is no headline. There is no CNN saying, you know, this is the disaster that's going on. And this is a very sad thing in international affairs, that one gets a lot of attention and support, actually, once there is a conflict. And one gets very little support for trying to prevent conflicts or indeed natural disasters.

MR. TALBOTT: Thank you very much, Kemal.

John?

MR. FOX: Right, on India, then. I will say I don't do India policy myself, but let me try to answer the question as best that I can.

I know that, of course, you, when you were at the State Department, paid a lot of attention to India and, obviously to anybody who reads the newspaper, that that level of interest at senior levels has only increased since then--the President's recent trip there, and India figuring quite importantly in American strategy for the region.

But in the particular context of Central Asia and South Asia and, as you mentioned, the bureaucratic reorganization within the State Department,

India looms large on the horizon. Of course, if you're talking about linking South and Central Asia, you have India sort of at one end of the corridor with its enormous population, its very great demand for energy, which is only going to get larger and which could fit into these schemes for energy transmission that I mentioned. I mean, you might even think in this sort of regional context that India, to coin a phrase, is the jewel in the crown.

But the problem is that, one, India's interest in Central Asia so far, from where I sit, remains more potential than it is real. Indian officials will talk about Central Asia, they'll say they're interested in it, but their diplomatic presence there, other signs of their actual interest in the region remain relatively limited and--including, as you mention, in comparison to Pakistan.

MR. TALBOTT: And China?

MR. FOX: Well, and China, which is--whose interest is growing, of course, in the region. And presence.

On a project level--and I hesitate to go into too much detail here because I can't go into to much detail--what I say about India is that obviously it's farther away. So if we're talking about building practical links sort of outward from Afghanistan, it's going to be literally a ways down the road.

On electricity, although the demand for electricity in India is very high, experts that I've spoken to say that it looks as though the cost of, say, Tajik and Kyrgyz electricity by the time it would actually march all the way across Afghanistan and then Pakistan into India grows to the extent that it's

questionable whether that would actually be a commercially viable sort of a thing.

But obviously, India is a big prize in all of this and something that we've got to keep our eyes on.

MR. TALBOTT: Thank you very much.

Could I ask for a show of hands and my colleague will bring around a microphone. If you will be kind enough to identify yourself when posing a question, and also a premium on concision, please, so that we can make the best use of the next, say, 15 minutes.

QUESTION: My name is Dennis de Tray, and I'm with the Center for Global Development. I have a question for the panelists on, I would say, regional cooperation in a different sense.

It's interesting that on this panel the two major players in Central Asia are not formally represented, Russia and China. Do you as a panel or as individuals see sufficient coordination in the policies that are being pursued in Central Asia among the major international players that are currently interested, particularly in Central Asia's energy, or do you see a continuation of what some have described as the new great game going forward for Central Asia?

MR. JIN: I think when we talk about economic integration and cooperation in Central Asia, we have to--we have to, you know, consider the relationship between these countries and Russia and China, as I indicated, and India. For obvious reasons. Number one, the trade relations or investment with

Central Asian countries are important. But the maximum benefits have to be reaped by involving Russia, China, India. So this is obvious. But the most important point is for Russia, China, and India to understand that they should generally be committed to help these countries rather than to serve the very parochial interests of the individual countries. I think it is very much important to understand this point. And I think the big countries, you know, around them also understand this important point.

And also, when we discuss something beyond the investment and trade--the regional cooperation in, I think, covers more than that. For instance, we talk about communicable disease like avian flu, we talk about control of the drug trafficking and human trafficking. All these kinds of things cannot be done without the involvement of these big countries.

The last point, I think in terms of the eco-environmental balance, how can we make sure that the energy, you know, water, these kinds of natural resources, could be done in the interests of all these countries without also involving these big countries. But more importantly, probably, China, Russia, and India can offer market to these countries. So that in our view, the real economic integration cannot be done on a very small scale.

MR. TALBOTT: Shigeo, then Kalman.

MR. KATSU: Just to add maybe to Mr. Jin Liqun's comments. I think it's relatively early-day going in terms of how the, let's say, nontraditional major countries interact with Central Asia, in the sense that there is, in my view,

still a sounding out because Central Asian countries themselves are quite heterogeneous now, so each one has to be dealt with on its own terms. And obviously from that point of view, Russia knows Central Asia best, definitely.

But when it comes to the energy sector overall, and in particular if you focus on the countries of Kazakhstan, which is trying to ramp up its oil production from 1.5 million barrels today to about 3.5 or so in about 10 years time, Kazakhstan will, in my view, certainly play a very cautious card, trying to make sure that it can live on good terms with all of the major countries surrounding it, because that's in its interest as well. And similarly, I think, all the countries will try to make sure, from the Central Asian perspective, that they will try to stay on as good terms as possible with very complex authorizing--not authorizing, but major power environment.

So I think we have to ask ourselves as much as to whether the outside policies are coordinated as much as whether these countries have a coherent view vis-a-vis [inaudible] these countries.

MR. TALBOTT: Kalman?

MR. MIZSEI: Dennis, as always, asked us a very good question. And even if you didn't ask, I was intending to mention it. Last week, actually, as it happens, the launch--or presented the report in Moscow at the Eurasec regional integration organization. You read in the book about CACO. CACO in the meantime been merged into Eurasec, consolidated into it. And things are happening in the cooperation. As Shigeo also mentioned, trade links with Russia

and also the personal links with Russia have been revived. And it is a dynamic process. Eurasec has an ambitious agenda of basically a customs union between the four Central Asian countries. By the way, very importantly, Uzbekistan has just joined Eurasec and does play, at the moment, a very active role. It also is revising its economic regulations, customs tariffs, and many other things.

So there is definitely a momentum behind cooperation. I would like to avoid the word "integration," because it really has a stronger meaning and it's yet to be seen whether this is going to become a true integration, as certainly the Secretary General of Eurasec does have this ambition. But it's definitely an issue to look at. At the time of writing the book, it was not so accentuated as it is now. Russia investment, particularly in the extractive sectors as well as in the electricity and energy infrastructure, is extremely strong. And of course, it does have a potential of determining, to a certain degree, an integration pattern of these countries. It is an important process, and certainly it deserves analysis.

And since I'm speaking, just let me really recognize the economy cooperation that this report and the work of this report got from ADB and the World Bank. Indeed, Shigeo and Dennis and also the ADB colleagues. I think, when it comes to cooperation, we certainly [inaudible] while preparing this book. I'm very, very hopeful that this very cooperative spirit is going to continue. And CAREC, that the vice president of ADB has talked about, strikes me as a very, very important and good forum on which to proceed, both

cooperation between us, but most importantly, again as Shigeo mentioned, with the countries involved.

MR. TALBOTT: In addition to wanting to underscore what Kalman has said about our appreciation of the ADB and the World Bank, I also want to rise to the bait that Kemal threw out at the very beginning of the discussion and that Dennis's question makes even less resistible to me to rise to. And that is to say a word or two about Russia. And what I'm going to do is put a bit of a sharper point on what I detect to be the very diplomatically expressed views of a couple of my colleagues up here.

Russia is becoming a big problem. Not for the first time, by the way, in history. But it is becoming a big problem in an ominous way, in two respects. One has to do with the way in which it governs itself, which is to say the direction of Russia's internal political evolution. That is, as we say in Washington, another lunch. Please come back for it. We will have many panels on that here at Brookings, I'm sure.

But in a related respect, Russia is also becoming a problem with regard to its official attitude towards and policy towards the other former republics of the USSR. There is a real question about the extent to which the powers that be in Moscow today really want Russia's neighbors, which, like Russia itself, used to be constituent republics of the USSR, to be strong, as opposed to weak; to be independent, as opposed to dependent; to be integrated into the international community, as opposed to integrated into a new entity of

some kind that will be very Moscow-centric; the extent to which the powers that be want those countries to be democratic, as opposed to authoritarian.

And I think that is the question that perhaps many of us would want to hear from if the, as it were, empty chair on this panel were filled by somebody who could address those issues authoritatively from the Russian government standpoint. But I'm just going to flag the issue now because I suspect that in the panel that Carlos will be moderating at the end of the day, there will be a chance to return to this in more detail.

Yes, sir, right there.

QUESTION: Robert Thorpe [sp], formerly of [Inaudible.] I just want to--what you just said, I just want to note that Gazprom and RAO UES are two entities that are very interested in doing some rent seeking in Central Asia, I think.

I wanted to ask this. Negroponte, in his world survey, suggested a possibility of the emergence of a failed state in Central Asia. And my question to Mr. Fox and Mr. Talbott and any others who want to jump in is was he speaking of Kyrgyzstan? And do you see the possibility, the strong possibility of emergence of a failed state in Central Asia?

MR. TALBOTT: John, I'll leave that to you. You can answer for yourself. Whether you want to answer for John Negroponte is up to you.

MR. FOX: Thank you very much. I won't try to read his mind. He may have people that know how to read mine.

[Laughter.]

MR. FOX: But on the question of failed states in Central Asia, no, we don't expect there to be any, certainly in the short term. But it is something that is on our mind, in the sense that it's something that we want to avoid. We saw in Afghanistan what can happen when there's no effective government control over a territory. We don't want it to happen elsewhere in the world and certainly not in Central Asia. We want to see countries that are stable, in a real sense. We saw how unstable Kyrgyzstan had become when almost exactly one year ago today, President Akayev fled after, what, a few thousand demonstrators showed up on a square in Bishkek and the entire government came down like a house of cards.

We think that sound economic policies and being decent to your people and giving them some voice in the way that they are governed are the way to genuine long-term stability. And a lot of our policies and a lot of programs are aimed at exactly that.

MR. TALBOTT: This is going to be the last question for this panel, but there will be a chance to come back in subsequent sessions to other questions on your mind.

QUESTION: Marguerita [inaudible], Institute for New Democracies.

I have a question about the report. It didn't seem to address thoroughly and assess the terrorist threats to the region, as well as the danger

that it poses to regional cooperation. We know that cooperation between newly established, newly independent states is very difficult. We saw it in the Balkans earlier. They need time to consolidate independence before they start cooperating horizontally. But the other problem is that security threats pose dangers to this cooperation. They do not encourage debate. They pose constraints.

So the question is, if cooperation is stimulated on the security area between different countries, all countries in the region, do you think that this is going to open more doors for economic cooperation later? I think we saw this between Uzbekistan and Kazakhstan recently. They started cooperating in counterterrorism earlier and now they're opening more doors for economic cooperation.

MR. TALBOTT: Kalman?

MR. DERVIS: Johannes, would you like to start?

MR. LINN: Now, in terms of the first part of your question, why did we not discuss it in greater detail. We have a small section that tries to explore the linkage between human development, human security, and the security mentioned, particularly the terrorist dimension. But we felt this was such a big topic. Security, national security, the terrorist security, the link to criminal elements, and so on, such a big area that frankly we felt it was going to go beyond what we could cover in this report, given its already very extensive and maybe over-ambitious scope.

So the question, however, and that gets to maybe the core of your question, whether there is a link and indeed an opportunity here. There clearly is a link between human development, human security, and terrorism insecurity, national insecurity, and it's a two-way link. One can discuss that at great depth. The important point you raise is can cooperation and national security help promote and open up cooperation in the economic and other areas.

I think it can. And indeed SCO, Shanghai Cooperation Organization, in a sense is on that track, since it started off as principally a security cooperation organization. It now seems to be turning towards also the economic dimensions. And here, by the way, questions will arise--how does SCO relate to Eurasec on the other hand. And indeed, we would hope that the fact that Russia is in both and that CAREC, the third regional organization, has, of course, China and now also increasingly Russia engaged, that this will begin to close the loop among the organizations working together.

The risk that we see in terms of--and this is maybe my personal opinion--in terms of the security agenda being in a sense at the top of concerns of the governments in the region and the immediate neighbors today, is that it may lead towards the wrong kind--from my perspective, the wrong kind of governance solutions that are being pursued within the regions by the governments in terms of--and the report is somewhat explicit about this--in terms of placing emphasis more on what I would call repressive rather than participatory solutions to the problems, the symptoms that the security actions

are supposed to address. And that, in turn, I think, has built in a vicious-cycle phenomenon that we are very concerned about, the report talks about, and I think will be discussed further this afternoon when we talk about political institutional dimensions of the problem.

So there clearly is a very important link. It deserves a lot more attention than we were able to give. And I think one of the great benefits of this forum today is that we can open up some of those questions, some of those issues, some of those things. So thanks for raising them.

MR. TALBOTT: Thank you, Johannes.

Let's take a 15-minute break. Please be back here to start the next session at 11 o'clock. And join me in thanking the panelists.

[Applause.]

[Break.]

MR. LINN: May I announce two organizational matters for a moment. First of all, for the last session today we have two additions to the panel that I'm very, very happy about. Fred Starr, who is also going to chair this afternoon's session on institutions and politics, has agreed to be on the panel for the last session. Of course, he's a great expert on the larger regional issues and it will be great to hear him on that topic. And Fiona Hill, who of course is also a great expert from here, from Brookings, and a panelist for this coming-up panel, has also agreed. So we really have a terrific closing session with a wonderful panel that Asraf Ghani, among others, will also be participating in.

The only other point I want to make now is that we will have a lunch. We have an hour's time for lunch. It will be a buffet lunch, self-serve, just to your right as you step out. Please stay and enjoy networking or whatever you do. Panelists and moderators are invited to sort of a back room. We'll hide them away, make sure they get something to eat so they're strengthened. So please, ask at the security desk if you don't see me or Sarah or any other of the organizing good spirits around.

Thank you very much. And with this, let me ask Fiona to introduce the panel and the discussion.

MS. HILL: Thank you very much, Johannes.

This session is picking up on some of the themes that Johannes Linn outlined in his introduction. As promised, we're going to get into more depth on some of the issues that were raised in the UNDP Human Development Report for Central Asia.

As Johannes and many of the other panelists said in the last session, the benefits of cooperation for the Central Asian states seem self-evident. It was obviously a major focus of the UNDP report. And yet, as was also stated, the governments and populations of the region are also very much committed to furthering their independence as well as their separation from each other. Johannes showed us some slides at the very beginning in which about 56 percent of people in surveys said that they were negatively affected by the borders that had developed and hardened since the collapse of the Soviet Union, especially in

those border regions where families and livelihoods often spanned the borders across the Central Asian countries.

So what we're going to do in this panel is really investigate the real opportunities for regional cooperation as well as some of the obstacles to a new integration, as was stated in the last panel, of Central Asia rather than a reintegration. I think that was a very important point that our colleague from the Asia Development Bank raised here.

We're going to cover some of the key issues that were brought up in the report as well as in the first panel--water, energy, the environment, transportation, and trade, legal as well as illegal. And we're also, as Shigeo Katsu of the World Bank pointed out, going to look at the issue of regional migration.

Shigeo said this has become an extremely important phenomenon over the last decade in Central Asia. We have millions of people on the move both within the Central Asian region itself as well as, especially, to Russia, both on a semi-permanent basis as well as temporarily. And this has had considerable social as well as economic consequences in Central Asia, not only of remittances, an important part now of regional economies, especially of countries like Tajikistan and Kyrgyzstan, but they're also really affecting the trade flows along and between the states and have had serious political consequences in countries like Russia itself, recipient countries of economic migration.

We're also going to talk a little bit about some of the political and institutional constraints to integration--corruption and other obstacles to reform--although this is going to be the focus of one of our discussions this afternoon in Panel Four.

And I imagine that we'll also talk about, given the representation on this panel, about some of the challenges for donors operating in the region.

We have an extremely qualified group of people to discuss these issues. What I will do is just introduce them in the order that they will speak. Most people are going to speak here from their chairs, but a couple of our panelists have some slides that they want to show, so they may have to unhook themselves from their mics and walk towards the podium. So I hope there will be no accidents on the stage here. I'll just encourage everybody to be careful. I have fallen off this stage before, so I just want to make sure that nobody joins me in embarrassing themselves in front of the group here.

Our first speaker is Adrian Ruthenberg from the Asian Development Bank. Adrian is the director of the Division for East and Central Asia region within the ADB. And he's also responsible for the CAREC program that his colleague outlined, the Central Asia Regional Economic Cooperation program that was initiated in 1997. They recently had a big meeting in Kyrgyzstan in November of last year.

Adrian has had many different functions at the ADB. He's been a country economist, a team leader, and he's also worked in areas such as

knowledge management. And prior to joining the ADB, he was an economist with a private consulting company. I actually had the great privilege of chairing a panel with Adrian back in 2003 at the EBRD conference in Uzbekistan, on water issues. So he's a great expert in a number of issues that we're going to be looking at today.

Adrian will be followed by Dennis de Tray, who has just joined the Center for Global Development across the road here on Massachusetts Avenue as the new vice president. Dennis was previously the country director and regional director for all the Central Asian republics in Almaty in Kazakhstan, where he was most recently based. But he's had a very distinguished and extremely diverse career at the World Bank, covering many different parts of the world. He's overseen programs in countries as different as Bolivia and the Dominican Republic. He's been the country director for Indonesia, living Jakarta. And also was senior representative for the IMF in Hanoi, in Vietnam. So you can see he's had a very diverse experience, which he applied to great effect in Central Asia beginning in 2001.

Dennis will be followed by Anara Tabyshalieva, who is one of the leading social scientists from Central Asia, and is currently a visiting fellow just down the road at SAIS, at the Central Asia-Caucasus Institute headed by Fred Starr. She's also a senior fellow at the Institute for Regional Studies in Kyrgyzstan and was a member of the team of authors that contributed to the UNDP report led by Johannes Linn. She's published a number of articles and

books on a whole range of issues related to development, public health, politics and history and culture in Central Asia. She's also author of the UNESCO Report on Human Security in Central Asia and is currently working on a range of other issues related to longer-term regional development.

After Anara, we'll have Cassandra Cavanaugh, who's currently the regional director for the Central Eurasia and Caucasus program at the Open Society Institute in New York. Cassandra is one of the leading scholars of Central Asia who's moved from academia to the field of public policy. She formerly taught Central Asian history at the College of the Holy Cross, and then went from there to become a senior researcher for Human Rights Watch on Central Asia.

Currently at the Open Society Institute, Cassandra is spearheading a number of programs related to migration in Central Asia and looking at the plight of economic migrants across the region who, as in many other settings, not just in Central Asia but obviously here in the United States and more broadly in Europe, suffer from a number of problems both in transiting borders and then in the recipient countries. Obviously this is a hot topic in many regions right now.

And then closing for us on the panel is Drew Luten, who's currently the acting assistant administrator at the U.S. Agency for International Development for Europe and Eurasia. Drew, like other people on our panel, has a very diverse career. He served as the USAID's deputy general counsel. He's

worked on a number of key issues at USAID, including being part of the working group that established the Millennium Challenge Account, and he was briefly the deputy general counsel for the Millennium Challenge Corporation that was set up, working on the startup of the corporation.

He also has helped to establish USAID's Global Development Alliance, which is a new program which has been trying to promote public-private partnerships for international development programs.

So we're very fortunate to have this group of people with us here today. As I mentioned, we'll go in the order of the people that I've introduced, and so I'll turn it over to Adrian.

MR. RUTHERNBERG: Thank you, Fiona.

I would like to thank, first of all, the UNDP and Brookings for inviting me. It's a great pleasure to talk in front of you.

For over two years, we in ADB have been working on trade, transport, and trade facilitation and what regional cooperation can do to improve these three areas. I will call them from now on the so-called 3Ts. And a summary of this work we have done went into the Human Resource Development Report, in Chapter 3. It was a great experience working with UNDP on this Human Resource Development Report, and I hope we're going to have many more such experiences. It was very enriching and personally satisfying. I just thought I needed to make that point.

Now, let me dwell on the key issues we face in the areas of 3Ts. First, the trade policy issues.

The Central Asian countries have much in common, but what they don't have in common is a common trade policy regime. In fact, it cannot be more diverse than what we have there. We have, on the one hand, the Kyrgyz Republic. It's probably one of the most liberal trade policy regimes on the planet. And we have some of the most restrictive trade policy regimes, particularly in Turkmenistan and Uzbekistan.

The problem is not so much tariffs--they range between 5 and 14 percent, 5 percent for the Kyrgyz and 14 for Uzbekistan--but that the tariff regime is rather complex and it does change quite frequently and is unpredictable. And then we have a whole set of indirect tariffs and behind-the-border policies. We have excise taxes that are levied on imported goods but not on domestically produced; we have escalating tariffs; and we have a licensing regime being used, which are all barriers to trade policy. We also have issues like restricting foreign exchange for importations.

Now, all these trade policy barriers do one thing: They create large arbitrage opportunities and they push trade into illegality. And that also has repercussions for transit because any truck that passes, for example, through Uzbekistan is of course--the officials are suspicious that this pays quite handsomely, to throw a couple of bags over the truck. So the sense that that's

the high cost of transit is partly a suspicion of making use of these arbitrage opportunities.

Now, the transport costs for Central Asia are generally very, very high. They're also unpredictable, the transport times. The transport costs generally, and logistics costs, are about 20 percent of all exports and imports, whereas really they should only be 10 percent.

Now, if you're a truck driver and you drive from, say, Europe to Bishkek, it will take you about 20 days and will cost about $10,000 to do so. And on the way you probably will have to pay some $1,800 in bribes. Now, once you reach Bishkek, you will have probably a hard time finding enough cargo to bring back to Europe. And if you do find something, you may not be willing to take it because the transit processes and procedures are so complicated and you're subject to so much harassment that it's simply not worth it. And we in ADB estimated that this creates losses of $300 million a year, that he goes back most likely empty.

Now, as far as the future trade is concerned, the interregional trade is quite small. It has grown quite rapidly. It's, I think, $3.5 billion now. But the reason is that the Central Asian countries have a very low level of trade complementarity, and the future that has been talked about this morning already quite extensively lies with the trade links with their neighbors, in particular to the south and to the east. And we also have done some gravity model

calculations which seem to indicate that Central Asian countries do under-trade with Southeast Asia or Europe and the U.S.

Now, one reason why all these, as we in Asia call them the noodle bowl, not the spaghetti bowl of regional trade agreements have not worked in Central Asia is that there is little trade complementarity among them. Now, there are so many. There's the Eurasian Economic Community, there's SCO, and there is the CIS and the Single Economic Space. They all have not really had a major impact so far.

Now, this morning we talked briefly about the Eurasian Economic Community and the customs union they are planning to create. Now, we just assumed that--well, we did some calculation of what that would mean for Kazakhstan, and we concluded that within 10 years Kazakhstan's GDP would actually be about 20 percent lower than otherwise if they joined the customs union because it will bring tariff levels up.

So that doesn't say anything about the Eurasian Economic Community. There are a lot of good things about it to say. For example, because Uzbekistan has joined, it becomes much more significant. And for example, I just talked to the vice minister of finance from Tajikistan, who is very happy that Tajiks will not need visas for Uzbekistan anymore under that arrangement.

But what generations much more benefits is, of course, trade liberalization under a multilateral framework, and here in particular the WTO

accession. And the WTO is really the vehicle for Central Asia to liberalize--expand markets and diversify their products. It makes them less vulnerable to protectionism and it has a dispute settlement mechanism, which all the regional trade agreements don't have yet. It also gives them less options for policy backtracking. And it will give them a forum to address trade issues that are so important for Central Asia but have nothing to do with Central Asia. That's the protectionist policies of the West, in particular as far as cotton is concerned.

Now, we have tried to quantify the benefits of reducing external transport costs and domestic distribution margins. And we have used Kyrgyzstan as an example and we have come up with a general equilibrium model to do so. Under this model we have estimated that the benefits to Kyrgyzstan of reduced transport costs and distribution margins would be cumulative, about 2.1 billion within the next 10 years. And that is cumulatively about 115 percent of GDP.

We have done similar estimates also for cotton tariffs in Kyrgyzstan. But since the tariff levels in Kyrgyzstan are quite low already, the benefits are still significant, cumulatively about 20 percent of GDP. But they're not as important as the reduction in transport and local distribution margins.

Now, what does it mean for the other countries? For the other countries like Tajikistan, the benefits will probably be even larger. Much larger, because they do face a much more difficult transit environment than even Kyrgyzstan does, and they have higher transportation costs. The benefits will be

less in Kazakhstan, Uzbekistan, and Turkmenistan, but they will still be quite significant.

Now, how to unlock these benefits, and what can we do about them? Well, first of all, we are doing a lot about it already and we probably need to continue doing so and intensify the work we are doing.

First of all, assessing the costs of noncooperation and the benefits of cooperation is an extremely important task to inform decision-makers but also to build constituencies for regional cooperation. And the IMF, who's leading the CAREC Trade Policy Committee has done outreach seminars on trade policy in Kazakhstan and Kyrgyzstan in the last month, and they did a fabulous job. And they will have an outreach seminar in Beijing on the 13th of April.

Secondly what we can do is we need to step up assistance for trade facilitation. I think that's the area with the highest payoffs. We have under CAREC a Customs Cooperation Committee and an action plan, how to harmonize customs procedures, et cetera. But this needs to be expanded, and it needs to be expanded to include all border agencies. We also need an easier transit system, a regional transit system for the region. The TAR system has worked very well for longer distances, but it's simply too expensive for Central Asia and for interregional trade. Then, of course, any assistance the countries should need for WTO accession they should be receiving, and the donor community is probably tasked here.

The third point I want to make is of course the infrastructure. We need to invest much more into infrastructure. We have to upgrade and expand the road links. We have to renew the rolling stock in the railway industry. We have to introduce competition in the railway industry, in particular, and in the airline industry as well. We need, I think, a regional transport agreement, and in fact the Shanghai Cooperation Organization is working on one with some assistance from SCOP [ph] and also ADB.

And fourth, I think it's been said many times and the Human Resource Development Report made that point quite well, there's no substitute for sound macroeconomic management and a set of policies that are geared to provide an environment for the private sector to grow in.

Fifth, I think we need to work much more with the countries to mainstream regional cooperation in the domestic development planning process.

Now, just let me finish by concluding with a couple of sentences on strategy. There are really three main issues in the 3T areas. One is that the benefits are not symmetric. They're asymmetric benefits. Second is, of course, the issue of mistrust among Central Asian countries. And third, the lack of political will.

Now, what can donors do about that? Regarding the first one, the asymmetry of benefits, we need to exploit the so-called win-win situations. There are not that many in the area of transport and trade and trade facilitation, but we need to accord high priority to identify those that are actually there.

Secondly, calling to mistrust is when there is little progress on major cooperation agreements and major breakthroughs. If that's not possible because of various reasons, then there may still be a lot of things that we can do in regional cooperation that are probably less visible but that generate concrete results at the borders and for the people. And that's what we should be concentrating on.

As far as the third point goes, the political will, multilateralism is far superior to any other form of cooperation in Central Asia, but if it doesn't work, bilateral solutions are still better than no other solutions.

And with this, Fiona, I return back to you.

MS. HILL: Thank you very much, Adrian.

Dennis?

MR. de TRAY: Thank you, Fiona.

Fiona said that I had a diverse career at the Bank, which is true, but there was one consistent and common element. At least for the last half of it, I managed to find ways of staying outside of Washington all of that time. Which influences to some extent what I have to say. I will tell you, however, my wife's and my return to Washington has been much smoother than I expected. But the secret is we treat Washington just as a yet another foreign posting. With that, we have found that it's actually quite fun to be back.

The issue of water and energy in Central Asia is one of huge historical and political importance. I know many of you in this room are experts

on Central Asia, but just to make sure, let me go over some basic facts to give all of us a sense of the problem.

Ninety percent of Central Asia's water originates in two countries, and 90 percent of that water is used in three other countries. And of those three countries, two countries, Turkmenistan and Uzbekistan, consume by far the majority.

Water is very badly used in Central Asia. For every 200 liters that are taken out of the two great rivers, the Syr Darya and the Amu Darya, only about 30 liters actually make it to the fields. There is huge potential for energy in Central Asia. The Kyrgyz Republic has an energy potential of something like 165,000 gigawatt hours per year, and it currently taps about 10 percent of that. Tajikistan has an energy potential that is twice that, some 320,000 gigawatt hours per year, and it taps about 5 percent of that.

This is not a pleasant place to be poor in the winter, I assure you. Both the Kyrgyz Republic and Tajikistan's populations survive in the winter on heat generated mainly by electricity. Uzbekistan, Tajikistan and Turkmenistan are essentially deserts, and their agriculture survives on water. Anyone who has actually had the privilege and joy of driving through Uzbekistan from Bukhara to Urgench, it is an extraordinary journey because you leave a green agricultural area, cotton as far as you can see, and there is literally a line in the sand when you go to the nonirrigated areas, and it is not just any desert, it is a nasty desert.

It is really bleak. So you have some sense in a very stark way of how dependent those countries are on water.

What is the issue? The Kyrgyz Republic and Tajikistan need to use the water that they feel they own in the winter to generate electricity, and that same water needs to be used in the summer to keep agriculture alive in the downstream riparians. This is the so called water-energy nexus, the connection between water use in the winter for power generation, and water needs in the summer for irrigation.

The important point to keep in mind is that there is enough water. If water were used efficiently in agriculture and power generation in Central Asia, there would be enough water to go around, so this is not a matter of having to make really tough decisions at the margin about whether you heat or irrigate, it is a question of using water efficiently.

In the past solutions to this so-called water-energy nexus, under the Soviet system, weren't fundamental as there was not a problem because it was one integrated, centrally managed system. It was not very efficient, but it was consistent and coherent, making sure that those in need of electricity in the water got it, and those that in need of irrigation water in the summer got it.

With the breakup of the Soviet Union, this integrated system also broke up. In 1992 there was a tentative and early water-sharing agreement reached, but nowhere in that agreement was energy mentioned, and without that, this agreement simply could not survive going forward. In 1998 there was

another agreement brokered actually by the U.S. called the Framework Agreement for the Syr Darya, but this was an agreement based on barter that would depend on Uzbekistan and Kazakhstan providing hydrocarbon resources to the Kyrgyz Republic so that they could generate electricity in the winter, and then the Kyrgyz running their Toktogul dam system in more of an irrigation mode.

If we look going forward, since these solutions really did not work very well, there are easy solutions and there are hard solutions. Unfortunately, the easy solutions are hard, and the hard solutions are easy. The easy solutions, that is easy technically and economically, are solutions that would have the Kyrgyz Republic selling electricity in the summer and thereby releasing water for irrigation, and to use the money that they receive from these sales to buy hydrocarbon fuels in the winter to run their thermal plants to generate electricity to warm their houses in the winter. It would depend on improving the efficiency of electricity use in the Kyrgyz Republic and Tajikistan, which is very low at the moment. Why? Because electricity is incredibly low-priced, less than a penny a kilowatt hour, half a cent to .7, and also it would depend on improving the efficiency of water use for irrigation, particularly in Uzbekistan and Turkmenistan.

The problems with this solution are twofold. One, it depends on domestic policies that in a sense come at a cost to each individual country, but generate benefits. The second is that it depends on trust. It depends on the trust

of the Uzbeks, for example, and the Tajikistanis, that the Kyrgyzs will in fact manage Toktogul in an irrigation mode and release the water in the summer. As was mentioned in the earlier panel, this is not a region that is replete with trust. There is very little trust among the leadership in this region, and each is convinced that the other is going to benefit at their cost.

The hard solutions at least efficiency-wise are to use the incredibly scarce resources for infrastructure development in Central Asia to build dams, to create infrastructure, that would not be needed in a cooperative world, and that is what is happening as we speak. We were asked as panel members to speculate on how large the benefits of regional cooperation in each of our sectors, in my case for water and energy, would be. These are well covered in the very excellent report that Johannes and his team produced. Again, some orders of magnitude.

Both Kazakhstan and Uzbekistan will spend something on the order of $200 million each that they would not have had to spend on facilities to store water because they do not trust the Kyrgyz to do so. There is, and this is not really an issue of regional cooperation, but it is definitely an issue of the water-energy nexus, thought to be something like $1-3/4 billion of losses to agriculture each year from poor water management, something like 3-1/2 percent of GDP of the region. Something on the order of $30 to $35 million a year are lost because the Toktogul dam system in the Kyrgyz Republic has to be run on generation mode in the winter rather than irrigation mode in the summer.

These are huge benefits to the region and huge costs to not doing them, so why doesn't it happen, which is the question that was earlier asked and discussed. I think it is for the same reason that regional cooperation doesn't happen generally, and it doesn't have to do with cooperation, it has to do with domestic policies, and until domestic policies are of a sort that allow for regional cooperation, it is not going to happen.

Turkmenistan is a country in which you can fly from Ashkabad to Turkmenabad, which is about an hour's trip on a 727, a new airplane, and if you are a foreigner, you pay four dollars, if you are a local, you pay two-and-a-half dollars. Why do they do that? They pay $5 a ton for the feeder stock to their refineries. Back when I was visiting there, this feeder stock was like $175 to $180 a ton, and it is probably twice that now. This is a country that does not believe in prices, it does not believe in economics, it is an engineering country, and there is no way that efficiency is going to be created in this country going forward. So the notion of creating good water use in Turkmenistan is going to be a significant challenge.

Uzbekistan also has prices and management policies that make its internal economics inherently inefficient and its prices distorted. It also has a very deep-seeded distrust of its neighbors, and that distrust is growing particularly for the West based on recent events.

The Kyrgyz Republic and Tajikistan have no power, they are small countries and they are very poor. They are open already, they are prepared, I

think, and would benefit from regional cooperation, but they do not have the wherewithal to push it.

The only significant player in regional cooperation going forward, I think, is going to be Kazakhstan. This is a country that has both the power and the money, and to some degree the credibility to actually provide leadership within the region to regional development. Why will it be in Kazakhstan's self-interests to do this? Because they do not want all of Uzbekistan and the Kyrgyz Republic in their back yard, and if those countries are not stable and do not develop, that is what is going to happen.

So this is a very complex set of issues. As I mentioned in my earlier question, it is going to be collaboration and cooperation not simply within Central Asia, but within the donor community more widely. It is going to involve bilaterals, it is going to involve Russia, and it is going to involve China. These are countries that have their eyes set on the energy of Central Asia and would like to see that process as efficient as possible. They are going to be involved in significant investments in Central Asia. But much of that demand is going to come from outside of the Central Asia region, particularly to the south as was just mentioned this morning, Pakistan and India. By the way, you do not have to transport Central Asia power all the way to India. Transport it to Pakistan, and let Pakistan sell its energy to India. That is what one does with oil, and it can happen with power.

This is a high-stakes, high-benefit game that is going to be played out in the next 5 years, and I think it is going to involve all of the players that we have discussed in the earlier panel, and if we can find windows of opportunity to move this forward, and there are some that we can maybe discuss in the question-and-answer session, I think it will be of huge benefit to the region. Thank you.

MS. HILL: Thanks, Dennis. Anara, are you ready for your session?

MS. TABYSHALIEVA: I would like to thank you for inviting me to talk today in my presentation about disaster prevention and social development issues in Central Asia. All of you know that Central Asia is a part of the world prone to natural disasters with regional impacts, especially earthquakes and floods. The last earthquake has taken place in Tashkent 40 years ago, and experts say that earthquakes in major cities in Central Asia may cost potentially from 45,000 to 75,000 deaths per city, hundreds of thousands might be displaced, and also it might trigger ethnic conflicts and some other terrible things.

Natural disasters threaten the pollution from uranium waste. I totally agree with Kemal Dervis who highlighted today the need for natural disaster management. Unfortunately, in Central Asia, issues of terrorism or some imaginary threats are discussed more often than real threats of natural disasters. For instance, an uranium dump in Mailii Su in Kyrgyzstan is a threat to 3 million people in the Ferghana Valley if flooding or landslides occur. There

is a similar situation in Tajikistan of Lake Sarez and could affect up to 5 or 6 million people in Afghanistan, Tajikistan, Turkemistan and Uzbekistan.

It is very important that people in the region should have access to risk assessments, and regional information should be disseminated on a regular basis. An early warning system for natural disasters and hot spots of regional significance needs to be established. Seismic rehabilitation projects and new construction with seismic designs need to be initiated in each capital and all large cities. Unfortunately, we know that the brain drain and the decline of science affected the ability of each country to assess the risk of natural disasters. That is why it is very important to the supporting and training of local experts. Many of them, as a rule, cannot speak English. And civil society groups also could play an important role in disaster management. They can help in communication between government and local communities, attract funds, and assist in promoting community awareness and preparedness.

Regarding social issues and health care, it is very important to note that neighbors share the same legacy of health care management and very similar challenges for the future. Common policy issues start with, first of, assuring access to health care by the poor, restructuring and downsizing the large and rapidly deteriorating facilities, and reform of the financial mechanisms, reducing corruption in health care. What is very important, I think, and is underreporting and poor statistical practices that prevent effective monitoring and

benchmarking at national and regional levels including the monitoring progress towards achieving MDG.

People who know Central Asia very well will not trust some figures proposed by national statistics and eventually by UNDP reports because it is clear that the situation is totally different. I remember in Soviet times how the Central Asian people enjoyed traveling annually to resorts in the neighboring states. For instance, people from Kyrgyzstan visited the Borovoy resort in Kazakhstan; people from Uzbekistan visited annually Isakul [ph] resorts. Similarly, in the Ferghana Valley, people visited resorts and parks only for weekends.

Communicable diseases need to be attacked on a regional basis, and there is the first success story. A regional multidonor project on HIV/AIDS was set up with the help with the Central Asian Cooperation Organization and marks the first time a regional intergovernmental organization which was directly involved in joint activities between nations and external agencies.

One example of why we need also to cooperate is the incidents of tuberculosis and an increase of 2 to 3 times in Tajikistan, Kyrgyzstan and Kazakhstan, and affect mostly poor and young people. Although the Central Asian republics have expressed political commitments to meet the MDG targets for TB, experts doubt that they could be successful because it requires more coordination among national agencies, and they need more international

financial support. You can see that the incidents of tuberculosis increased very much in Tajikistan, Kyrgyzstan and Kazakhstan.

I tried mostly to collect success stories from statistics, and I think there is another success story when we can see that three countries, Kazakhstan, Kyrgyzstan and Uzbekistan, have overcome to a certain extent transitional constraints and reached a preindependence level in general secondary school enrollment in the early 2000s. Unfortunately, there are more problems in Turkmenistan and Tajikistan.

The education sector remains a highly centralized top-down structure, and we see that two countries, Kazakhstan and Kyrgyzstan, have taken progressive institutional changes in decentralizing tertiary education, encouraging private education and achieving more academic freedom. There also we can see that they managed their transitional problems in the higher education sector.

From this light, you can see that there is a high share of Internet users in Iran, followed by Kyrgyzstan and Kazakhstan, and also there is definitely a great gap between urban and rural youth in access to the Internet, and this gap needs to be narrowed.

Despite much progress in regional and national agenda development issues, many questions arise about the efficacy of implementation on conventional legal frameworks and policy proposals. We can see that there are very strong counterbalancing factors of economic and social declines and

resurgence of traditional cultural values. The access of women to land and other assets is the most complex issue in Muslim countries. In the predominance of customary law in inheritance, women's rights are rarely discussed issues in society. For instance, in Kyrgyzstan we notice that despite privatization of land and real estate, women in practice get fewer benefits than men do.

Here we can see the ratio of estimated female to male earned income, and women earn less than their male counterparts, but they do not fare worse than their female counterparts in Russia and Hungary. But at the same time, we need to take into account that the economic restructuring hits women very hard because they represent a major share in public service sectors such as health care, education and culture.

To finish, I just would like to say that talks about regional cooperation might be rhetoric unless we understand domestic policies in each country, and we really just need to think how to develop more regional strategies for supporting national and regional social policies and programs, and a regional benchmarking and monitoring will help encourage progress towards common goals. Sharing information can bring together government and business organizations to collaborate on solving problems.

I think it is also very important for Central Asia to strengthen national statistics for their main health, education and gender parameters, and follow international standards. Also it is very important to support a regional information exchange and networking among professionals, educators, scientists,

on an individual and institutional basis, encourage regional media, civil society arts and culture networks and exchanges.

And finally, it is very important to support the development of information and Internet technology as the key instrument for linking up with the regional and global knowledge network. I would like to state the issues that if governments and nongovernmental sectors cooperate on social development issues, population immediately benefits in their everyday lives.

I just would like to thank you for your patience, and here is a cartoon--

MS. HILL: Thank you very much, Anara. Cassandra?

MS. CAVANAUGH: Thank you, Fiona, and thank you, Johannes and to the Brookings Institution for inviting me to comment on this very important issue of labor migration and its impacts on the region.

One of the benefits of being a speaker to follow many distinguished colleagues is that so many of the important themes that you would like to address have already been brought out by the other speakers, whether that be the impact of these processes on women, the problems of mistrust in the region, and the benefits that would accrue from multilateral solutions in the region, so you are going to hear all of these things in my short remarks.

I was invited here to talk about labor migration because since 1996 the Open Society Institute has been supporting largely nongovernmental organizations in Central Asia, working to promote the rights and the well-being

of labor migrants. Those nongovernmental organizations do work in Tajikistan, in Kyrgyzstan, hopefully soon in Kazakhstan, in ever closer partnership with governments in the region on this problem. So here is another one of our common themes, the potential of more public-private partnerships to work on some of these problems together.

I should mention that an OSI funded NGO in Russia, the Fund Tajikistana [ph] takes on the individual cases of migrants not only from Tajikistan, but from across this region, of over 2,000 migrants each year and helps them with legal and other assistance, and provides consultations for about 1,500 migrants every month, both in Moscow and its branches across the Russian Federation. The Open Society--together with the Tajik League of Women Lawyers has for 6 years worked to inform migrants about their rights, about the dangers, and about their obligations at points of departure from different parts of Tajikistan as the migrants leave to Kazakhstan, to Russia, and further on.

We are newly supporting groups in Kyrgyzstan and in Kazakhstan, and we hope that this will help to inform and better equip migrants for the dangerous journeys that they are going to undertake, but of course, this is a drop in the bucket and this is a problem that has to be addressed much more systematically, and so that is the conclusion that I hope to bring you to soon.

We have been asked to describe the benefits of regional cooperation, how those benefits could be mobilized, and what the obstacles are. I would like to spend a little bit of time talking about the state of the world as we know it

now, even though it was very well described in chapter 6 of this report which I recommend to you.

As many as 1 million Tajiks, half a million Kyrgyz citizens, and 1.5, or even as demographer suggested to me recently, almost 2 million Uzbeks travel for work from their homes to Kazakhstan, and mainly to Russia. It is difficult to dispute the critical importance that their earnings have for the individual families, for the communities, and the states that they come from, and that one undertakes very risky, very arduous journeys to take up often menial, sometimes dangerous jobs, to face abuse, to face uncertainty, without very good reason.

I could begin by saying here is the magnitude of the problem, everyone can recognize that this is very important for the survival of these communities, but we all, of course, can also admit that this is the ideal state of the world. In an ideal state of the world there would be enough economic development at home to keep people in their own communities building them and building their futures. For the time being there is not, and so we have this huge mass of people making these journeys to areas of labor shortage. Our question is, how can more regional cooperation help to make this process better, easier, more beneficial for the individuals, and for the communities involved? Let me talk just a little bit about the consequences of the lack of great regional cooperation, though these were spelled out in other outlines.

In sending countries, Tajikistan, Kyrgyzstan and Uzbekistan, in general, the migration process from Central Asia into Russia and now into

Kazakhstan comes about in an unplanned fashion spontaneously because there is not enough information about the needs of the labor market to which the migrants want to travel, and there is not enough information about the oftentimes very difficult, complex, sometimes insurmountably so requirements to legalize one's presence and one's labor in these markets. The lack of information can lead to very poor outcomes for job seekers, to put it mildly, and ultimately the lack of information leaves migrants vulnerable because they find it difficult to legalize their status, they can be easily preyed upon by employers and by law-enforcement officials. So this is one of the consequences for this lack of cooperation in sending countries.

In sending countries, another consequence is the high cost of migration. Because it is so difficult to get to destination countries, migrants have to invest a lot, money that they often do not have and find difficult to obtain just in order to obtain some of these jobs. The burdensome regulations on exit and on legalizing labor abroad is another consequence of this lack of cooperation. This is a problem that exists largely in Uzbekistan where the facilitation of labor migration is a state monopoly. The state agency facilitates this under bilateral agreements mainly with South Korea, leaving open a huge demand for positions to work abroad. So they can only fulfill a tiny proportion of the demand, and it is not fulfilled very well. Theoretically, if you are an Uzbek wanting to work abroad, you can obtain a contract, go back to the state agency, legalize it, ratify it, and get official permission to leave, but in practice

this is very, very difficult and impossible, and so it leaves Uzbek labor migrants totally unprotected because of the initial illegality of their departure in their enterprise.

The problems in transit I will not go into, and Adrian has discussed very well, the difficult customs regulations, but the burdensome visa regimes and transit regulations for migrants coming from the south to the north you can well imagine. Then, of course, this leads to more corruption in transit. $1,800 is the figure for informal truck payments, but imagine if you are a migrant with hardly a dollar in your pocket, all of the informal payments that you have to make simply to get to your point of destination. It is very, very burdensome.

Finally, a few of the problems are in the receiving countries. The main problem is, of course, the high barriers to legalizing your status and legalizing your employment in your destination country, and whether that is Russia or Kazakhstan. If you are not legal, you are vulnerable. The organization that we support, the Fund Tajikistana, among the 1,500 inquiries it receives every month from migrants from across this region, 90 percent of those are for people applying for help with employers that have not paid them for the months and months of work that they have often carried out, again, in these menial and dangerous jobs. If you have been to--

[End Tape 2 Side A. Begin Tape 2 Side B.]

MS. CAVANAUGH: [In progress] --employment and simply told see you later, here are your documents back, maybe, you might even consider

yourself lucky because you are not among the migrants who have been held in indentured servitude and forced to work in dangerous, humiliating, or conditions that sometimes amount to torture, again, with no hope of obtaining compensation for your labor. These are not scenarios that happen uniformly across the board, but they happen often enough to make this a huge humanitarian and social cost that is borne by the migrants.

If you are not victimized by your employer, you may very well be victimized by law-enforcement officials. Both illegal and even legal migrants are easy targets for law-enforcement officials who can take your passport, rip up your migration card, rip up your residence permit, and all of a sudden you are illegal and what are you going to do about it. Because the threat of deportation from Russia carries with it a 5-year barrier to legal reentry, migrants, even legal ones, are extremely vulnerable to extortion because if your family's survival depends on your obtaining work in Russia, you do not want to be barred from reentry for 5 whole years because that could well be a death sentence, not to engage in too much hyperbole here.

The final problem in the receiving countries that I want to outline is that the migrants' labor, if it is illegal, remains in the gray economy, and this deprives the host state from the revenues, from legal enterprise, from benefiting from the wealth that is created by the work of the migrants. I would submit that this is also not an ideal situation.

Let me double-track again to the sending countries to talk about problems that are created when migrants go back, or the problems that they leave behind. TB and HIV are growing in Central Asia, and part of the problem of their spread is that they are carried back very often by migrants who lack any kind of health care in their destination countries. The families left behind from migrant communities are often faced with huge problems that are not necessarily well addressed by the governments of the sending country.

What would regional cooperation look like? It would be ideal if migrants would find it simple to obtain information about the needs of the labor markets to which they want to travel, legalize their exit from their own countries, a procedure for simply obtaining legal status in destination countries, and legalizing their labor contracts. This would be the state of the world in which migrants could hope to obtain the best defense both from the systems of law enforcement in their host countries, and also from the consular services of the sending countries.

Why is this not the case? Why has this proven to be so difficult? There are bilateral agreements between Tajikistan and Russia, although they are not yet ratified, between Kyrgyzstan and Russia, that facilitate labor migration, but still these do not function well and they are, in some senses, inadequate. So what is the problem? I would say the first issue that we may want to address is that initiatives from the sending countries to simplify this process are uneven. Some sending countries are better and more active than others in pressing the

interests of their own citizens. Tajikistan is a great example of a country that has been very, very active in trying to create better conditions for its labor migrants. They are strongly pursuing these agreements with Russia. There are very active consular services all throughout the Russian Federation dealing with sometimes quite limited resources.

Uzbekistan is an example of a country that has not done as much as it might to create better conditions for migrants, and seems to have little interest in pursuing the kinds of agreements that would facilitate migration. Although we know that a law on labor migration is under preparation in Uzbekistan, it seems to be stalled. It is not quite clear whether it is going to address the problems that currently exist.

The second barrier to greater cooperation is certainly regional politics. Very simply and bluntly put, countries that are labor importers sometimes find this a very useful lever to use in bilateral negotiations with sending countries on other issues, so there needs to be a little bit more goodwill in these negotiations.

The third barrier I would say is migration is truly politically sensitive in receiving countries. Even policy makers who understand the economic importance for Russia and for Kazakhstan sometimes are loathe to encourage it because of vested interests among employers, and law-enforcement officials, a popular xenophobia and racism, frankly, sometimes stoked by public actors, are truly factors. Just to mention briefly, monitoring with some of the

groups we work with in Russia and Kazakhstan make it clear that sometimes the media outlets in these countries often inflates public perceptions of the role that migrants play in crime. For populist reasons we can understand it, but it is not helpful.

The fourth problem is that transit countries like Uzbekistan and Kazakhstan have legitimate security fears that I do not want to minimize which they cite as the reason for their reluctance to streamline some of these procedures for the movement of labor resources. They do not have to be barriers to better agreements, but they are often cited as such.

Finally, the last barrier that I would like to mention is one that may not be immediately obvious to you, but it is very important to the Open Society Institute, is that increasing hostility to and limits on nongovernmental organizations does not help this problem because NGOs can provide access to expertise, they provide social services, they can be a mobilizing force in helping to find solutions for these issues, and let's face it, all across the region, conditions are not getting better for NGOs, they are getting a little bit worse. A new law on philanthropy introduced in the Kazakh Parliament may not help us, a draft law introduced in Tajikistan late last year was not helpful, though I understand the government has pulled back from that. You all know the situation for NGOs in Uzbekistan, and in Russia, too, conditions are not beneficial.

Here, I would say this is such a poignant issue because NGOs and states' interests really are together, there is a huge consonance of interests here, so it would be a tragedy if the overall suspicion of the third specter is allowed to damage this cooperation.

How can we overcome these obstacles? Quite simply, we need more political will. That is not a mystery. That is the same with all of these issues. NGOs tend to see this problem as one calling for the tools that they have at their disposal, more research, more advocacy, more mobilization, building the case with governments and with the public. But, naturally, the role of intergovernmental organizations here is primary, and the IOM, the International Organization for Migration, has done great work in this field, and we hope that they will do more. We hope, in particular, that Uzbekistan will issue accreditation to the IOM and that other intergovernmental organizations like the OSCE will continue in their efforts to raise the level of discourse about the migration issue.

We need to increase the amount of information about the benefits of migration in both sending and receiving countries to make the win-win clear here, as another panelist has mentioned. Migrants themselves lack a political voice. The more that we can do to use the migrants' own energies, desires, and information to inform the debate about migration and making these processes easier. But although NGOs are one way to fill this gap, we need to find other constituencies for migration, and among the very important constituents are

employers. You might be interested to know that the Russian Union of Construction Trades has actually come out in public support for simpler migration procedures because they recognize that more legal migration is beneficial for them. But the main proponents of better migration policies have to be found in government, and to this end, I hope that we can all use all possible regional economic fora to discuss ways to make the process easier and beneficial for all concerned.

We have a little bit of hope, in that a recent study conducted by the IOM in Kazakhstan shows that 88 percent of the Kazakhstani officials that they polled support easier legalization procedures for labor migrants. And that Kazakhstan has recently concluded a bilateral agreement with Tajikistan also makes us hopeful that at least in that labor market, conditions for migrants will soon be getting better. Thank you.

MS. HILL: Thanks, Cassandra. Drew?

MR. LUTEN: I first would like to salute Dr. Linn and his team and UNDP for the Human Development Report for Central Asia. It is insightful, it is well researched, and it is quite timely. USAID, and particularly our staff out in Central Asia, were very grateful for the opportunity to work with you during the research and writing process, and I can tell you that it has already helped inform our own thinking about how to proceed in the areas of private sector development, natural resource management, and regional trade.

Just by way of background, USAID has provided assistance to the Central Asia Republics since 1992. We have a large regional mission in Almaty, and we have five smaller country offices in the capitals of each of the republics. Currently, our regional office is headed by Chris Crowley who is one of our most senior and most distinguished Foreign Service Officers, and one of our most experienced Field Director.

Our programs in the region and in all of the countries focus on strengthening economic growth and natural resource management, we focus on promoting health and education, and on promoting the responsiveness of governments to their citizens. Of course, the mix of programs and the mix of activities in individual countries varies depending on the opportunities there.

I have been asked to say a few words on what the report calls the behind the border improvements, namely, those elements of a country's business and investment climate that affect domestic business activities, that affect the prospects for greater regional trade, and that affect the prospects for foreign direct investment. The report identifies several obstacles to private business in Central Asia. These include barriers to market entry, limited access to credit, underdeveloped financial sectors, lack of access to information about sales and investment opportunities, weak contractual enforcement, and of course, corruption we all know is an issue in Central Asia, and elsewhere, for that matter.

I have brought just three slides that help depict aspects of the challenges in Central Asia. This first one is a chart that we have done for 10 years from what we call our monitoring country progress methodology of plotting the progress of countries that came out of communist central and Eastern Europe and the former Soviet Union on the basis of their economic reforms and democratic reforms. The scale on either side is a composite of indicators from public sources.

The vertical and horizontal lines in the middle of the chart represent the average of progress of Bulgaria and Romania in 2002 at the time that they joined NATO and at the time that they were showing progress towards the E.U. accession. The higher the score on the chart means the more advanced the state of democratic and economic reform. At the top upper right corner is the original E.U., the blue diamonds are what we would refer to the northern tier countries of Europe showing very advanced economic and democratic reforms, the southern tier of Europe is the lime green squares, and then Eurasia is the red diamonds.

In Central Asia we are talking about economic reforms and behind-the-border improvements, and it is interesting to see that according to this scale, Kyrgyzstan and Kazakhstan have done relatively well in terms of overall economic reform, and that is indicated in the report. It is indicated in some of the things that we have found that we have been able to do when working in these countries' institutions. The other three countries are not quite as far along.

This second chart is from the World Bank's Doing Business in the World 2005 report. For Central Asia, the report recently was expanded to include Uzbekistan, Kazakhstan, and the Kyrgyz Republic. I am adding in countries from Eurasia and Europe, and then the others. Many of you are familiar with the report, but what it represents is a composite set of 10 indicators that include things such as starting a business, dealing with licenses, getting credit, protecting investors, trading across borders, and so on. What it says is that the business environment in Kyrgyzstan and Kazakhstan are roughly the eighty-fourth and eighty-sixth best business environments in the world. Uzbekistan is near the bottom, and I think we probably would project that Tajikistan and Turkmenistan are also near the bottom if they had been included in the survey.

This is an indicator, given the nature of things that the World Bank's report measures, of the types of challenges that are presented behind the borders in terms of doing business in these countries.

Finally, there is a chart that is not from the Human Development Report, but it is consistent with it, that shows the cumulative foreign direct investment per capita in these countries. Of the four countries that have extremely low levels, Kazakhstan has done relatively well, at roughly $1,600 per capita, but the average for the northern tier countries, Poland, Hungary and so on, is about $3,000 on this scale. So even Kazakhstan with its oil wealth and with its natural resources wealth is doing exceptionally well compared to its

neighbors, but it is nowhere near the level of foreign direct investment as compared to the countries of formerly communist Europe, the northern tier countries.

What I thought I would do is, with this as a backdrop, just talk a little bit about USAID programs over the last few years that have focused on improving the business climate in Central Asia. We have employed a regional strategy, while appreciating that each country presents its own particular needs and opportunities, and thus, the composition of projects has varied by country. The range of programs has included small and medium enterprise development, trade facilitation, financial sector reform, accounting reform, commercial law reform, and business education. I am going to go through some of the things that we have been doing to provide an example of the needs that are faced within the countries to improve the business environment, and also to indicate where there are opportunities for continued progress.

In small and medium enterprise development, for instance, we have had a project that has provided assistance to improve the competitiveness of over 1,700 firms throughout the region. Part of that project has been a regional trade promotion network that helps links buyers and sellers of products across borders. That network has facilitated over $100 million in sales, much of that in the region, and it includes things like helping the supplier of spices in Uzbekistan do business with a buyer of spices in Osh, working to get the two firms together

on a trade deal that is profitable for the firm in Uzbekistan, and in turn help the firm in Kyrgyzstan secure sales contracts to Russia.

We have had a trade facilitation and investment project which has assisted the governments and businesses in Kazakhstan, Kyrgyzstan, and Tajikistan, and until recently Uzbekistan, to modernize their legal and regulatory frameworks for trade administration. This includes work on new customs codes and customs procedures. It has also worked to strengthen the dialogue between customs officials and the private sector by supporting the establishment of consultative councils, and there are a number of other initiatives that we have done in the area of promoting smooth customs processing across borders.

Secretary Rice during her recent visit announced a trade facilitation initiative that USAID will help carry out, and the purpose of the initiative is to perform a comprehensive benchmarking of existing national customs procedures. We will do that, working with the World Bank and the Asian Development Bank to prepare matrices of existing impediments that have not been fully addressed by existing or previous projects. Hopefully, this definitional mission will lead to a high-level meeting under the auspices of the governments of Kazakhstan and the United States, and the Central Asian Trade and Investment Framework Agreement, to review the results of this benchmarking exercise and develop an action plan for further trade.

USAID has also supported microenterprise development and banking sector reform. There has been significant progress in these areas, and one of the

areas where we have had greatest progress is in financial-sector reform in Kazakhstan, where we have provided support for the introduction of corporate bonds, for mortgage-backed securities, for warehouse receipt financing, and other investment vehicles. It is pretty remarkable that the corporate bond market that was introduced in Kazakhstan has grown to over $2 billion bonds now in circulation.

We have done work in the area of commercial law reform, and in Tajikistan and Kyrgyzstan there has been significant training of local judges and attorneys in the interpretation and proper application of commercial laws to promote the establishment of secure property rights and commercial transactions. In Tajikistan, the Ministry of Justice recently launched a new movable property registry that will help the provision and securing of collateral for lending activities.

One of the things that has met considerable success has been in the accounting reform area, particularly the training of accountants. Across the CIS, we have helped organize the first internationally recognized professional certification for accountants in the Russian language, thus helping to promote transparent financial management, accountability, and professional values. In Central Asia, to date, over 54,000 accounting exams have been issued, and 3,900 individuals have either earned their certified accounting practitioner certificate, or certified accountant designation. Our work also includes business education in a number of ways.

One of the reasons for listing these activities is to emphasize the point that as we talk about cooperation and cross-border work, there is a lot of work that remains to be done within countries, and that work, when it helps transparency, when it helps modernize business practices, when it helps improve legislation for trade, for investment, for commercial law enforcement and for commercial in general, it is not only helping the domestic situation, but it is providing the environment for improved cross-border economic activity.

In a number of our programs, we take an explicitly regional approach, although over time the experience has been that given the differences among the countries, that has been difficult to achieve. Some of those opportunities, for instance, have been opportunities for cross-border collaboration, and our programming has been funding study tours to Kazakhstan from other countries for people in other countries in the areas of banking supervision and financial-sector issues. Similar exchanges have taken place between Kazakhstan and Tajikistan in the area of commercial law reform and land reform. We have promoted a dialogue between Kazakhstan's business associations and Kyrgyzstan's business associations. And, of course, the accounting training lends itself very well to a truly regional approach, given the effort to promote international standards in accounting.

I think going forward, I mentioned that the report for us that is the subject of this conference is very timely. It is timely because we are just beginning, or we are in the middle of, or actually we have already begun, the

process of updating our strategies for each of the countries. The work that has gone into the report, the conclusions, have helped us think about that. I think we will find it very helpful in how we try to make priority decisions about limited resources.

For instance, we will have a regional business environment improvement project, and we already have started a new regional energy markets assistance project. In all of these activities we will work with, not just the governments, but of course with UNDP, the Bank, and the Asian Development Bank and others.

I would say that in terms of where it might go in terms of inside-the-boundary improvements is we are moving to the next stage of our relationship with the government of Kazakhstan in economic growth, in that we are still in negotiation with them, but we have a basic agreement that our program to continue private-sector development in Kazakhstan will receive co-financing from the government of Kazakhstan to help us carry out a number of things that are already in our project portfolio, but also that will be modified as the basis of this co-financing arrangement. That is good progress. It bodes well for both developments in Kazakhstan, and also as an example for others in the region at some future point, perhaps.

In all of the areas that I have just mentioned, the ones that we have been working in and all of the others noted in the report, our hope is that this discussion, by talking about what we have been doing, what the needs are, and

what has worked, by publicizing the conclusions of the report, and by organizations such as ours and the others represented here sharing information, that the governments of Central Asia will seize this opportunity to build a brighter future for their citizens and the region at large. There are many challenges, but there has also been some success, and I think we need to share that success as well as bear down on the challenges.

MS. HILL: Thank you very much, Drew. I do not want to take too many liberties with lunch because I am sure that a lot of people are sitting and thinking that lunch would be nice at this point, and we also have a film to see which I do not want to cut into, the ADB's film about Central Asia.

So what I thought I would do is take maybe three quick questions together, if there are indeed three people who want to ask a question. If I could take these three questions together, and then I will give our panelists a chance to comment, and also to add anything else that they want to say. Then hopefully that will get us into lunch.

MR. SLAY: Ben Slay from UNDP, regional center in Bratislava. A quick question first for Dennis, if I may. Excellent presentations by all, by the way. Very insightful.

Dennis, clearly, the water-energy nexus along the Syr Darya has not been crowned with success. The upcoming investments perhaps in the Amu Darya headwaters may offer us the chance to do it better next time with perhaps the Russian investment going into Ragun, Sangtuda, and places like that. Are

there any lessons that can be learned? Can it be done better if, indeed, we have the similar type of cascade now being built over the next 5 years on the Amu Darya?

Two questions to Cassandra, if I may. The first is, we are all familiar with the very difficult circumstances that migrants face in the Russian Federation from Central Asia. Is it any better in Kazakhstan, number one? Number two, do any of these many governments' recent signing of the Palermo Protocol against human trafficking offer any leverage here, any traction, in terms of helping the governments to become better trained and better able to execute their international treaty obligations? Thank you very much.

QUESTION: Thank you to the presenters. I think in a way we were almost all overwhelmed by the rich presentations. The question I have to you is we obviously have to prioritize. I just was sort of quickly counting five presentations, and each one had at least five to ten recommendations. I look at Johannes' report and there are probably recommendations across five chapters, each one has four subjects and each one has probably another eight recommendations per subject or so.

We all obviously are in the business of having to live with tradeoffs, so if you could help me on the panel to guide, for instance, work of the IFIs and others, well-meaning people, who want to engage and help Central Asia, what would be the absolute priorities that you would choose?

MS. HILL: A very good question.

QUESTION: [Off mike] He just asked one of the questions that I was going to ask. First let me comment on Johannes and his team for a very comprehensive report, and also the comprehensive report which makes me pose and ask the question whether the international community is putting the right balance or putting the right emphasis on issues that could be addressed through regional cooperation and behind the borders.

I think one of the things that emerged from this panel discussion is that perhaps in our minds also we attempt to obscure economies of scale for an institution to do a particular task in a country with regional cooperation. For example, it could be done at a regional level and it could probably bring the economies of scale to the institutions doing it, but that is not necessarily--so, again, the selectivity is an issue and how you prioritize it--because if you look at the report it pretty much covers everything from governance, human development, even some of the issues like TB, for example, which--we have to deal with the behind-the-border issues and make sure that the medical establishment in that particular country is comfortable with the TB approach that was taken before you spread it out.

The other thing is recognizing the differences across the countries, and that is a point that Kemal has made in his presentation. One thing they are also putting a lot of emphasis on, recognizing differences in these countries before we put the issues on the regional scale, particularly those issues which are not getting enough traction at the behind-the-border level. Thank you.

MS. HILL: Thank you very much. That is actually a good grouping of questions, if I ask Dennis and Cassandra to respond to the specific questions that have been asked, and then what I will do is maybe just go all the way down the panel and give each of you a chance to come up with your absolute priority, also the context of this very good question about at what level might that be addressed. Dennis, then Cassandra, and then we will go down the panel for the priorities.

MR. de TRAY: Thanks. On Ben's question, yes, I do think there are lessons to be learned from the experiences of the past, and I will keep it very brief. It is a very complicated questions.

One, there is an inextricable link between domestic and export policies, and if you do not get that right, these are not feasible projects. Second, and it is related to the first, you have to get the economics right. We have focused--sorry, folks, it is going to take a while--the World Bank has focused in on those sets of projects in Tajikistan because the economics made sense. By the way, they make sense Sangtuda, but we are not so sure about the sense they make in Ragun. These are very risky projects politically and economically, so they have to have a decent economic base.

Third, the lesson is that, particularly going forward, these are projects that because of their innate complexities are going to take everyone working at their comparative advantage. There are political risks to be offset, there are economic risks to be offset

particularly through Afghanistan, but there is a package of actors who can actually address these along the way if they work together. So it is a really interesting challenge to the international community and the bilaterals and multilaterals to see if they can pull all of these threads together to create real cloth.

MS. HILL: Cassandra?

MS. CAVANAUGH: The first question, is the situation for migrants any better in Kazakhstan? It's closer. There is a little bit less racism, and closer, I don't say that facetiously, it is cheaper to get to and wages, according to the IRM's research, are about just as high as in Russia. So it is better for migrants in that respect. In terms of the abuse they face and the law-enforcement position, I don't think it is much better. It could be. We hope that the government is cognizant of this and that they are going to do something about it systematically, but not yet.

As far as signing of the Palermo Protocol on human trafficking, whether that makes it any easier or whether that makes the governments more cognizant of their obligations, I would say that this is a double-edged sword. Yes, I think it makes them more conscious of the humanitarian costs of some of these phenomena and attuned to the issue of trafficking, but trafficking, migration, and this kind of economic migration that we are discussing are very different phenomena, and I think the emphasis on law-enforcement responses to trafficking sometimes can bleed over and lead to an overemphasis from a law-

enforcement perspective on economic migration which, in many cases, is not helpful.

MS. HILL: Then I will end with Drew, and then end with Anara on your priorities.

MR. LUTEN: I thought I knew what our priorities were, and then I read the Human Development Report and realized that there were many more. Do I have to go first?

[Laughter.]

MR. LUTEN: I caveat this by saying we are in our strategy development process in all of the countries out there, so that's an ongoing process. But one area that we have already talked about some is energy development, infrastructure, as well as markets development because of its potential impact, the benefits to economic development, to economic growth. The dialogue that will be required particularly on the markets development among governments and firms across borders on cross-border will be hard enough as it is, but also may provide an opening in other areas, assuming there is progress. So I would say energy, water and electrical power, are probably near the top.

Then with respect to the two countries, Uzbekistan and Turkmenistan which are in different places politically than the others, I think patience and efforts to try to engage them, where there are possibilities to

engage, and to keep the dialogue open in the case of Uzbekistan, and also in the case of Turkmenistan.

MS. HILL: Thanks. Cassandra?

MS. CAVANAUGH: I would say very shortly, do what is simplest in migration. You do not have to build up new structures, you do not have to create more social services, but just remove the barriers where they exist, make it a one-step procedure for employers to import foreign labor. This is our priority for pushing policy recommendation, to just urge the countries to do the simple things. Just remove one barrier, and they don't have to do much that is new, just step back and, I never thought in my life that I would saying this, but let the market do what it can.

MR. LUTEN: That's all right. We won't quote you. [Laughter.]

MS. HILL: Dennis?

MR. de TRAY: Priorities is probably the most abused term in international dialogue. The report doesn't contain priorities, it contains options, and lots and lots and lots of options. Most of those options are not relevant for today. They are sort of a longer-term program. And most of those options, if you actually sat down and went through them, would be things we were looking for things to do in the next 2 or 3 years. That follows on actually nicely with what Cassandra said. There is no point in producing things that are not seen in domestic interests. It is just not going to happen. So you can spin a lot of wheels and you can shake a lot of sticks, but it is not going to happen. So you

have to look for things that are not going to attack the vested interests in this country. That is not a nice thing, but it is a fact of life if you live and work in these countries.

I would say Drew has already mentioned one, that if you can work to expand power exports in an economically sensible way, that helps on a number of fronts, and it is a bit of value added to the whole process. I think in the regional effects of health that HIV/AIDs was mentioned. There is a big step between signing the protocols and actually getting results on the ground in this area, and we should always be skeptical of this. But at least it is an area that all of these countries see as a common need and doesn't really threaten directly any one of them.

The final point I would make is that for everything you try, there should be early tests of commitment, and if the commitment is not there, stop, because we are not going to make this happen, we being the people in this country, the countries will make it happen.

MS. HILL: Thanks. Adrian?

MR. RUTHENBERG: Thank you. To the list added in the Human Resource Development Report, of course we have about another three or four action plans with lists for each of these committees and we are working on an overall action plan. So in terms of recommendation prioritization, that question of course is an excellent one.

My response to this would be, first of all, I think we need to dialogue with the countries first of all in terms of what they cannot do. I think we have seen too many promises, too many engagements, too many discussions of what we are going to do, but I think with the countries we need to have an honest discussion as to what can't they do. Once we have that, I think we have a much better basis of trust to work on and to prioritize better.

For me, I think the real key to virtually all regional cooperation issues lies in Uzbekistan. I think a gradual shift in that development model to a more open model that realizes that they could benefit much more from participating in the global community as well as working with their neighbors, I think that will have a huge impact. So the engagement with Uzbekistan is just critical for any regional aspect, be it trade, transport, energy. Now, I think, of course, for the trade policy agenda, WTO accession, although it is distant for some, it should be a priority because that will bring with it a whole range of benefits.

There is, of course, the issue of bold strokes, that some regional projects can just catalyze cooperation, and here I think some have been mentioned, in the power sector, Sangtuda or whatever could be one of them. Another could be that bridge that is being built over the Amu Darya and gives maybe a trade link between Tajikistan and Afghanistan. But with these few remarks, I think I will turn it over to you.

MS. HILL: Anara?

MS. TABYSHALIEVA: I think that all countries now are in search of new strategies, and there is a desperately needed exchange of information. But here in Central Asia, we have no regional newspaper, TV or any media, so they usually learn about each other from Moscow. Even in some liberal states, people call their TV a media for a happy life, they know very little about their own country.

So, in short, I would like to say that we need political and economic liberalization in each country and then we can talk more about regional cooperation, it would be more natural. Thank you.

MS. HILL: Thank you very much. Hopefully, we have not taken up too much time from lunch. I hope you will all enjoy it. The film will start at 1 o'clock, and then we will see everybody back here at 1:30. Thanks.

[Applause.]

[Luncheon recess.]

[End Tape 2 Side B.]

AFTERNOON SESSION

MR. MIZSEI: [In progress] --countries, how do they see the cooperation opportunities moving forward? So on my list first is Mr. Talgat Kaliyev, on my right, who is the Deputy Chief of Mission to the United States of Kazakhstan. Mr. Kaliyev.

And we have agreed that everybody will speak about 5 to 7 minutes, and I'll exercise discipline of 7 minutes, at least. Mr. Kaliyev, I know it is a very tall order to speak that short, but please.

MR. KALIYEV: Thank you very much. It's a great honor to be here today. I would like to thank the UNDP and the Brookings Institution for organizing this conference on the important issues of cooperation and integration in Central Asia whose countries are passing a difficult period of their socioeconomic and political transformation.

Kazakhstan stands on the threshold of a new stage of development based on significant economic and political achievements of the previous years. Neighboring countries already feel results of the economic growth of Kazakhstan. In the period between 1999 and 2004, Kazakhstan's trade with other Central Asian countries increased threefold. In 2005, there were 122 Kazakh Kyrgys, 110 Kazakh Uzbek, 30 Kazakh Tajiks, and 12 Kazakh Turkemen joint ventures in various sectors of the economy.

Kazakhstan is the regional leader in terms of foreign direct investments, more than $4 billion in 15 years of independence. We don't want to stop with that and we would like to move forward beyond that. In his recent address to the nation, President Nursultan Nazarbayev set an ambitious goal of bringing Kazakhstan into the community of 50 most advanced countries in the world through creation of an economy independent from oil and other raw materials. I should stress that Kazakhstan has all possibilities to reach this goal to integrate into the world economy successfully.

We strongly believe that the fast integration of Central Asian states will make a positive effect on the development of each of them. That's why in his speech, President Nazarbayev determined regional cooperation is the most important priority saying, "It is important not to bring down the rate of integration. We have to develop multidimensional relations with the neighboring states of Central Asia with whom we share common culture and history. Our cooperation in trade, economic and cultural spheres has most favorable perspectives, and our efforts should be aimed at its further development."

After the collapse of the Soviet Union and since the first days of our independence, Kazakhstan has been the most active and consistent supporter of regional cooperation. We promote ideas of stage-by-stage integration and coordination of economic reforms, establishment of free trade zones, a customs union, a common market of labor forces, commodity services and capital, and

unified transportation and telecommunications system. There is no alternative to integration. Kazakhstan, whose economy is twice as large as economies of the other countries of the region combined has a significant potential to be the generator of integration. What is most important, Kazakhstan has a sincere desire to do this.

This point of view might be supported by the words of the U.S. Secretary of State Condoleezza Rice during her visit to us in October 2005, "Today Kazakhstan is poised and ready to break a path for a new Silk Road, a great corridor of reforms, linking the provinces of Northern Russia to the ports of South Asia, to the republics of Western Europe to the democracies of East Asia. A strong, prosperous and democratic Kazakhstan will once again energize the global transmission of learning, trade and freedom across the steppes of Central Asia."

Our vision of integration does not stop at regional borders. We believe that the concept of a greater Central Asia should be first and foremost making Kazakhstan part of the integration process. Without safety, stability and peace in that country, and regional projects, whether building an oil pipeline towards the Indian Ocean, or highway, will fail. Kazakhstan already makes considerable investments in neighboring countries, providing assistance to Afghanistan, and we are ready to increase our efforts. We fully support U.S. initiatives such as the Trade and Investment Framework Agreement, TIFA, and the Council of Greater Central Asia, which aims at accelerating integration and

economic revival, and will help in transforming this long-suffering from an arc of instability into an arc of opportunities. Thank you for your attention.

MR. MIZSEI: Thank you very much. That has been a very clear statement, and really to rehearse the main message, economic reform and FDI have generated good fundamentals for regional cooperation. Thank you very much.

We are going down in alphabetical order, and I am delighted to welcome Kainer Tokmushev who is Deputy Ambassador of Kyrgyzstan. Mr. Tokmushev?

MR. TOKMUSHEV: Thank you, Mr. Chairman. First of all, I would like to thank the UNDP and the Brookings Institution for organization of such a beautiful conference. Secondly, I would like to bring my apologizes because I did not expect today to make a report or paper because our Ambassador unfortunately was not able to participate in this conference, but the problem is very familiar to me because I am for 15 years in the Ministry of Foreign Affairs as a State Officer, as a scientist and as a researcher. I know the problems Kyrgyzstan faced during the 15 years of independence.

Everybody knows that Kyrgyzstan due to the policies of our former President was declared as an island of democracy. Today nobody can say that we are still an island of democracy, and you mention the final report made by my colleague from Kyrgyzstan, Anara Tabyshalieva, she shows the humor that Central Asian countries, all five of them, are indicated as different five islands.

So it means for the moment we do not have very close cooperation. It is my personal view the reason that all five countries are chasing their national interests which are different from each other. I know that the report was made before the events of March 2005 which unfortunately took place in my country, and life has been changed in Kyrgyzstan for this crucial 2005 year.

Nobody mentioned the very big problem that the Central Asian people are facing today. I mean the problem of refugees. It happened after the well-known events in our neighboring country Uzbekistan, and Kyrgyzstan suffered strong and very hard pressure from the world community, especially from the Western community, not to allow Uzbek refugees to be returned to Uzbekistan, but you should know that among the refugees, among those people who were seeking for status of refugees, there were criminals and we were forced to give a couple of them back to Uzbekistan. The Western community should understand the mentality of Asian people, the mentality of the tradition and the history and not try to bring the ideas of democracy to such countries as it happened, for example, in Afghanistan or it's going now in Iraq, because we have an absolutely different history, absolutely different customs and so on and so on, and all this is a problem.

We spoke a lot about regional cooperation, but if we speak, it does not mean that cooperation will take place. We have to stop talking about it and we have to do some practical steps. For example, after the events I mentioned in March in Kyrgyzstan, neighboring Kazakhstan and neighboring Uzbek people

provided great help and great assistance to my people. So after the events, what can we do to respond to the help of the Uzbekistan people? They are ordinary people. They do want to live in peace, they do want to live in cooperation, and they do want to live in mutual understanding, but unfortunately their leaders take all decisions on how to live and under what regime to live in Kyrgyzstan or in other Central Asian republics.

I would like to say that nobody mentioned one international organization. It was launched in 2002. My Kazakh colleagues and Uzbek colleagues do know about this institution named CICA, but for people who do not know, I will say that it is like OSCE in Europe. It should be an organization for stability and security in Asia, Conference on Integration and Confidence-Building in Asia. We don't bring together only Islamic people like the Organization for Islamic Conference, we bring all the people of Asia including 16 countries, such powers like China, like India, and it could be for people sitting in this auditorium, that we bring together the people of Palestine, the people of Israel, the people of Egypt, so it means the people and the countries of different orientation and different histories. I would like in conclusion to thank, it was an idea or initiative of the President of Kyrgyzstan, Nursultan Nazarbayev, and support of the CICA organization has big prospects.

But I would like to mention one more problem. How the world community if they are going to help, if they desire to help Central Asian countries, how can they help Kyrgyzstan? Because we are at different levels of

economic development. For example, it was mentioned that after the collapse of the Soviet Union, the GDP in Kyrgyzstan fell by 60 percent, and Kazakhstan by 20 percent, and you know that President Nazarbayev announced that in two decades, Kazakhstan will join the 50 most developed countries.

Kyrgyzstan is facing today an absolutely different task because we are at the threshold for the HIPC initiative. Are we going to become a part of HIPC or not? There is not even an understanding among top officials of my Republic. For example, the Prime Minister just recently announced officially that Kyrgyzstan is going to join the HIPC initiative, and the day after his announcement, the President said we have still no decision to join or not to join. There is no understanding.

My English is not so good--because the former President announced a lot of problems and he applied to people from the international community that we are going to have good governance in Kyrgyzstan. I do not agree with good governance because good governance could not be professional governance. So my own slogan is Good But Professional Governance. Today we have, unfortunately, a lack of experienced professionals and the time has changed and the situation has been changed, but we have the same 36 cards in the hands of the President and we have to change. The cards have to change, the players have to change, and the politicians and decision-making people in my country. Thanks a lot.

MR. MIZSEI: Thank you very much, Mr.Tokmushev, and thank you for stepping in for the Ambassador so unexpectedly.

I would like to now invite the Ambassador of Tajikistan, Mr. Khamrokhon Zaripov, to speak.

MR. ZARIPOV: Thank you. Somebody granted me this last-minute ticket for this panel. In this I haven't done any homework. However, my discussion will be around all points which arose in the morning sessions.

First of all, in the beginning there were discussions regarding some cooperation between Central Asia and the Balkan States. I can't accept that kind of cooperation for many reasons. First of all, Central Asia is quite a stable and secure region; it is rich, and rich for many reasons. The Balkan States are in another part of the world. The world community spends there billions and billions and we have results. I had the privilege to serve 6 years in [inaudible] and traveled through the Balkan States and saw a lot of consequences of civil war which was at the same time which was in Tajikistan. If you go into Tajikistan as Mr. Linn corrected me, you never will find any witnesses of civil war on Tajik territory, but Tajikistan is the single country which suffered a civil war in the former Soviet Union countries.

Secondly, several times it was mentioned regarding oil and gas as rich advantages of this region. I also disagree with this point because Japan hasn't any kind of oil and gas. Japan has just Japanese, China has less oil and gas, but they have Chinese. Switzerland has any kind of resources, but they

have great people, the Swiss. For this reason, we in Central Asia have the same. We have great people, very educated, very wise, and very, very hard working, and it is our nature, it's our future is for these points.

What I agree with with all speakers is the regional integration and regional cooperation. It's real true. We have not reached the level which should be in the region. It is because sometime in the 1980s somebody switched the traffic light in the former Soviet Union. In all countries we see the tracks do not know where should we go if we have this green light. All the green lights was during the Soviet Union to Moscow, now to nobody. For this reason, every country during the 15 years tried to find his way where should we go.

It is not easy. We are just a 15 years old boy in our region. During the 15 years we made a lot. We have the Central Asian Economic Organization, we have Euro-Asian Economic Development Agreement, we have the Shanghai Forum, we have security cooperation, and have made a lot of things. Despite a lot of existing problems in our region, we made a lot of things in this short historical period of time.

Regarding disadvantages for Tajikistan is its lack of investment. It is true we have no significant investment in Tajikistan, but our partners are the World Bank, the IMF, the Europe and Asian Development Bank. They are assisting Tajikistan, we are thankful for that, and all projects in Tajikistan go through the suggestions of these organizations.

What is the focus for Tajiks for the near future? Tajikistan has rich resources of hydropower energy in the region. We are supplying around 60 percent of water for the rest of Central Asia. In terms of hydropower capacity, we are sixth in the world and the second in the former Soviet Union despite the small size of the country. For this reason, Tajikistan focuses seriously to get investment in the sector of energy. A lot of speaking was here about investment and good business, and somebody blamed one country, somebody another country. But what I am saying, so far we have a promise from Russia for 2 billion despite all the problems. A promise is a promise, but how will we have such kind of promise?

Also, we signed an agreement with the countries surrounding us like China, Pakistan, India, Afghanistan and Iran, for creating a transmission line from Tajikistan for export of energy. One transmission line will go from Tajikistan through Afghanistan to Pakistan where the United States also participates with American energy systems. The second will go from Tajikistan through Kazakhstan to Iran. Afghanistan, Iran and Tajikistan participate in this project .

Second, after development of our energy system, we decided to improve our mineral procissibg. We have a lot of minerals, but with the lack of energy we are unable to process them. A third point of focus of the government of Tajikistan is construction of new roads to the south part. I mean Indian Ocean ports. The existing road is around 7,000 kilometers to Baltic ports. The

new road will be like 3,000 kilometers. For this reason, we are spending a lot of assistance funding from these financial institutions which I mentioned in constructing new roads through Afghanistan.

I will give you one example. During the Soviet Union, two parts of Tajikistan were unaccessible during the wintertime. Six months we were unable to reach our north. We just used the land of Uzbekistan, and to our east. Now we are trying to open new roads and we are making new tunnels, and I hope in the near future we will reach this region.

Regarding existing borders, yes, it is a real problem in Central Asia, but again, the governments of Central Asia are working very well in this way and I hope we will reach a higher level of cooperation in the near future.

My last point is what we need from the rest of the world is, first of all, a real understanding of what is going on in the region of Central Asia because every country has the tools of success. For example, the tool of success of the Soviet Union was to make communism in all of the world as soon as possible. You witnessed all the consequences. Sometimes especially in the Western part of the world is demanding for us to accelerate democratization in our region. We are raising both hands. But from another side we should keep in mind what is going on in Central Asia, what is the thinking of our population, especially this generation which lives in Tajikistan, for example?

What is their opinion about complete democratization? What do they understand by the meaning of democratization? Anarchy or order? For this

reason we would like to understand. And last but not least, regarding security and risk of business in Central Asia and also Tajikistan. Mr de Tray was mentioning regarding Sangtuda and Rogun hydropower stations and there is some kind of risk. Maybe somebody could explain it to me which kind of risk you were seeing in construction of these hydropower stations. The existing [inaudible] of Tajikistan 350 million. Just hydropower station of Rogun will bring 700 million to Tajikistan. Its risk? Never. I have not seen any kind of risk in this region [inaudible] in the United States it will be too late. For this reason, I invite you to truly understand the situation in my country and to participate in the development of Tajikistan. Thank you.

MR. MIZSEI: Thank you very much, Mr. Ambassador. There were many important points raised. It is really quite impressive going through the main integration challenges of Tajikistan starting from civil war, so I really thank you very much.

I would like to invite now Meret Orazov, Ambassador of Turkemistan.

MR. ORAZOV: Thank you. Ladies and gentlemen, I would first like to thank here the people of Brookings and Brookings, and personally Mr. Linn and Mr. Mizsei for inviting me to your conference. Then I will open my presentation with brief remarks about Central Asia and the geostrategic significance.

Central Asia is the region that is significant in its geostrategic position. First of all, it is a cultural and historic center which includes many layers of different civilizations. Through history it has been, on the one hand, an important trade route between East and West. On the other hand, Central Asia itself for centuries has been the political center of the region [inaudible] the strategic importance of Central Asia is characterized by several factors. First of all, as suggested, strategic location. It is well situated on important trade routes and roads that connect East and West, South and North. Its proximity to such important regional powers as Iran, India, Pakistan, Russia and China, makes it a region that no politician can afford to overlook.

Second, its natural resources are diverse and rich. The most important among them are, of course, oil and gas. Kazakhstan and Turkmenistan are the richest with respect to the specific resources. Moreover, these two countries are littoral states of the Caspian Sea which means they have access to the vast resources of the Caspian basin. Uzbekistan has considerable reserves as well.

Third, the majority of the population is Muslim which connects Central Asia to the wider Islamic world. However, what is unique about Central Asia is the form is Islam. What is predominant in that region is Sophism. They are the most moderate, contemporary, educated oriented and tolerant forms of Islam. In that respect, Central Asia is a great asset for the U.S. or for any other Western country that is trying to negotiate with some elements of the Islamic

world. And of course, for major economic powers, Russia and the USA, E.U. and China, have considerable economic and strategic interests in the region. Moreover, such significant regional powers as Turkey, Iran, Pakistan and India, take a high interest in the developments taking place in the region.

Speaking about Turkenistan, if you look at the Central Asian states today you can easily understand that Turkmenistan has served as a factor of stability in Central Asia for 15 years of its independence. Let's take a closer look at the contribution that Turkmenistan creates in the establishment of a stable and secure Central Asia which is a precondition for any kind of collaboration.

From our point of view, the defining characteristics of Turkmenistan's significance as a stabilizing factor are the following: the status of neutrality of Turkmenistan and its policy of positive neutrality. Second is political and economic stability of the country. Third, active participation and support of Turkmenistan in Antiterrorist Coalition as well as its fight against religious extremism. And fourth, the energy politics of Turkmenistan.

Let us look at these characteristics in more detail. First of all, the foreign policy of Turkmenistan is based on the notion of neutrality and noninterference in other sovereign affairs. In that respect, Turkmenistan not only never had any major conflicts with its neighbors, but also served to mend relations among the Central Asian States. The idea of neutrality belongs to the President of Turkmenistan Saparmurat Niyazov. The neutrality of Turkmenistan

is confirmed by the U.N. General Assembly Resolution, Permanent Neutrality of Turkmenistan 1995.

Anti-terrorist Coalition. Further cooperation between all members of the coalition on the global war against terrorism is absolutely crucial. Central Asian countries' contribution to it is well known. However, the actions and the potential role of Turkmenistan has not been defined very well in the Western media and scholarly publications. It can become a close partner of the U.S. and the international community in their efforts to reconstruct Afghanistan. Turkmenistan and Central Asia in general can serve as a good example for moderate societies at peace with the Western world.

Some words about economic reforms. Stability in the region can be well enhanced by Western economic cooperation. Economy and trade are the best ways to promote mutual interests without touching on sensitive political issues in the world and regional competition. The country has a well-developed infrastructure, a strong agricultural sector, new plants, and developed economic sectors such as textiles and energy.

In designing the model of political and economic development, the architect of the Turkmen State President Niyazov considered cultural--the unique nature of raw resources, existing economic structures, as well as the global community's experience in political and economic development. The major themes of the development are as follows. First, the gradual modes of political and economic reforms. Second, the leading role of the State in economic

management. Third, a diversified economic structure. And fourth, the social welfare system.

Without too many details, I would like to present only some figures about GDP for Central Asian countries and perhaps Azerbaijan starting from 1997 through 2004. The World Bank issued figures about this growth, and Turkmenistan has average growth of 14.3 percent per year, as the highest growth in the region. Certainly you will ask how Turkmenistan's stability and success in the economic sphere can influence its ability to be useful for the region. The other countries have been concentrating only on its own interests and selfish manner. The answer is no. I will give two examples. First, Turkmenistan has been very helpful in managing the humanitarian crisis in Afghanistan. It has given and still gives considerable material assistance to that country. Second, Turkmenistan being a peaceful country and having no major disputes with anyone--in Tajikistan's civil conflict, and might serve in the future as a valuable mediator in any conflicts that may arise.

I mention here some other achievements of Turkmenistan which have been helping in creating a foundation for better cooperation in Central Asia and Afghanistan. Turkmenistan tremendously improved its roads and railroads which gives a good possibility for ground transit transportation. Turkmenistan is a serious producer of electricity and consumes domestically only half of its production. That means that Turkmenistan is ready to sell or increase its--

recently electric power lines from Turkmenistan to Herat and Mazar-e-Sharif in Afghanistan have been completed.

Turkmenistan has enormous resources of oil and gas and currently has been working hard on some big oil-gas products which if realized would benefit the whole region of Central Asia and Afghanistan. The latter subject is so important that I would like to go into more details about our oil and gas industry.

MR. MIZSEI: Mr. Ambassador, your 7 minutes.

MR. RAZOV: Yes, just one moment. I am almost finished. It is well known that in spite of its hydrocarbon wealth, Turkmenistan is not among the major players in the world--export market of 10 million tons of crude oil development in 2004 and 2005 per year, and only 2.3 million tons was produced for export, with the rest being consumed domestically. With regard to its gas sector, Turkmenistan used to be among the world's leading gas producers. In 2005, the gas industry produced 70 BCM, with approximately 60 BCM for export. The main consumers are Russia, Ukraine and Iran.

I would like to inform you about major projects started in the oil and gas industries. There are three major projects in gas pipeline development, its trans-Caspian gas pipeline which could be connected with Baku-Tblisi-Erzurum. Second, Turkmenistan, Afghanistan and Pakistan, perhaps India. And third, Turkmenistan and China. Turkmenistan has been considering one oil pipeline project, Turkmenistan, Afghanistan and Pakistan. This project is

potentially aimed to serve oil production from Russia, Kazakhstan, Uzbekistan and Turkmenistan. Clearly, the future of such large-scale projects is determined not only by the economic viability, but also by the presence of geopolitical factors. Therefore, each of the mentioned projects currently exists as interesting idea until all of the requisite components converge. Thank you very much.

MR. MIZSEI: Thank you very much. Certainly, for Turkmenistan the challenge to diversify its gas exports of crucial importance and itself constitutes an important factor in regional cooperation.

Our next speaker I'm sure many in the room know very well, Mr. Ambassador Kamilov. He was Minister of Foreign Affairs of Uzbekistan in a period of extreme complexity of international challenges after the war in Afghanistan, and we have worked extremely well with Mr. Kamilov, and I am delighted to give him the floor.

MR. KAMILOV: Thank you very much. Despite your introduction, I will be very short because I have prepared some ideas for discussion, but my colleagues and you have touched upon all of them.

Now I would like to remind our first panel, and my conclusion is that people listening to some estimates and conclusions may think that this conference insists very much on the importance of regional integration, but people in Central Asia and especially some governments, they do not accept this. But it does not quite--why because we understand well that there is no other

alternative and that regional integration is vitally important for every country in our region.

But before beginning this serious process, the process of regional integration and cooperation, we should have solved some fundamental problems in our bilateral relationships between us, between the Central Asian governments. For example, everybody invited this morning to open their borders, but if you want to open the borders, you should know where these borders are. That is why some years ago we began the very serious process of--our borders with neighboring countries. It is very important for everybody, and especially for Uzbekistan, which shares common borders with all Central Asian countries including Afghanistan.

Now I can see that we reached unprecedented progress in this very important, vital process. Uzbekistan has completed agreement with Kazakhstan and Turkmenistan, and we agreed to about 90 percent of our borders with Tajikistan and Kyrgyzstan. It was a very difficult, extremely difficult process. Why? Because if you take, for example, the problem of enclaves, we had three positions. First of all, very sensitive moods and sentiments of the people within the enclaves, the position of their federal administration, and the position of the neighboring country participant in this process. We had to look for a balance of interests, and we have now very big progress and we are proud of this process.

Why I'm talking about it? We cannot push regional integration without solving very serious bilateral problems, and I think that excellent,

constructive, mutual understanding between the countries on the basis of bilateral relationships is a fundamental base for regional integration. This is the first idea.

The second point what I wanted to talk about, I fully agree with my colleague the Ambassador of Tajikistan that it is not quite right to compare sometimes Central Asia with some other regions as the Balkans or some other areas of the world. Why? Because we have our own history, our own common values, we have our own problems. But at the same time, they are different areas with their different prospects and with their different existing situations.

The next point is about the existing situation in the region. We're talking about different problems of integration, but at the same time if we take the Report on Human Development in Central Asia prepared by UNDP, we think that this report covers all aspects of the development of the region. But at the same time, since publishing this report, very serious changes have happened in the region. I mean, first of all, some new regional institutions such as the Eurasian Economic Community and the Shanghai Cooperation Organization. This is the reality, and if we want to have regional integrity and cooperation, we have to take into account we should realize this reality and we should have a new concept of the approach towards regional integration in Central Asia.

At the same time, this morning our boss from the State Department, John Fox, put the question how to disenclave Afghanistan, because I fully agree with him that it is very important because Afghanistan is a part of this region.

You may call it Central Asia or big Central Asia or bigger Central Asia, but at the same time, we share common borders with Afghanistan, and Afghanistan always was an integrated part of the region historically. That's why when we talk about vital communications, transport communications, we mean Afghanistan. Why? Because with Uzbekistan, for example, it is very important to have access to Afghanistan, and from Afghanistan to Pakistan, to the seas, to Iran to the seas, and to other directions. And that's why in talking about Afghanistan, I would like to remind, unfortunately, Mr. Fox left us, in June 2004, the United States and five Central Asian States signed the Trade and Investment Framework Agreement, TIFA. A special provision of TIFA envisaged close collaboration between the parties of the agreement and Afghanistan. The main goal of this agreement is to provide a forum to address the issues and enhance trade and investment between the United States and Central Asia.

In general, TIFA is a prospective mechanism that could support integration processes in the region. However, this mechanism has not been launched yet. It was very important to sign this agreement, and it was something like a political campaign. I remember what said Mr. Zoellick, the Trade Representative of the United States which signed this agreement as the representative of the government of the United States, that it was very important that it would have good prospects.

I would like to thank you very much for your attention, and I think it would be very, very useful to have some new ideas with respect to the regional situation and regional integration and cooperation.

MR. MIZSEI: Thank you very much, Mr. Ambassador, and I think you quite rightly mentioned new developments in the region. Particularly you highlighted the reach of the Europe-Eurasian economic community, and indeed, it is very important for us to understand how it evolves, and indeed, to have a deep dialogue with EURASEC, as you call it, in the region to help to create an integration mechanism that is using the existing international experience in this area.

Also, you as well as many others mentioned Afghanistan, and of course, in the closing panel Ashraf Ghani is going to be there, and Ashraf, we are all very eager to hear your perspective on integration and on the countries that have been discussed today.

We have about 10 minutes, so I would like to invite questions, and please introduce yourselves.

MR. JONES: Bill Jones, from Executive Intelligence Review. In 1996 there was a very important conference in Beijing around the issue of the Eurasian Land Bridge, the new Silk Road, sponsored by the Chinese Ministry of Science and Technology, but with a lot of participation from the Central Asian countries. My magazine also participated in that and we did a lot to try and publish the program and the speeches that were given at the conference.

The idea there was that in order to develop Central Asia, it should become the transit line for trade going between Europe and Asia which, of course, is the growing market with India and China, and that it could be done by land if the rail traffic were built uniting Europe with the Asian continent. This was a very exciting idea because it meant that Central Asia would then be coming into the mainstream of international commerce and in that way you could build along the rail lines, industries and other things that otherwise would be impossible.

That idea has seemed to die something of a slow death. The legislation that was taken up in the U.S. Congress in 1998 and 1999 talked about the new Silk Road, but the idea there was that you build the pipelines, bring out the oil and that's going to be the new trade and not the development into Central Asia, and since then, of course, has become the subject of geopolitics and the great game and everything that we know today.

I was wondering if that perspective, building this type of a transportation grid with highways but also in particular, rail traffic, if that is still going on, if there is still a perspective for actually realizing this kind of a vision in Central Asia, and anybody who would like to respond to that is welcome.

MR. MIZSEI: Thank you very much. Let's collect a couple of more questions and then we'll go through the panel, if there are any.

MS. LITTLE: Elizabeth Little. Formerly I'm from IFES, International Foundation for Election Systems, having worked in Kyrgyzstan and Tajikistan. I wish to direct this question to the Deputy Ambassador of Kyrgyzstan. It is nice to see you again. I was wondering if you could comment or expound upon the comment that you made about the need for change of politics or a change of politicians. It was a rather brief comment. I wondered if you wanted to expound upon that. I thank you all for the wonderful presentations.

MR. MIZSEI: This lady in the back?

MS. HOWE: Stephanie Howe [ph] with Voice of America. My question is directed to Ambassador Kamilov. I just wondered, Uzbekistan has been in the news recently because it's been closing the offices of a lot of Western organizations in Uzbekistan, and I wondered if you thought that that would help or hurt Uzbekistan's development. Thank you.

MR. MIZSEI: Thank you. Are there any more questions, comments? If not, since there was a more generic question about the infrastructure, let me go from this side, the Tajik Ambassador, and if anybody would like to very quickly--

MR. ZARIPOV: Just one question regarding growth. Yes, it is very important for us, transport roads to China, but we already opened one of them. It goes through the border of Afghanistan from Dushanbe along the River Panj,

it goes to Xinjiang Province of China, and we already have a bus road from our Khorugh City to Xinjiang. Thank you.

MR. MIZSEI: Thank you very much.

MR. TOKMUSHEV: It is a very important program for Kyrgyzstan and for our region, because as far as you know, we are landlocked countries and we have no communication and we have no exit to Europe. But recently there was an agreement between three countries, China, Uzbekistan and Kyrgyzstan, about an international railroad that will give us a chance to communicate with the rest of Europe. But the problem with our goods are not compatible with the world market because of the low quality and other reasons.

May I answer the second question?

MR. MIZSEI: Sure.

MR. TOKMUSHEV: It's regarding--policy. I would like to say that during the 15 years of the rule of President Akayev, about 12 Prime Ministers have been changed, a lot of Ministers, and you know that today the problem of migration, it is an indication that something is wrong inside our house, that something is wrong in our economy. When we improve our economy, the people will come, because today the migrants are people with the average about 30 and 50, and it's the most productive people. They work in Russia, for example, and in Kazakhstan in very cheap positions--and I dream when the time will come and the people will come back to Kyrgyzstan to improve our economy.

As I mentioned, the same people are still occupying the high positions in our government because I don't know what is the reason. Because, for example, I don't like to make references to my neighboring countries, but in Kazakhstan, for example, President Nazarbayev, he trusts young people. There is no trust for the moment in my country, and a lot of very high intellectual people, very professional, they can't find a position in Kyrgyzstan because of the high level of corruption.

My final word is I would like to say that there was such a phrase in Kyrgyzstan whispered by one of the Prime Ministers, that only lazy and silly men don't steal (as far as I remember, that's what he said but you might want to double check with someone)in Kyrgyzstan. Only lazy and silly men, the Prime Minister--says that corruption reached the seventh floor of the administration of the President. The President takes his office on the seventh floor. So what does he mean when he said the corruption reaches the seventh floor? It means that the President himself and his family are the most corrupted people in Kyrgyzstan. The new President announced a program to fight against corruption. I don't know how it is possible to fight corruption, to destroy corruption, by decrees or something, by laws, only if you change mentality, and we need two or three generations to leave such an illness out of our brains and out of our consciousness. Thanks.

MR. MIZSEI: Thank you.

MR. KALIYEV: I guess it's a dream for every country in the region to route the main flow of Chinese imports through your territory. I guess it was a couple years ago there was a project financed by--the train started in somewhere on the Chinese Pacific shore port and headed to Rotterdam in the Netherlands, and it goes through Kazakh territory, and it reached the point in 10 days, so this project was considered very successful. But for the time being it is still cheaper, more secure, to bring the goods from China by sea because you don't need to cross borders, pay levees, tariffs and so on.

But we are still eager to develop these projects I guess because right now most imports from China, we do it through trucks. And just a few years ago we have finished the border station--at the border with China. The point is that we have a difference of trucks and sizes. With China we have to change the wheels all the time when the train crosses the border. This is one of the reasons which slows down the trains, but I guess it's a purely technical problem so we can set up the mechanism which can speed up the whole process. I guess in the future this project will be more successful.

MR. MIZSEI: Thank you very much. Mr. Ambassador?

MR. KAMILOV: I've got a personal question regarding NGOs in Uzbekistan. Obviously it's regrettable to stop any cooperation with any NGOs, but every time when we stop accreditation or close cooperation with any NGO, we try to explain the reasons, but in this case I don't know what organization do you mean and that's why it is very difficult to say what was the reason and what

the consequences will be. I would like to say once again that every NGO knows what was the reason for stopping our cooperation.

MR. MIZSEI: Thank you, Mr. Ambassador. Than you very much, and I think this forum of the representatives of the countries has given to you some flavor of the very different situations, very different problems, very different challenges that their countries face. I also think that it has given us plenty of illustrations why and how vital is to make--the borders to have a human face and really to become much, much less of obstacles than they are in the present time. I think this panel also has shown the complexities of the issues and some of the cultural differences and approaches. So I hope you have all benefited from it.

[Applause.]

MR. : We will continue right away with our next panel. I would like to thank our Ambassadors personally, and I have a little present, namely, a copy of the movie that they missed because I took them off to lunch. So please stay if you can, and we will reassemble up here in a minute.

[Break.]

[End Tape 3 Side A. Begin Tape 3 Side B.]

MR. : We are ready to continue with our next session. This should be a particularly interesting one, so if you can all find your chairs, I will hand over to my good friend and greatly admired colleague, Fred Starr.

MR. STARR: Ladies and gentlemen, I want to introduce our next panel. We will begin with Kathleen Collins who is now at the University of Minnesota in the Department of Political Science, a Stanford Ph.D., she has written a very interesting essay on clan politics and transformation of regimes in Central Asia.

We will then hear from Dr. Martha Olcott, Senior Associate next door at the Carnegie Endowment, and co-head of the project at the Carnegie's Moscow Center on Religion, Society and Security in the former USSR, and the author recently of Central Asia's Second Chance, available outside, I believe.

Eric McGlinchey, a Professor of Politics at George Mason University, a Ph.D. from Princeton, I'm glad to say, and has written a very interesting study on the effect of the Internet on Central Asian society, a great topic.

And finally, my colleague and friend, Talaibek Koichumanov, former Minister of the Economy, and later Minister of Finance, of the Kyrgyz Republic. He is one of the truly innovative and competent economists and economic reformers in the region.

Our subject is problems, frankly, impediments, hindrances, to regional comity and cooperation in Central Asia. If I can say a couple of introductory words, first of all, it is striking that whereas four of five of the Ambassadors have spoken about Afghanistan as part of Central Asia, it is not

part of this report, nor is it part of this conference. I hope this is the last such gathering of that type.

Second, I would like to suggest that it is easy to talk about cooperation and development in a country that is rich with oil and gas as several of the countries in the region are. It is nice, like Afghanistan, to have just discovered some oil very recently, or to have the potential income stream that Kyrgyzstan and Tajikistan have from hydroelectric energy, that may be a long time in coming.

The real question is, what is going to be in immediate term and longer term the great engine of development for the broader region as a whole, if you will, for greater Central Asia? I would submit that running through this entire discussion is the possibility that that engine will be trade. Why is this an engine of development for them? Because it means tariffs, it means duties, and that can be very, very lucrative, indeed, not to mention the secondary and tertiary effects on the economy.

Here's the point: this is not regional trade. Therefore, the conversation today which has focused mainly on, as Ambassador Kamilov suggested, how the guys in the region don't get it, there is something they don't understand about cooperation. And that may be true, but we're not talking about regional trade, merely. In fact, as several studies have pointed out, there are relatively few economic bases for complementarities within the region. Is

Uzbekistan going to sell cotton to Tajikistan, and Tajikistan sell cotton to Uzbekistan? Not likely.

The real trade engine is going to be continental trade. That word should be heard at the beginning and end of this conference, Continental. Continental trade differs from what we're talking about in that it is trade among the great economic production zones of the Eurasian land mass, and that includes, if you will, yes, China, yes, India and Southeast Asia, yes, Western Europe, yes, Russia, and, finally, yes, the Middle East.

Therefore, when we talk about impediments to trade and, if you will, advocates and champions, we have to ask are these regions that potentially will benefit most from getting their goods across this Eurasian land mass themselves impediments? We have only heard a few snippets on this today. We have heard that China has generally been positive on this. It has. It has started the port at Gwadar, in Pakistan, for example, a very innovative project. At the same time, India, which has at least as much to gain from this, maybe more, has been slow off the mark because it has been impossible to transport goods across India to Pakistan, to Afghanistan, and to the rest of Central Asia. This is rapidly changing. There could be a breakthrough, and it will be a very, very important one, but India has been slow.

Equally slow, embarrassingly slow, has been Western Europe. The European Union announced SECA with great fanfare 15 years ago, did nothing to follow it up and created great cynicism in the process.

The U.S. has hardly done better. We have built the bridge on the Pyandzh in Tajikistan, but we have been slow to embrace the notion of Continental trade. The TIFAs that have been mentioned earlier, the Trade and Investment Frameworks, have been not developed the way they should be.

What I'm suggesting, therefore, is whatever problems we may ascribe to the countries within Central Asia proper, the great engine of Continental trade is not being released yet as much because of failures on the part of the great economies that surround it. In other words, it's partly our problem. Japan has been active in this, Korea in certain ways, but by and large, the potential participants in Continental trade have not assumed their responsibilities, or, to put it better, have not realized their potential profit from this. Why? Because it's a conceptual lag. It's just 100 years of thinking this is a closed region that still carries a kind of hangover on thinking, and I hope that can be changed.

Having mentioned this, I don't want to suggest that all the problems and impediments are external, far from it, and our speakers will enumerate many of them. Let me close by just suggesting one thing, that in order to have Continental trade, you need customs posts, you need standardized duties, you need standards for trucks and trains and regulations and all that. This is not something that NGOs can create. This is something that requires governmental initiative, and by and large, the United States and Europe have been irresponsibly disinterested in working with governments as opposed to forces

outside the governments to bring about the changes necessary, in this case, for Central Asia trade, and one would hope that that might change.

Let me conclude by saying I have only touched on a couple of obvious impediments, namely, the slow pace at which the international business community has come to understand the prospects for Continental trade, and the investment community. Second, the slow pace of reform on such practical matters as customs, duties, border posts, that are essential if trade is to exist. I want to acknowledge the great work that the Asia Development Bank has done in this regard. It has been the one pioneer, the one pioneer on this issue.

But these aren't the only problems, and now we're going to turn to our four panelists and hear about many others, I suspect in most cases, of an internal nature. Thank you very much.

MS. COLLINS: Good afternoon, and thank you very much for having me. I'm going to speak about the political and institutional constraints and challenges to regional cooperation in Central Asia.

Most of the studies of the challenges to and opportunities for regional cooperation have, indeed, focused on economic aspects like trade and their impact on the population of this region. In this report, however, we sought to look beyond the economic dimensions. If the advantages of economic cooperation as so clear as Johannes Linn pointed out this morning, then the question still remains, Why is it that there has been so little progress on this score in Central Asia despite the stated intentions of the leaders in the region?

To answer this question, we decided that we need to look at and to understand the political and institutional dimensions and constraints on regional cooperation. We need to identify, as Johannes Linn said this morning, the potential winners and losers, who they are, and to examine how the balance of political and economic interests in each country and across the countries is intermediated by political processes. In other words, we need to understand the political that shape the political will, or the lack of will, for regional cooperation. Likewise, we need to understand the institutional constraints and capacities, and, in particular, the conditions of governance and corruption and how they undermine the ability to cooperate across these borders.

The sources of political and institutional constraints on regional cooperation are varied. Some are rooted in the Soviet legacy, some are rooted in the post-Soviet legacies of the transition and beyond. I will focus on three main issues here. First, the national or nation-state legacy which we have talked about to some extent in various other panels, so I won't dwell on this. But the Soviet collapse, as we know, left Central Asia with contested borders, a mix of ethno-national groups criss-crossing across borders, a weak sense of statehood due to 70 years of Soviet rule, and a legacy of ethnic conflict through 1989 and 1990.

Naturally, nation-state building and preventing intrastate and ethnic conflict and secessionism was a major priority of the Central Asian regimes, and resulted in tense relations with their neighbors, and resulted in reluctance on the

part of these regimes to engage in integration and cooperation. This political issue, however, is one that they have managed quite successfully for the past 15 years, avoiding violent nationalism, avoiding ethnic conflict, and avoiding ethnic secessionism, problems, which we know, have plagued Eastern Europe and the Caucasus. So this less a problem now for regional cooperation, as Ambassador Kamilov just noted.

The second is a set of security issues. These new states were also faced with critical domestic and regional security challenges which initially led some states, especially Uzbekistan, to oppose regional cooperation in various dimensions. Afghanistan, of course, during the 1990s was a major security threat both because of the narcotrade, as well as from the Taliban and Islamic fundamentalism. That issue, of course, is improving dramatically today. Tajikistan's civil war posed yet another major threat to regional stability, especially to Uzbekistan and Kyrgyzstan in the 1990s. Again, that's an issue which is stabilizing today.

The rise of cross-border extremist and terrorist groups such as the Islamic Movement of Uzbekistan, reminiscent of the Taliban now, is a continuing problem and has been worrisome to many of the regimes in the region.

There has been some successful progress in addressing these issues at a regional level, particularly through the Shanghai Cooperation Organization,

and we talked about some of the pluses and minuses of that sort of cooperation this morning.

Third, an issue that I'll focus on most here is the issue of the political economy of the post-Soviet Central Asian regimes, a political economy which emerged on the tails of the Soviet legacy and has been reinforced by the post-Soviet transition.

What is this political economy? Who are the key political actors and interests in the Central Asian regimes? And how does this affect regional cooperation? The first key of course, is the executive. These are strongly presidential systems. In fact, they're strong, centralized, executive presidential systems, and authoritarian systems, that were inherited from the Soviet past and have been strengthened by the Central Asian regimes in the past 15 years, becoming what constitutional scholars often call superpresidential systems.

These highly presidential regimes are also highly personalized regimes and have often shaped regional policies based on high levels of personal mistrust towards their neighbors and competition with each other in part because of the security and national nation-state issues I've already mentioned. These executives' desire for almost Soviet-style control of their borders and economies is a problem that severely inhibits regional cooperation, especially in areas like trade, transit and investment, and the business sectors, areas that demand liberalization.

Similarly, the intense desire for political control undermines accountability mechanisms such as civil society and business efforts that normally push for regional cooperation on a range of issues in other regions, on issues, for example, from migration, natural disaster, to trade. These are issues that help ordinary people, but not necessarily the regions in power.

These superpresidential systems also tend to be overly focused on eliminating democratic political competition, rather than in concerning themselves with governance problems such as corrupt patronage networks, and even mafia groups that thrive within and around their own state bureaucracies such as in, for example, the tax ministries, the customs ministries, the police and security forces, border guards and the judiciary.

In short, a severe lack of good governance, economically or politically, results from presidential authoritarian systems and undermines the conditions necessary for implementing regional cooperation in many areas, even when the presidents themselves sometimes favor such cooperation, and we have heard all of the ambassadors articulate their support for such cooperation today.

Second, and just as importantly, is the role of what we call vested interests. These are informal interest groups and political networks that have emerged and become extreme actors since 1991. Some were inherited from the Soviet past, others emerged through clan and patronage ties to the new regimes, and have increased in power during the post-Soviet transition. The specific political and economic interest groups vary by country, and we don't have time

to get into them here, but in each country we find that these groups attain control of key government assets such as state or privatized enterprises or import-export businesses. They form monopolistic controls over certain economic sectors such as the cotton industry, the airlines, or even the drug trade. They even informally control key government ministries as did Akayev's clan and his wife's clan in Kyrgyzstan before the events of last March when protestors stormed the White House of the Akeyev clans. In these positions they extract high rents and engage in corruption with impunity.

Having developed these vested interests through informal ties to the regimes, these groups then need to, one, both prevent economic liberalization that would threaten their monopolies and their rents, and two, prevent political liberalization since the turnover of political power would risk their positions. They, therefore, seek to undermine key elements of regional cooperation since they do not stand to benefit from any forms of that cooperation. These, in short, are the short-term losers from regional cooperation.

Regional economic integration and cooperation, including more open trade, transit and foreign investment, advantages the poor farmers, the traders, the small and medium business entrepreneurs and the people in the border communities, not the large monopolists, not the mafias, not the corrupt government bureaucrats.

What are the consequences then of this political economy of these regimes? I would argue that they can be severely destabilizing. First,

authoritarian regimes' vested interests very negatively affect governance as we have seen in the slide of political and economic governance which the gentleman from USAID put up this morning. Most international ratings of both economic and political governance put the Central Asian countries in the bottom quintile. More specifically, things like the civil service, customs, police and border guards suffer, for they are often filled with cronies who use their positions to get bribes --rather than with professionals. Meanwhile, the professionals and educated youth become disillusioned, causing immigration, the massive brain-drain problem, drug abuse in other instances, or sympathy with the political opposition. In many cases, this is where support for radical Islamist alternatives such as Hisb-ut-Tahrir is coming from.

Evidence from Central Asia, from the Middle East and some African countries suggest that political systems plagued by patronage and high corruption result in declining economies and rising political instability over the medium- to longer-term. Indeed, the World Bank study of governance indicators and political stability in Central Asia found that all of these countries with the exception of Kazakhstan rated very poorly in terms of political stability.

In the case of Kyrgyzstan, this process has already yielded serious consequences with fall of Akayev's regime last year, and the new government, as we have seen, still has a very tenuous grasp on stability. Events in Andijan are yet another manifestation of brewing instability.

In short, governance problems inhibit investment, trade and regional cooperation, and this leads to economic frustrations and unrest, this leads to political instability or isolationism in reaction. It in turn inhibits investment and regional cooperation, and what we see is a vicious cycle developing as a result of this process. This could potentially result in what we have called regime collapse or failed states.

Just a couple of quick recommendations. The analysis of political and institutional constraints, challenges and opportunities suggest that the Central Asian governments and the international community focus on several key policy issues. First, of course, is reform of the superpresidential system. This may be the most difficult and the most unrealistic of the recommendations, but we should urge the Central Asian governments, as we have in this discussion today, that it is in their own interests to take a long-term view in thinking about political and economic stability.

Secondly, if they cannot reform their political system as it stands, they could at least make some initiatives to crack down on the vested interests that are so close to the state and that are so critical in preventing some of the key areas of regional cooperation. In a more limited way, they could reform the civil service, thereby trying to improve the state institutions, focusing on bureaucratic quality and effectiveness in order to reduce corruption and governance problems in the civil service. They could reform the police and border services to eliminate one major obstacle to economic cooperation and

investment in trade and transit. Fourth, they could implement broad anticorruption programs that have to be led from the top. They should target key areas of concern, collectors of state revenue and customs agencies. The judiciary, the courts, the police and the border guards are key areas to start.

In sum we need to address the political issues underlying these problems and these issues of regional cooperation in order for regional cooperation in many key areas to actually work, not just in theory, but in practice as well. Thank you.

[Applause.]

MS. OLCOTT: I want to make a few brief remarks and not reiterate most of the things that I do not get discuss in my book, and I do not get royalties on it. I cannot really do justice to the complexity of the argument in a short span of time so I am going to highlight some points from earlier today and where I think concrete actions may make a difference in the short-run.

As we have heard all day, Central Asian states if region cooperation succeeds, or will certainly do a lot better if region cooperation succeeds, and that all the states of the region will suffer if efforts at region cooperation fail. It is true that all of the states of the region will suffer, but I think it is really important that we are aware that they will suffer very unevenly, that the consequence of failed regional cooperation is one that has much greater implications than for some of the states than for others, and that has been one of

the things, and I will come back to this, that has helped some of the atmosphere of a lack of cooperation.

I think the role of international actors is really critical but should not be exaggerated, although they will come in for much of my criticism in my presentation.

I think that the international community can help facilitate the process especially through technical assistance in areas of trade and security, and I will come back to that, themes that were stress and will be stressed before and later. But I think that the efficacy of international assistance which can certainly be increased is still of secondary importance to the will for regional cooperation within the region itself, that there can be improved international assistance or more commitment, and I agree with most of what Fred said, more commitment by international actors cannot create, although we could do a better job possibly in stimulating, will not substitute for a will on the part of these states. And as was pointed out in the ambassadors' talks, part of the reason this is problematic is that in every case is requires each of these states to be willing to sacrifice some of their short-term gains for what they see as longer-term advantage. And in many cases it is less longer-term advantage for them than for some of their neighbors which has also further complicated it because the perception is that they will win some, but not as much as some others will won by producing this.

I think that Kathleen made a really interesting argument, and I hope we come back to it, about the rent seeking, but I am not sure that I would agree that the rent-seeking behavior is the cause of the failure of regional cooperation. I would argue, and we can come back to this because I think it is a really important point, that the Central Asian states have always had a facility for rent seeking and that the current pattern of rent seeking is shaped by the actions of regional cooperation, and that is what makes some of the impediments so hard right now, but that they would have created patterns of rent seeking that would have been dependent on regional cooperation so that when you get regional cooperation in place, it may increase transparency, but it will also create some other nontransparent forms of behavior that will help it be institutionalized, I would argue. So I do not think that rent seeking in itself the cause of the absence of regional cooperation, but the established patterns right now do create in many cases criminal elites, and in other cases simply government actors that have a vested interest in continuing current patterns of trade or lack of trade.

Similarly, I think even if ignore the dysfunctional aspect of the behavior of certain state actors, even giving them the best will in the world, even assuming that these state actors have nothing but goodwill, it is still very, very difficult to get the most public-spirited actors of new states to make choices that lead to short-term disadvantage. So I think that it is easy to slap them on the hand, but it is hard to have stood in their shoes and made the same choices, particularly if their short-term losses may lead to even long-term gains

for their rivals. I think that the legacy of competition between the Central Asian states has been as great an impediment as the different political choices, the differences in the domestic developments, of these states, and that is why I think Fred's points about taking them always to larger arenas if you can is really critical and that that mutes some of the competition.

At the same time, and to say something positive, there is, as the ambassadors' speeches attested, a much greater awareness today of the need for cooperation than there was a few years ago. I think that the atmosphere of cooperation in Central Asia is better than it has been for a while, except possibly in the immediate aftermath of 2001. I think that right now we do have a time, a window, to influence development. But we should not exaggerate the opening, the opening exists, but I think at the same time we have to be aware that the problems of achieving regional cooperation are much greater today than they were 10 or 15 years ago, that we now have the impact of the lack of cooperation or the minimal degree of cooperation over the last 15 years to deal with which increases some of the threshold, which means that we have to be more aware of the problems and less lethargic.

I would say here, again, these are points that are underlined in the report, I think that the failure of regional cooperation has exacerbated the economic development problems of the region's economies, Tajikistan and Kyrgyzstan have suffered disproportionately, I would argue, from the failure. This is not so much from Tajik and Kyrgyz behavior, but the regional

cooperation. Whereas, the closure of Uzbekistan's borders created an economic hole that is much larger to climb out of than would otherwise have been the case. The prospect of Uzbekistan benefiting from small trade, the trade that Fred talks about as having a more limited economic engine, and that is one point I am going to come back to and disagree with, I think Uzbekistan could have used trade as an engine for the development of a trade and commercial sector within Uzbekistan and that becomes harder every year they wait. They will still do it at some point, but it is going to take them a lot longer to crawl out of the hole that they are in.

Similarly, I think that the absence of regional trade has increased the risk of nontraditional security threats throughout the region. I think has led to something that Kathleen talked about, towards much deeper institutionalization of the drug region and narco business in Kyrgyzstan, and I would argue in Uzbekistan as well, and the interconnection between these two areas and the government. I think the situation with Turkmenistan also is probably quite similar although it is harder to document. I think it has led to a potential for much greater competition not only over water resources, but over the development of energy sectors and hydroelectric power and oil and gas have become more competitive rather than cooperative. Again, I think the future of all five states is in part predicated on a shared understanding of water and a shared understanding of the need for the upstream water states to have a capacity

to use it for energy as well. Again, we have not closed the window on this, but the window is coming where it will be closing.

This is another point I will come back, it has created or sped up the process of desecularization in the region, of which the rise of Islamic extremism is only one feature. It is the one we talk the most about, but I think we have to take that and put it back in the broader perspective of desecularization that is going on in Central Asia and going on unevenly across the region, with it being more pronounced in Uzbekistan, parts of Kyrgyzstan and parts of Tajikistan. Again, I feel more at a loss about Turkmenistan, about how it is proceeding there.

What can international actors do, that is one of the questions we were asked, the U.S. and others? Overall, I think we need to be attuned to the timetable of developments in the region, that if our influence in the region is maximized by timely engagement and the timetable for effecting outcomes in the region is not based on what issues become interesting or topical to us, but when the opportunity for shaping developmental outcomes on the ground are more suitable, when the states in the region are more willing to hear our advice or take our assistance.

I think that in some states we are out of synch and the out of synch will become greater and greater with real risk to the region, and we can come back to that. I think that state failure or near state failure in any of these countries will create a major security crisis or a major developmental crisis for

the region as a whole. As somebody said to me recently, the Tajik civil war was only 6 months of fighting, and 5 years of dislocation for Tajikistan, not to mention the broader region. If there were a long, 1, 3 or 3 year civil year in the region, the consequences would be extraordinary for one or two decades.

I think that while the last 15 years were not wasted, they were not maximized and that now is the time for the international community to think through ways that they can engage in concert. There is no increased awareness of the region. Of the various E.U. Troika states, two of the three in the Troika are committed to a policy of engagement in Central Asia, the U.S. has a new focus, but I think that this must be coupled not simply by conferences and discussion, but, again, as implied in the report, a need to be coupled with more resources being spent to identify the challenges of regional cooperation as well as practical efforts to advance their resolution which would require more resources to these questions and more coordination between not simply IFIs who today are more coordinated than they were at other points, but also between major international actors. I am not very optimistic about that occurring.

Let me say a couple of general comments, because I have a minute and a half left before I close. I think that we could do a better job of coordination across the region. I know that it is very critical to have local ownership in projects that are not going to succeed, but I think there has to be more of an effort of the various international aid actors in the area, to develop parallel projects that will reinforce regional cooperation and to be more

aggressive about selling these projects to the countries involved, and in some cases possibly by sweetening the pie with resources for things that the IFIs or the U.S. might not be eager on their own to have done. So to get something that we think is important, maybe we have to do something that they think is important that we might not put some priority in funding, but we do not think is dangerous if we fund.

We have talked about a number of the areas and I am going to hit on a couple. Fred talked about the technical issues of trade which I think is critical. Developing parallel structures on a bilateral basis of which there has been a lot of talk and there are a lot of projects out there, and management of borders. Kathleen mentioned civil service reform. I think that the whole area of security system reform is critical, a great deal more money could be spent, and that is, not collide with Russia as in a fight, but in having to understand that these states to keep some of their security systems not just in contact with Russian systems, but able to do things jointly with them. So I think we have to move towards global standards on some of these issues that will mean engaging with Russia as well because there is this security cooperation, and that I think is a good thing and not a bad thing. I think there has to be greater emphasis on international standards that affect all the players or else we are not going to be as involved.

I think education is an area, and I know this is one that Fred has been deeply engaged in. I think that education is an area where we could do a

great deal more. The systems in each of these countries are going to evolve in different ways, and that is absolutely natural, but if our initiatives focus on what I would call international subjects such as science and technology at the secondary level in particular, that we would really gain a great deal in the long-run both in terms of maximizing the capacity of labor mobility to be used not just at lower-skilled jobs, but at medium and technically skilled jobs. And also in helping these societies address the risk of desecularization.

Next, the area of media and communication, and I think this is more problematic than transport because all the states are concerned about the content of media. But here, again, expanding the structure, I know Source [?] has done an enormous amount of work with improving Internet access throughout the region, but anything that can be done to increase the media capacity of these states, leaving aside the content at least for now, I think in the long-run will serve us.

Two final points. I think that regional cooperation should not be tied to the foreign policy agenda of any single country. I think this has been why many Western countries have found some of Russia's efforts or many of Russia's efforts at leading integration into this area problematic. I think that the U.S. faces real difficulties in fostering their global agenda, a Washington consensus of what a global democratization agenda is. Again, here I would differ with Kathleen. I think that our attention in fostering regional cooperation cannot focus primarily on regime change in these states, and cannot focus on

domestic and political institution building as its focus. I think it has to focus on trying to create the same standards of legal transparency on these issues that have to do with trade, communications and transport, but I think our efficacy as actors diminishes if we link them directly to a domestic focus. That does not mean on our bilateral policies this should not be a priority. That is why countries participate in multilateral organizations as well as have bilateral foreign policies. But I do not think our agendas on these questions should be based on a strategy that is based on a waiting for regime change and sitting out the current regimes, but engaging on these questions right now.

In conclusion, the broader integration that Fred talks about is critical and I think that any integration in improving some of the trade environment between these five states, that there is a particular window open now while the Soviet elites are still in power, and when the Soviet elites are out of power when the next generation is taking over, I think only a broader regional approach will be viable. So it would be nice if we could address some of these much more immediately Central Asian issues of these five borders at least in the short-run and more quickly.

I think that the challenge for the current generation of leaders is to take more seriously the task of doing a better job at meeting these regional challenges or else they are going to be leaving their successors in the next generation more serious challenges to come. This is my final comment. The only place I would disagree with Fred is I am not sure that the great markets

need Central Asia. I do agree that Central Asia needs the great markets, but I am not sure that they will not simply go elsewhere to move their goods by freight around and not take them over land, and I think would be tragic from the point of view of the Central Asians. They would, as Fred points out, be losing a critical engine of development, but it is they who have to do more to capture this engine and we could all do a better job of making it attractive to them. Thank you.

[Applause.]

MR. McGLINCHEY: I would like to begin by thanking Brookings and UNDP for giving me the opportunity to participate and listen to all the fantastic presentations. It has been a very strong learning experience for me today, and I hope I can contribute to some extent to the wonderful presentations and commentary from the audience that has already gone on.

Both Martha and Kathleen have made several excellent comments, as has Fred, and so some of the things I initially anticipated that I would talk about, I will defer to their wisdom. But I would like to highlight what I see as three challenges to cooperation in Central Asia, three what I see as potential inducements to cooperation in Central Asia, and then because we have been asked to do this, not because necessarily as an academic I like to do this, two potential suggestions for perhaps improving the situation as far as cooperation is concerned in Central Asia.

Let me begin by outlining the challenges and the inducements. As far as the three challenges, the first one that I see is executive instability. The second that I will highlight what in essence is de facto decentralization in all the Central Asian states at the regional and local levels. The third one is the question of post-Soviet identity formation. All three of these things I see as very strong challenges to cooperation in Central Asia, and I will explain why in just a second. Let me just briefly outline the inducements to integration, the potential positives leading to integration.

The first one I see is executive instability. The second I see is de facto decentralization at the regional and local levels. And the third one is post-Soviet identity formation. No, I am not reading the same notes over again. These are things I think that cut both ways, and let me just highlight how they can cut both ways, how these three aspects can both be challenges and inducements.

The first thing, executive instability, I think the UNDP correctly identifies these states as superpresidential states. In fact, I call them hyperpresidential states. These are about as executive as you can possibly get. The executives in Central Asia determine all foreign policy and all regional cooperation. They are the ones who ultimately make the decisions. I think this was illustrated really quite well in 2001 when Ashkar Akayev was negotiating with his Chinese counterpart before concluding the border agreements. This was a unpopular decision by Askar Akayev, but, nonetheless, he was able to delimit

the border with his Chinese counterpart and essentially push this through over the objections of the Parliament. So this is just one very prominent example of how cooperation--this is not cooperation, it is an example of cooperation among Central Asian states, this is cooperation between Kyrgyzstan and China, but still equally important is really a product of executives. It may be undemocratic, but also it is an opportunity to increase cooperation when perhaps nationalistic parliaments would prefer not to have cooperation.

So the executives determine everything, and the question that I think comes out of this is what happens once these current executives leave power, and this is not something that really is all too far in the future. This is something that has already happened in Kyrgyzstan. I would suggest that this is something that will probably happen quite soon in Uzbekistan. The past couple of weeks have suggested that this may be something that is on the near horizon in Kazakhstan. So the question is, what happens once these leaders leave?

Take the Kyrgyz example again, the delimitation of the border between China and Kyrgyzstan. You may recall that the person who was most against this, Bak Nazarev in Kyrgyzstan, is now once again quite popular, he is in opposition to the current president, and the question becomes would President Bakiyev be willing to sacrifice a fairly large amount of political capital to maintain this border agreement with China should Bak Nazarev decide once again to make this a cause of opposition. I am not quite sure once you have elite leadership change at the executive level that these cooperative agreements that

were concluded at one time can withstand the pressures of new executives, and of course, a regime change or elite leadership change.

The other half of this, though, is that executive instability is also a potential inducement for cooperation. I think one of the most striking events really of the past decade if not 15 years of Central Asia happened last week when Nursultan Nazarbayev went to Uzbekistan, the first state visit between these two leaders, something that would be very hard to imagine, had perhaps not both leaders perceive growing challenges to their own leadership domestically. So the flip side of this equation is that instability at the local level, challenges to executive power at the local level, may serve as an inducement for these leaders to come together, wherein in previous times they might not have come together, and I think the past week has been an amazing turnabout.

You see the same thing with Uzbekistan and Russia. Uzbekistan and Russia have had very strained relations for the past 15 years after Andijan. The change in tune of both the Uzbek and the Russian government as a result of these challenges to executive authority has been amazing, and the growing cooperation that you see today I would argue is a direct result of executive instability, particularly in the Uzbek case.

The second point, de facto decentralization, if you look at the Central Asian states, most of these states, they are states, but to be slightly provocative, you might just call them states in name rather than states in reality.

If you go beyond the capitals, if you do any research outside of the states, you begin to realize that although the executives may initiate policies of cooperation, they are not the people who actually implement policies of cooperation. If you travel to the local level, if you travel to the regions, for example, in Andijan or Konkan, you realize that it is the local elites who decide whether or not to implement these agreements of cooperation. I think a striking example of this was Konkan in November 2004. The executive in this case wanted to pass a new law that would limit trade between Kyrgyzstan, China and Uzbekistan. The result of this was the local population rose up and opposed this legislation, in essence took the governor almost hostage in Konkan, and the governor decided, lo and behold, not to implement the policies of the central government. This would be something I would actually argue is a boon to cooperation. Here you have local pressures that are increasing trade cooperation in direct opposition to the somewhat protectionist measures of the government.

At the same time, this can be a striking negative. If you take a look at the case of Andijan, there is a subtext that went on in Andijan that is not particularly covered all that much either in the Uzbek press or the Western press. The former governor's son of Andijan, Obidov's son, was rumored, and I think it is actually beyond rumor, I think there are pretty hard facts about this, to be one of the largest or one of the largest drug traders in Uzbekistan, smuggling drugs between Osh, primarily, and Uzbekistan along a corridor out to Russia and then to Europe. So here is a case where a lack of government power

and capacity at the local level is a very strong hindrance to cooperation. It increases drug flows, and state incapacity at the local level becomes a major threat to future cooperation in Central Asia. So, again, another example of something that can cut both ways.

Lastly, post-Soviet identities. I think much has been made of the fact that the post-Soviet identities in Central Asia can be quite negative as to their effects on cooperation. A lot of people recall the 1990 events between the Uzbeks and the Kyrgyzs in southern Kyrgyzstan, the riots, the tension between the Kazakhs and the Uzbeks. Until recently, the border skirmishes have been highly noted. The competition between the Uzbeks and the Kazakhs to become the regional hegemon or the leader of Central Asia has been much talked about. There is competition or there is conflict some people say between Islamic identities and secular identities, the fear that one state may become more Islamic and how this might hurt cooperation.

One thing, though, that has not really been focused on all that much and I think is something that we should focus on is the shared identity, and it is an identity that I think is growing, of transnational democratic mobilization. This is actually where I differ with Martha a little bit. This is an identity that actually I think deserves to continue to be supported by the West and by any other actors who would like to support this. More and more you are discovering that a lot of the human rights activists' and a lot of the democracy activists'

identities are not simply limited to their own countries, and, in fact, their identities are something that reach across the region.

I was particularly struck by this on a research trip to Karshi. I remember watching I think it was on Euro News the revolution or the protests in Ukraine, and my colleague, a local human rights activist, saying that this would never happen in Uzbekistan. Something like that perhaps did happen in Uzbekistan, he was part of that, and he is no longer in Uzbekistan, as you can imagine, but he is in Kyrgyzstan and he is part of a broader transnational democratization movement that is connected by things like the Internet, things like satellite TV. This is not a movement that is not limited to Kyrgyzstan, Kyrgyzstan, Tajikistan or Turkmenistan, this is something that stretches across all of Central Asia. I think it is no longer an imagined community, but it is a real community, that has been aided by new technology, something that deserves to be supported, and something that holds the potential for real regional cooperation that goes beyond somewhat narrow post-Soviet conceptions of the nation-state. So I would highlight that as a real opportunity for cooperation, albeit through potentially several years of destabilization.

The last thing I would like to talk about is two suggestions, and I try to focus on realistic suggestions, things that the United States could do tomorrow. The first one is, I think there is a real need to chart a middle course between what I would like to say is the Craig Murray stance towards Central Asia, and the Shirin Akiner stance towards Central Asia. One is a former

diplomat and one is an academic. You may recall that Craig Murray was very dismissive of the United States and the British government, his own government, for "being in bed" with the Uzbek government by maintaining bases there. Akiner on the other hand questions the Andijan events, and some have argued, not me, that she is an apologist for the Uzbek government.

I think Ambassador Murray is mistaken in his argument that we should not engage these states. I think if you look at what has happened in Uzbekistan since we stopped engaging Uzbekistan, it has been a complete tragedy. There is no protection for human rights activists anymore, there are very few functioning NGOs, U.S. levers of influence have declined, so to simply turn your back on states because you may not agree with some of the policies has negative consequences for precisely those people you are trying to help. I am not saying that one has to be an apologist for Uzbekistan, but at the same time, we have to continue engaging states like this.

The last thing I would like to say is that there have been a few references at today's conference about perceiving a new great game. This is a perception I would hold that we should dispense with immediately. There really is no great game in Central Asia. The interests of China with the United States, the interests of Russia with the United States, I know I may receive some dismissive comments for this, but their interests, quite frankly, are much greater with the U.S. than they are with Central Asia. I do not think either of these states are willing to sacrifice their relationships with the United States to

initiate this romantic view of a great game. If we could dispense with this imagery and think about how we could cooperate, and I think the SCO would be a wonderful tool with which all these states could cooperate and exert influence over Central Asia, this would be a major boon.

Let me conclude with one parting remark. In the past I have been rather skeptical about the possibility of cooperation in Central Asia, but I have to say as a GMU professor, in the past week skeptics have been proven wrong many times, and if GMU can go to the Final Four, there can be cooperation in Central Asia.

[Applause.]

MR. KOICHUMANOV: First of all, I would like to thank UNDP and the Brookings Institution for inviting me to this conference. This is a great opportunity for me to present my point of view on the integration process.

When I was working in the government of Kyrgyzstan--I was engaged in the issues of integration. There were different attempts at economic integration in which the Central Asian countries were involved such as CIS, Custom Union, the Eurasian Union and so on. In addition to these organizations, the Central Asian countries also initiated such unions, for instance, the establishment of the Central Asian Union.

The aspiration for integration was dictated from the bottom. Traders, business people and ordinary people called for their governments to take measures to lessen trade obstacles. The collapse of the Soviet Union not

only broke off previous economic ties, but it also led to the depression of large industrial enterprises. It has also created new networks of administrative barriers among the newly independent countries. Of course, political movements were also represented.

I would like to divide this period of integration into two parts. Concerning the first part, it mostly the political process that was performed by community pressure which used to--extensive economic processes connected with trade needs and with the search for new markets and competition were already extant in the second part.

Regarding the legislative documents related to integration, during the first years or after the CIS and Custom Union were established, more than 800 normative acts were adopted. However, practical results were not achieved. Moreover, the Ruble Zone disintegrated and the countries chose their own models of development. Some of them, especially the Kyrgyz Republic, have radically changed their economic policy to that of a market economy. We can say that the implementation gap between adopted decisions on the top level and its real implementation played a main role in the lack of vital capacity of economic unions.

The question is not only one of political will, rather, there are other reasons as well. Different resources potential and different structures of economies have dictated different methods and approaches of development.

With research potential having been subsidized from the Soviet Union's budget, Kyrgyzstan has chosen a course towards speeding up to a market economy. Therefore, the external economic pulse of Kyrgyzstan was liberally oriented.

The situation was rather different in other countries of the region and in the CIS as a whole. Kyrgyzstan could not conduct a protectionist policy with Russia or Kazakhstan and had no reason to do so. On the contrary, seeking defense from large neighbor partners, Kyrgyzstan sought the protection of the international community. As a part of this effort, Kyrgyzstan entered the WTO in 1998. This was the only appropriate way for the Kyrgyz economy to find its niche in the world market and to provide competitiveness. This was suitable because Kyrgyzstan is a country in transition and this contradicted the principles of other countries of the economic union [inaudible] Kyrgyzstan--country was thrown back out of the civil war and in principle was ready to be integrated.

Thus, I think for real integration of countries, excluding identity issues, it is necessary to solve two tasks. First, it is necessary to provide the identification of interests.

[End Tape 3 Side B. Begin Tape 4 Side A.]

MR. KOICHUMANOV: [In progress] --mutual interests and to start building the integration process in these points of development.

Second, it is important to harmonize institutions responsible for external economic issues and relations among the countries. In other words, this

means reconciliation of external economic legislation including administrative procedures and the strengthening of the monitoring system of adopting decisions.

I think we now have good trends in trade and economic relationships of the region. One of these trends is a common approach toward Afghanistan and the development of this country through the participation of Central Asian countries in the rebuilding process. Another trend is the efforts of such countries as Kazakhstan and Russia to join the WTO [inaudible] which will be a mutually beneficial instrument in trade.

Evidently, the integration process has been and continues to be influenced by the question of tribe and group interests. These interests were expressed in monopoly--credits, duties and taxes for groups who were supported by ruling elites. However, it is a question of corruption.

In conclusion, I would like to demonstrate some interesting figures obtained by a group of independent experts of the Kyrgyz Republic. This is the report of the Central Asia-Caucasus Institute at Johns Hopkins University. Experts have just conducted an assessment of the impact of trade barriers on the economic development of Central Asian countries. The amount of bribes range from 16 to 40 percent of goods' cost. Expenditures for conveying goods, storing them in cotton terminals, and payment for customs duties reach up to 10 percent of the goods' cost. According to the experts, steep tariffs have also emerged because of the limitation of competitiveness and the imperfection of market

mechanisms. The exclusion of nonobligatory transport expenditures allows to lessen automobile tariffs up to 46 to 70 percent.

What benefits can Kyrgyzstan have eliminating such barriers? There will be--increasing by 1.7 percent for Central Asian countries--this figure is 2.5 percent. The GDP growth of Kyrgyzstan can reach 2.3 percent. I think the elimination of the above-mentioned trade barriers can establish a good opportunity for future development in the region, and not only for Kyrgyzstan. Thank you.

[Applause.]

MR. STARR: Thank you very much all of you. The floor is open to comments and questions. Please introduce yourselves.

MR. THORPE: May name is Robert Thorpe--I spent 4 months in Biskek in 2004 directing the Trade Facilitation and Investment Project. I must also disclose that I am a lawyer and I would like to ask the minister, during the time he was minister, did you see any evidence of corrupt activities by the Akayev family or clan? Did you yourself benefit from any corrupt activities?

MR. STARR: Excuse me, sir, I'm going to interrupt you.

MR. THORPE: And three, did you have to pay in order to become a minister?

MR. STARR: Excuse me. I am going to interrupt you. I think that is a perfectly legitimate question to ask in another setting. Next, please.

QUESTION: [Off mike] I had a question for Mr. Starr. You mentioned Continental trade. I thought that you were easily dismissing the importance of regional trade because much of the labor absorption in the poorer countries is going to come from the small and medium industries which will have to take advantage of the natural protection that the geography lends itself to. Continental trade is in the first place for primary commodities, and as a result of that, I don't think the impact on--is going to be very visible, at least in the short-term. So I think there is a role for regional trade as well.

MR. STARR: I agree, and its benefits on a human scale would be very considerable. Whether trade on a more modest level interregional will have a major effect on GDP is a separate question.

MS. BLACKSTALL: Martha Blackstall [ph] from Brookings. I wanted to ask the professor from George Mason, maybe I misinterpreted you, but I thought I heard you say that the U.S. was disengaging from Uzbekistan and you felt that that was not a good strategy. I was wondering what evidence you had, because the last time I spoke to our ambassador there a few months ago, the sense I got from him was that we were doing just the opposite. He was making every effort to remain engaged in a sort of personal way with the government in whatever way he was allowed to do.

I am curious. Perhaps the USAID figures are down and certainly the World Bank has made a statement on its future program in Uzbekistan, but I was

wondering, maybe you had some additional information that we do not have that you could share with us.

MR. McGLINCHEY: I think I probably misspoke. What I meant to point to was there was a debate particularly between the State Department and DOD for a few months about what policy should be taken. I think you are absolutely right to point to the reality, that I think there has been a coming together of both of these agencies into one where there is engagement to the fullest extent possible, and I think that is very encouraging. I apologize if I suggested that the United States went too far in one direction, and I think it has been actually quite encouraging that there have been efforts to the extent possible to engage.

What I really wanted to highlight is particularly in academic circles that have been many calls that echo Ambassador Murray's call for complete disengagement, and I think that that is a foolhardy proposal. At the same time, I think there have also been proposals to turn a blind eye to some of the offenses. My point is, we have to maintain a middle ground and I think right now this a policy that particularly the U.S. Ambassador in Uzbekistan is doing the best, given the circumstances.

MR. STARR: Dr. Ghani? I'll just introduce the former Minister of Finance of Afghanistan.

MR. GHANI: A lot of assertions are made regarding decision making. On what empirical basis do we know how decisions are made in Central

Asia? And could you make a comparison across the countries rather than generalize?

MR. STARR: The floor is open.

MR. GHANI: Is the question clear?

MR. STARR: That's the problem.

[Laughter.]

MS. OLCOTT: I'll take a stab at answering it. I honestly do not think you can generalize even across a country. I think you have to look at it based on a particular decision, and I think we have some knowledge about how particular decisions were made in certain countries at certain times. I think we know a lot about Turkmenistan, for example. We know that all decisions that have to do with foreign economic development have to made by the President. There is no ambiguity, and there is a lot of empirical evidence to support that.

I think when you go to the more participatory countries, it is much harder to say where particular decisions are made, but I think that you would have to look at a specific decision to answer that. In Kazakhstan, for example, decisions are heavily lobbied. The President may make the decision in the end, but there is a real lobbying, form and informal, process that goes on. In Kyrgyzstan there are a host of decisions I could point to you that were made in the locality, and in some places the President learns about it when gossip hits him.

I think probably what you are pointing to, that you have to be very careful both in terms of the area you are talking about, the country, and the specific decision.

MS. COLLINS: I would add to that that we can look at particular decisions, and that is one way of analyzing the matter. We can also look at the legal framework which concentrates decision-making power in the executive. You can dismiss that and say, well, maybe that is not how it really works. It certainly varies I think depending on the type of decision that is made and the type of issue. Some things are highly centralized and sometimes are highly legally but de facto, as Eric pointed out, and as I indicated when talking about some of the vested interest groups that matter and there is an informal lobbying process that goes on behind the scenes.

Over the years, I think we have all talked to state bureaucrats in Central Asia, in Taskent, in the different regions of Uzbekistan, as well as in each of the Central Asian countries, and while there are variations, there is also a similar process of top-down decision making and then implementation at different levels.

MR. STARR: Dr. Ghani?

MR. GHANI: How do you characterize the nature of the political elite in each of these countries? How would you provide us with a visual picture? Is the Uzbek political elite the same in terms of internal processes of coherence as the Tajik, or there are significant differences?

MR. STARR: In a sense, both questions are the same. You are really asking, is there a Central Asia with regard to these matters?

MR. GHANI: How does it cohere and how does it [off mike]

MR. McGLINCHEY: There is a desire I think among all of us to assume a unified agency and to assume a unified political elite, and that is impossible. There is no unified political elite. I think Uzbekistan has demonstrated that quite painfully in the past year that there is not a unified political elite, so to even begin to address that would be difficult.

I think what Kathleen and Martha were both pointing to is that there are certain generalizations you can make, and Kathleen in her no longer an article, but her book that is coming out, talks about the challenges of balancing different kinds of regional or clan affiliations.

In my research I talk about the structural constrains of resources, so states that have greater degrees of resources will be able to pattern their political elite much more efficaciously than states that do not. So to say that there is one political elite is impossible, but we can draw generalizations across these states by looking at certain commonalities, be they identities, be they resources.

MS. OLCOTT: I do not agree. I was just going to say that I don't even think that I agree. I don't think there is commonality across the region anymore. I think in certain decision-making areas there may still be some commonality, but I think despite similarities in some of the legal systems, and I

do not even agree that the legal systems are that similar, I think that Kazakhstan and Kyrgyzstan are fundamentally different from Uzbekistan and Turkmenistan, and Tajikistan is very different from either of the two, but I think the culture of politicals is very different in all five of the countries.

MR. STARR: It may be worth quoting, if I may, President Karimov on this. He said a year or so ago, "We have become more like ourselves." I think that is a great line.

[Laughter.]

MR. PASCUAL: Carlos Pascual of the Brookings Institution. One of the issues which we haven't really addressed is the mixture between political, religion, extremism and borders. I think from the experiences many people here have had in Central Asia, particularly with Uzbekistan, that in many cases borders have been closed and given perceptions of either political opposition forces moving across borders and using those borders as a way to promote opposition internally within Uzbekistan. Or in other cases, where borders might have been a vehicle for those with let's say extremist religious views crossing borders. So, hence, the approach that may have been taken has been to in fact shut down on borders almost arbitrarily in some cases.

There is then a parallel to that, a real danger that we have seen occurring in other parts of the world, where you have had authoritarian regimes suppressing moderate political forces particularly in Islamist states. The only mechanisms are alternatives in those states, being the mosques. As a result of

that, you get political openings that result in Islamists coming to power through democratic means, or increasing power such as the Shiites in Iran, Hamas in the Palestinian Territories, or the Muslim Brothers in Egypt.

It seems like there is this danger that one could get into where there has been a trend to promote closed borders and to try to crack down on opposition groups through authoritarian means, yet at the same time, what it could actually end up doing is strengthening those very extremist groups over time. How do you get out of this cycle?

MR. STARR: Just to note Carlos Pascual really worked for reducing border issues in U.S. policy in the region, trying to work across borders.

MS. COLLINS: I agree with you. The scenario that you outlined which has taken place in various countries in the Middle East and North Africa, where you see internal problems leading to the rise of support for radical and extremist groups such as the Muslim Brotherhood in Egypt and a whole range of other groups across the Middle East, is a phenomenon which is taking place in Central Asia as well and has been taking place over the past 10 to 15 years. whether it is the IMU or Hisb-ut-Tahrir or other more mild forms of Islam, political Islam or Islamism.

How do you get out of this? I would argue that you get out of it through economic liberalization and political liberalization. Regional cooperation will help advance that as well. But prerequisites for easing the

tensions on the border, easing the domestic, economic and political grievances that lead people to support these groups and to get into this cycle of instability are economic and political liberalization. Just to clarify what I said before, I was not suggesting that we have to advocate regime change. There are many steps short of that that we can advocate such as creating borders with a human face, allowing people to cross borders at Osh and Andijan in a more humane way. Smaller steps like that I think are key. But I think the crux of this really is political and economic liberalization at some pace.

MR. STARR: I am going to now recognize two more questions ad seriatim, and then responses. Ben Slay?

MR. SLAY: I just want to very briefly strong support what Kathleen said and give an example of a country that has made huge progress in avoiding precisely the dynamic you described through political especially, but also economic liberalization, namely Turkey, after the 2002 elections, which is a country that we have not talked enough about, I think, today which have lots of potential ramifications for Central Asia. Not as many perhaps as Russia and China, but in terms of the example in this respect in particular that could be followed. So not only are you right, but there is a very strong example to support you that we have not mentioned, I would say.

QUESTION: I would like to connect Ashraf Ghani's question to Carlos Pascual's question. To be a little bit of a contrarian to what your question, Ashraf, implies, I do believe that there is still in Central Asia a great

deal of commonalities. They are post-Soviet elites still, and they are also secular elites in their very post-Soviet ways, secular certainly in relationship to Islam. And actually your question recalls to me a meeting that you attended in Biskek, 3 years ago. The resident representative of UNDP organized for Afghanistan and its neighbors a trade meeting in Biskek because there used to be a resident representative in Biskek. I arrived the second day, so after the first day I called somebody who was already there and asked, How is it going? And the person said, It's going really well. But you know what? At dinner the ministers from the traditional Islamic countries, if I may call it that way, were sitting at one table, and the post-Soviet ministers were sitting at another table.

And it really I think brings close what I want to say, that I think there is still an enormous amount of commonality between these elites, and of course, many other things also bring them together, as well as bring them together with Russian elites, the language also, but also the approach of the Russian foreign policy to the practices in Central Asia.

So I think there is a lot of commonality still, and I do not want to deny what Fred says which is that gradually these countries are going to get closer and they get back more their traditions. And if that is true on the level of elites, and that is maybe a reflection on Carlos's question, I am very skeptical, and you all will probably shoot me down, about the magnitude of the risk of Islamic radicalism in Central Asia. It differs country by country, but whatever I have seen, convinces me that for the time being there is still a lot of

appreciation of secular values in Central Asia. And oddly enough, and this is really what Kathleen also I think is saying, that if the countries close down and do bad policies and do not liberalize politically and economically, they may gradually arrive at the very risk that they are trying to portray--they try to legitimize less than democratic practices.

But it is perhaps still not late for them to just follow a little bit more of what more successful Eastern European countries have done. There are differences, but there is also a post-Soviet heritage not to neglect.

MR. STARR: Thank you very much. The clock has run out. I want to thank all of our panelists and all of you, and then the floor back to our hero and author of this wonderful study that brought us together.

MR. : Thanks very much, Fred, thanks for your panel, and we have half an hour of break talking about all this interesting stuff, and we will have our final panel chaired by Carlos Pascual with many interesting participants at 4:30. Thank you.

[Break.]

MR. PASCUAL: Let me welcome you to the last panel of the day, and thank you very much for continuing to stay with us for this discussion. It is late in the afternoon, but I think it has actually been a very valuable and fruitful discussion, and I hope that we can maintain some of the spirit and the exchange that we have had over the past few hours.

This last panel is going to try to do two things. One is, it will take a look at the broader regional and global issues that are affecting Central Asia, but then we'll also try to make a few comments at the end that will try to extract some of the key issues that we have been discussing throughout the day.

This is a tremendously challenging set of questions. One only need look at the range of neighbors around Central Asia, from Russia and China, and depending on whether we consider the border at Afghanistan or Pakistan, or at Tajikistan, certainly there are two actors there, Afghanistan and Pakistan and Iran. Then there is the role of the United States, the role of Europe. There are energy issues, there are religious issues. There are questions about the basing of troops and base rights. There are narcotics flows issues. It is hard to imagine a more complicated set of issues that come together where there are broad international interests at stake and at play, international interests that are in fact at times in competition. Getting a handle on some of these dynamics is part of what we are going to try to do today.

We have an extraordinary panel to help us do that. Ashraf Ghani is going to lead our discussion or start off our discussion. As I think most of you know, he is the Chancellor of Kabul University, he was Afghanistan's Finance Minister between 2002 and 2004. I think just as significantly as being Afghanistan's Finance Minister, he was very much a leader in putting together an Afghan strategy for Afghanistan which really made a fundamental difference in the bond process and gave Afghanistan a platform which it could offer to the

international community and serve as a foundation and basis for support. I think from that perspective, Ashraf has a unique perspective on what is critical for individual countries to do to underpin their own statehood and to create a viable foundation for regional cooperation.

I think many of you know that he has had a very diverse academic career, and a career as a practitioner at the World Bank, and so we are very lucky to have him with us today.

Following Ashraf will be Ben Slay, to my right. Many of you heard Ben's excellent questions and comments throughout the day. He is the Director of the UNDP's Regional Center in Bratislava. He has also been the Executive Editor of the UNDP's regional publications. Before that he was with a group here in Washington called PlanEcon where he was involved in macroeconomics and political and economic analysis.

After Ben, we'll have Martha Blaxall. Martha is here at the Brookings Institution as a Strategic Development Officer in the Economics Studies Program. She has had quite an extensive history of involvement in Central Asia including being a Visiting Scholar at the Central Asia-Caucasus Institute at the Nitze School of Advanced International Studies next door at Johns Hopkins. She served as the Central Asia-Caucasus Project at Yale University. Then when she was Vice President and Senior Economist at Development Alternatives, this also took her back to working on Central Asia quite a bit.

In addition to our principal speakers, we have asked two of our colleagues, Fred Starr and Fiona Hill who you have already heard from to serve as commentators on some of the issues that are put on the table and to help me then extract from the comments that have been made throughout the day to be able to possibly send us out of here with a few key points that we might be able to follow-up on with action. So that is the agenda that we will pursue in the next hour and a half or so.

Without further ado, Ashraf, please.

MR. GHANI: Thank you, Carlos. It has been a very productive day for me to both listen, and before that, to read. Let me make a number of general comments, offer two scenarios for the future, and then take a perspective as an actor from an Afghan point of view.

First, a region is an analytic construct. It is based on stock and flows. There is nothing natural about the region. To illustrate, up to the 1870s, what today is Central Asia had a lot more to do with South Asia than any other part of the world. It was Russian administrative policy, particularly the Tariff of 1898, the railway, closed borders, et cetera, that reoriented this region. So when we say we are locating a region, we need to locate it in terms of stock and flows, not give it any natural endowments. Now the future conflagration can be very different, depending on the set of policies that are pursued, and the flows that correspond to that.

Second, the first wave of globalization, particularly the failure of the United States to deliver cotton as a result of the civil war, was critical to the conquest of Central Asia, and this fact should be understood and underlined. It was the failure of a liberal trading regime that brought about an imperial, closed orientation. If we do not understand this fact, I think we do not understand the situation again.

Third, the failure of the international community in general, and of the developmental institutions in particular, vis-a-vis Russia and Central Asia in the 1990s, is a failure for which we are paying the contemporary price. Russia for the first time was ready to become democratic and capitalist, and the international community failed it. We were not ready. I say we, because at that time I also had the privilege of working at the Bank.

There is no economic domain in these countries from the perspective that I have seen. There is a political economy domain, and within that the security sector is inherently involved in economic decision making. If we do not understand the role of the secret services in the overall security understanding, we are not going to get advances. Economics is one thing, national security economics is something else.

The IFIs have yet to acquire the capability to offer policy advice that is tailored to countries in the region. The region for many years, both at the World Bank and the Asian Development Bank, was a null entity. There was no regional policy, and it is a great advance of this report that it is actually

articulating a series of understandings for the region. But the practice of these institutions is really country-driven. The Asian Development Bank has had a series of things with Mekong and others, and it has been more advanced in some ways than the World Bank in this regard. But the level of policy again as a practitioner, I did not find interlocutors in these two institutions that could really provide helpful advice. They take too much time doing studies repeatedly that repeat things that they do elsewhere. They are not tailored to context. When one is a reformer, one's greatest problem is actually with the international community. They take two-thirds of one's time on irrelevant things.

A very important point that comes out of this report, and Johannes alluded to it in his introduction, is the concept of the cluster, region versus cluster, and I would like to offer some perspective on how the cluster approach could be further developed.

Two other points. One, cooperation among networks has to be differentiated from cooperation among states. There economic networks, both positive and negative that are actually operational. For instance, we actually do not know the volume of trade between these countries because it taking place through networks, particularly vis-a-vis Afghanistan. State-to-state sets of relationships are a different parameter, and some of these things need to take place at the level of the state, but also one of the key advantages of this report that Johannes highlights is how to facilitate the institutional logic for legal networks to thrive, and this is an important insight that should not be lost.

Lastly, Afghanistan was viewed in Central Asia prior to 2001 as a disease. The threat, the fear that Afghanistan evokes is very, very real, and change of that image is very important, to seeing Afghanistan as an opportunity rather than a threat. I will return to that.

Now in terms of scenarios, if you are projecting 10 years from now, scenarios are possibilities. They are helpful, they are not real, but they help one define, so I would argue two possibilities. One is a narco-rentier region, the possibility of now pollution of the entire economy by the narco trade, and particularly a shift of narcotics from Afghanistan to these countries is a very, very real issue. This is going to be a very important driver. While we try to promote legal networks in cooperation, illegal networks have absolutely no difficulty cooperating across the region. If you are taking tons of heroin being transferred without any difficulty through the region, you know what I am talking about.

So criminal networks are very mobile, extremely flexible, and focused. Official policy, on the other hand, in combination with developmental agencies, are extremely slow, and the challenge to developmental institutions are very, very real ones. Developmental institutions have practically zero advice to offer regarding criminalized economies. They have made some advances regarding informality, but regarding illegality and criminality, the advice from the international system is a modicum, and it is actually counterproductive most of the time.

The second scenario we can call gradual regional development. I do not see in 10 years from now a radical possibility of regional cooperation, but a gradual possibility of cooperation that is going to be sustained is there. What are the drivers? First, of course, is the drugs. The penetration of the drugs across all these countries is something that really needs to be watched. It is going to lead increasingly to weakening of already weakened governance systems. Second is rent. Besides drugs, we have the problem that except for a couple of countries worldwide, Norway is one, Dubai is another, rent from natural resources has often led to severe problems of governance rather than promotion of it. So when rent is combined with an already patronage-based system, it is a problem.

Let me bring the other one, natural disasters, from a political perspective. Natural disasters could actually precipitate significant changes because this is where the legitimacy of existing orders could be radically questioned, and the importance of natural disasters as political phenomena cannot be underestimated.

Let me take migration again from another perspective. It is the question of voice and exit, Hirschman's duality, and the analysis that Hirschman does of former East Germany is enormously interesting in this. Voice is about possibility of relating in the system, exit is to choose out. The problem is that both voice and exit are limited, and they could come together in very, very interesting ways as a result of a major economic downturn or a natural disaster.

So the system is unpredictable, in other words. Predictability of the order is an extremely difficult phenomenon because all that we know about decision making is actually surmising. We are reading tea leaves in general about these countries rather than having access to open information to know what is happening. Energy and water. Again, it is important to note that while today's emphasis is on energy, 10 years from now, water is going to loom much larger globally.

Kyrgyzstan and Tajikistan today who are underestimated, are going to be extremely important from a global environmental view and a global regional view. The Iranians, President Hatami of Iran in my presence was already discussing a pipeline on water with Tajikistan because the problem of devertification in Iran is a very real threat to them, and China, like water transfer projects, could be a very important issue, but so could other consequences.

The other diver is Russian policy. Entry of the Indian and Chinese energy companies would need to be watched. These companies behave in very different ways, and Sudan is an important indicator in this regard in terms of the behavior of these energy companies and what they are willing or not willing to do.

Lastly, of course, the issue is elite mental models. What is the compact of this elite within itself in each of these? And what is the relationship between the dominant elite in Watmaska [ph], called the Second Class,the class that does not rule, but makes ruling possible? Namely, the regional, local

groups that allow the center. Because the basic reality is that decision making is not along a modern state. None of these states performs the functions of a modern state. Namely, none has a contract with its citizens in terms of delivery of services of benefits that characterize a modern state. The state is the space for perdition. If that is the case, then loyalty becomes an issue. It needs to be generated. It just cannot be taken for granted. That is an analytic perspective.

If one is going to take a pragmatic perspective, then how does one engage clusters first, and Uzbekistan, second?

Let me take the Uzbek first. This is going to be extremely important in terms of engaging, so I will offer some practical illustrations when I was Finance Minister what I was doing, because that involves significant changes in the procedures of the international financial institutions.

Point one, on transport. Uzbekistan has invested $100 million in brand-new equipment in transport, and it has 14,000 trained highway engineers. They used to construct all the roads in the former Soviet Union because of republican specialization. They will never be able to win a single bid in a competitive bidding process because they do not know how to prepare those bids, but the type of engagement that would take place with them is going to require very patient engagement. Unfortunately, neither the Asian Development Bank nor the World Bank was willing to work with us to provide that kind of entry. They could have conducted the Afghan roads at one-tenth the cost, but

the rules of these institutions actually keep driving the price up to a level that the cost of a road in northern Afghanistan was $350,000 estimation.

Second, the sequencing of the decision is uneconomic. Each of these banks arrives at the profile of the project based on its annual expenditure rather than what the economic rates of return are in how we should be able based on that commitment to borrow. The procedure of these institutions needs changing if one is going to engage this, and always excellence is the enemy of the good. What I mean by that is that everything does not need to be paved. The corridor, the Afghan Ring Road, could have facilitated an enormous amount of traffic between Uzbekistan, Iran and Pakistan had we gotten it to 80 kilometers an hour, rather than 120 kilometers an hour. We need to come to these tradeoffs practically, which we have not done.

Second is the issue of cotton. On cotton, Pakistan is really critical. Pakistan can absorb 2 million tons of cotton a year. Today the cotton of Uzbekistan goes through many countries and pays many tariffs. It can pay as much as $1,000 per container to get to the port. It will go through one country, namely, Afghanistan, to get to Pakistan, but the interest there regarding cotton really needs to be engaged.

One can offer other sets of illustration, but the critical issue is the type of engagement that needs to take place. The quid pro quo needs to be the opening of the Uzbek Railway. Nothing in the region is going to really take

place in terms of integration unless the Uzbek Railroad is opened. That is the critical asset that is going to make other things work.

In terms of the cultures, the most important player in this with the interest and ability to engage actually is Tajikistan. Tajikistan is desperate to find its way to South Asia and to Iran. Because of this, it is very keen to start developing those trade linkages, but the corresponding element is unless customs, particularly port, in Pakistan is reformed, this project is not going to come to fruition. When Afghan goods have delays of 3 months in the Port of Karachi, you cannot ask Tajiks to take that kind of leap of faith. Management of water now, but reform of the Port of Karachi is going to be absolutely critical from a regional perspective to this.

In terms of water, but particularly from the segment of power, Johannes is right that Afghanistan's increasing use will complicate the flow into the Amu area. It is only using Pyandzh, but the other tributaries are going to be used to full capability. The system requires co-management. Without a co-management process in this, and, again, the possibility of cooperation between Tajikistan and Afghanistan as the upper riparians, is really quite high. But now what it requires, again, is a shift in our mode of analysis of feasibilities. I was quite disappointed with all international financial institutions in terms of their feasibilities.

The supply chain management, what we are given is standard economic textbooks from these institutions for contexts in which they do not

work. The estimation of Kabul-Kandahar, for instance, was $35 million. It reached $210 million, and then it became the norm. Pakistani producers of asphalt took everybody hostage because the United States would not deal with Iran. International financial institutions really need to think a lot more creatively about supply chain management.

And the other factor that is completely missing from the international financial institutions' view is actually knowing how to bring about a local competitive constructive industry, and unless these issues are talked about very systematically, consistently, and also regional synergies are thought through, in every single domain I think we can think about ways to engage Central Asians in the reconstruction of Afghanistan, or in the second phase, in terms of using Afghanistan to enable them not to go to Dubai. For instance, special zones could be designated in Afghanistan to allow them to purchase a lot of goods that they buy from Dubai.

The other part that is going to be critical to this is the scheme for risk management and insurance. When we say there are risks, every single risk has a risk management strategy, but we have not really thought through a variety of modalities in terms of how to bring about an insurance mechanism for quantifying the risks, and bring the risks to mechanisms. I used OPEC, the overseas guaranty instrument to the greatest extent when I asked President Bush in January 2002, everybody laughed me off, but they humored me and they gave us $50 million. Now it is $500 million, and it has become a very critical driver

in development and investment in Afghanistan. We need to be able to think through a whole modality of these in order to further.

Lastly, again, concluding with the real networks, a lot of the operations in these areas are cross-ethnic. It is a fact that has not been sufficiently emphasized. For instance, Afghan traders are involved in every single country in Central Asia, and have branches. Likewise, Central Asians are involved in Afghanistan. We need to chart these networks and engage them in a lot more discussion of how they would be able to cooperate because they know the system. The sort of analysis they do of degree of opportunity, openness and closure, I think is grounded in a kind of reality that is driven by interest, and if those things were taken, then possibility of gradual change and top-down change in history has happened. Whether it is possible in Central Asia depends both on the interlocutors of Central Asians and on the Central Asia leadership. Thank you.

[Applause.]

MS. STOW ALL: Ashraf, thank you very much. A very engaging presentation which forces us to think about new challenges, from the way that we conduct economic policy, trade policy, the countries we engage in the region, the role of Iran in many of these issues, the interconnections from Pakistan all the way back into Central Asia, I think is exactly the right kind of provocative discussion to have in this setting. Thank you. Ben, please.

MR. SLAY: Good afternoon. It is indeed a pleasure to be here, and although it is difficult to speak towards the end of what has been a series of very engaging and compelling, and often times provocative, presentations and questions and answers, I will try to do my best.

I think when I thought about how I could best organize my thoughts in my remarks on this topic, and hearing everything that had gone before me, I looked to the compass for guidance and thought about north, south, east, and west, and then I thought, in fact, this is a very useful way to think about who the neighbors are of Central Asia and where the possibilities for expanded regional cooperation or external cooperation, if you like, might be, taking under advisement, of course, Minister Ghani's criticisms of what the idea of a region actually should mean, and something I will come back to towards the end of my remarks.

So if we think of north, south, east, and west, around Central Asia in terms of opportunities and constraints for development, security, and progress, I think I will be provocative and start out by disagreeing to some extent with what Minister Ghani just said. In some ways, I think if we look south for the short- and medium-term we see the least prospects or the poorest prospects for development and cooperation.

If I look to Afghanistan, I see a country now which has many opportunities in the future, but at the moment offers primarily constraints and threats, one might say, for Central Asia. Obviously, the narco-trafficking that

comes, as Minister Ghani said, from Afghanistan is the leading example of this, and, of course, this is not, as Johannes Linn points out, necessarily Afghanistan's fault: where there is a supply, there has to be a demand. But it is clear that there are a lot of potential problems here.

Clearly, we can be seduced by the idea of this huge market of a billion people in India and a very large and rapidly growing middle class. We also have to remember that India does not border with any Central Asian country, not even Afghanistan borders with any Central Asian country. And if we are going to get such things as electricity from Tajikistan through to India, we have to somehow recognize the fact that India may not be willing to let its energy security rely heavily upon its western neighbor, namely, Pakistan. The world in which we would have hydroelectric or energy tradeoffs between Pakistan and India, I am not sure it is here yet, although I am not a specialist in this part of the world.

Then if we look to another country that is to the south, we come to Iran, and I think it is fair to say that Iran has had a problematic relationship both with much of Central Asia and much of the international community for the past 15 years for reasons that, again, are not necessarily Iran's fault, that is a topic for another discussion, but it is difficult to be optimistic about the prospects for rapid improvement in this state of affairs in the coming weeks, months or maybe years. So I think that if we want to look south for prospects for development

along this edge of the compass needle for Central Asia, we might be disappointed.

I think if we look west, and by west if we mean the European Union, Europe and the United States, we also have to be candid and be somewhat pessimistic.

What has the West, understood as the United States and the European Union, offered Central Asia in the past 15 years? It has tried to offer money, and investment in particular. It has tried to offer security, military security in particular. And it has tried to offer democracy. I do not think that the offer has been particularly successfully absorbed in any three of these respects.

Money, sure, there is a lot of ODA that has come from the United States, and the presentation by the colleague from USAID was very illustrative in this respect, but we all know that it is about trade and not aid, and it is about investment at least as much as it is about trade. And both the European Union and the United States are not exactly opening their borders to goods produced from these countries, with the exception, of course, of energy which is oil that is always accepted, but if one looks at manufactured goods, light industry, food, cotton, we see where the problems are.

In effect, when the investment is coming now into Central Asia, it is not coming, generally speaking, outside of the energy sector; at least from these

countries it is coming from Russia, and increasingly the investment in the energy sectors of Central Asia are also coming from Russia.

Security. Clearly, the United States in particular made a huge contribution to the security of Central Asia, or at least the Central Asian states perceive it as such, when the Coalition of the Willing, so to speak, went into Afghanistan in 2002. Certainly, the government of Uzbekistan appreciated the destruction of the Islamic movement of Uzbekistan at this time. However, it is also clear that the American security presence in Central Asia is shrinking. The Americans have been essentially shown the door from Khanabad in Uzbekistan, and security is increasingly being provided not so much by the countries themselves, but by the framework of the Shanghai Cooperation Organization, by Russia and by China, and I think that if there were ever to be another set of developments such as occurred in Tajikistan in the early 1990s, that there would be a much stronger response both by Russia and by China than occurred then, and that is where the security comes from.

Democracy. I think we all have a sense of how appreciated the Western version of democracy is in Central Asia, and in some sense, the OSCE which represents this idea of combining security and democracy, shall we say faces some major challenges in Central Asia. I believe that there are fundamental gains that can come from democracy in Central Asia because I believe that democracy is at the heart of good governance, and I believe that many conventions of the United Nations that these governments have signed

indicate at some level some buy-in to these ideas, but it is not clear that this is necessarily a large highway upon which these countries are going to, shall we say, craft strong partnerships with the European Union and the United States anytime in the future.

If we look east, I think we see much more robust prospects for development and partnership, and east, of course, is China. What does China represent? There has been, obviously, a lot of discussion of this already here today, but it represents market reforms that these countries feel comfortable with, not that they feel comfortable about being overwhelmed by a lot of cheap Chinese imports, but they do see a model of market reform that in some sense is more consistent with the history, the culture, the mentality of this part of the world as was pointed out a number of times, a country that is in the WTO and thriving, and also potentially a large market for Central Asian exports, especially energy, but not only.

In fact, if we take the two-speed approach to regional integration that Johannes mentioned in this initial remarks and say that maybe Turkmenistan and Uzbekistan are not so interested, but Tajikistan, Kyrgyzstan, and Kazakhstan are, and that is where the regional integration will run within Central Asia, who is that partner just to the east of all three countries? China. Of course, there are a lot of impassable mountains there and you are not going to have tremendous amounts right off the bat of cross-border trade and transit, but there are things happening and there are going to be more things happening all the time. I think

if we really want to think hard as the international community about how to have regional cooperation among these three countries and bring China into the picture directly, we have to think more about exactly about what to the economics of the relationships between those three countries and China looks like. Which borders are seeing what kinds of transit. Which firms are in those parts of the countries that are having links to China. What types of shuttle trade is moving back and forth. What kinds of goods, and what kinds of communities are benefiting.

But at the risk of being most provocative, I think, quite frankly, in the near-term in the coming years, the best prospects for Central Asia are to the north, in the Russian Federation. It is a little bit provocative for me to say this, but look, let us give the Russians credit, where has the capital come from for so much of the foreign direct investment in the last 4 years in Central Asia? From Russia. Who is the largest trading partner of the poorest countries in Central Asia? The Russian Federation. Who is the largest provider of services, be they financial services or transport services to the countries of Central Asia? The Russian Federation. Who is the largest--

[End Tape 4 Side A. Begin Tape 4 Side B.]

MR. SLAY: [In progress] --the poorest countries of Central Asia? The Russian Federation. If we deny this, we are denying in some sense some of the most important trends at work.

What can be described as Russian imperialism in the sense of Russian companies coming in and trading debt for equity in some of Central Asia's best companies can also be described as official development assistance by the Russian Federation. So the question is, How do we really want to play this? What benefits do various people have from painting Russia either as an imperial power or as the savior for Central Asia? That is perhaps something we would think about. But I think there are clearly some win-wins associated with the growing Russian emphasis, the Russian influence, in Central Asia, the lingua franca being one example. And also I think we should recognize that Russia is about to take over the Chairmanship of the G8, and as problematic as that may be for some of us, it does offer the chance for us to focus more on Central Asia than might otherwise be the case as long as that chairmanship is there.

I would like to, having said that, be even in some sense more provocative and maybe a bit more even unrealistic than said what I have said in the past, and turn back to the European Union. I think in some ways the importance of the European Union for Central Asia may not be fully understood, not because the E.U. is a great source of trade, investment or security for Central Asia, but because it may be, and I emphasize may, be a model of regional cooperation in how countries that do not cooperate at horrific consequences somehow can break out of those vicious cycles.

If we say that regional cooperation is a public good and the failure to take advantages of those public goods are negative regional externalities, then

there is no better example of a regional public good than the European Union. If we think about where Europe was in 1938, 1945, or even 1957, we see a group of countries and political elites that for centuries had much greater problems with one another than the elites in Central Asia now do. Somehow something has happened to make them be willing to surrender chunks of their sovereignty to create the European Union, and something that not only in effect solved so many problems for these countries, but created a very strong development anchor for the countries of the Balkans, the countries of the, shall we say, the western part of the former Soviet Empire, and maybe even now countries in the Western CIS. I think, of course, it is very difficult to make strong parallels here, but I think in some respects it is a little bit interesting, intriguing, to try to make some of these parallels.

What did the European Union require in order to break the vicious cycles of history? Putting aside the minor historical point of two devastating world wars, it required hegemons that were not within Europe, namely, the United States and the Soviet Union. It required one hegemon that scared Europe, and it required another hegemon that was willing to, shall we say, envision a more united, more coherent, more unified Europe as part of its sphere of influence, with admittedly some tensions therein. I am talking about the *Pax Americana* in the 1950s, 1960s, 1970s and 1980s, in Europe, Europe being part of Euro-Atlantic security structures, and the European Union being in some sense promoted by the United States.

It is difficult to see such a coalescence of hegemons around Central Asia at the moment, admittedly. On the other hand, when one looks at China and Russia, one sees hegemons now beginning to appear that clearly were not there 10 years ago. Clearly, this is not a perfect parallel, I am not suggesting that, but maybe we should think about it in this way: What would it take for China and Russia to see Central Asia not as a battle site for a great game, but as a region where their great power interests or regional interests could be promoted by regional cooperation? Or maybe if Kazakhstan is to emerge as the driving force for regional integration in Central Asia if it becomes so much more influential than the other countries, hypothetically speaking, how does the China-Kazakhstani-Russian triangle play itself out?

The last point I would add just thinking totally beyond the box here is if we were to argue that a lot has to do in the future with Russia and China, then we also have to say: But what are the other areas in which Russia and China are going to be competing or interrelating with one another? Here you have to ask questions about the growing importance of the Asia Pacific Region, Japan, and India as well.

With that I would conclude, my point is to get us to think maybe a little bit longer-term, a little bit outside of the box, and think about the relationships between Central Asia and its neighbors in a somewhat different way than we might otherwise do. Thank you very much.

[Applause.]

MR. PASCUAL: Ben, thank you. I appreciate very much in particular highlighting the full factors that can come from Russia and China and interjecting that into the discussion.

Martha will give us some short comments, and then brief comments from the chairs here, from Fred and Fiona, and then we will open it up to questions.

MS. BLAXALL: I got the hint.

[Laughter.]

MS. BLAXALL: I just want to add a few things to some of the ideas that Ben had contributed, and I had not heard his remarks beforehand, so I hope I do not repeat some of the same things that he said.

The first question that we were asked to consider was what role will the broader regional influences play in the future, and I can see why Ben concludes that looking to the north is the way to go because Russia, of course, is a traditional partner. We do not need to spend any more time on that, except to say a couple of things. One is that Russia's role really has been different, I think, since about 2000, or certainly in the last few years, compared to the role that it played right after independence in the 1990s. At that time, of course, it was the principal trading partner for all of these countries, there was practically no trade with anybody else, and, therefore, its traditions, its culture, its economic systems, its trading relationships, defined to some extent the efforts of

these countries to try and work their way out of the enormous economic crises in which they found themselves at the end of the Soviet Union.

But I think the role is changing now in interesting ways. One example of that is what Ben said, as a major investor. Russia is a major investor. Its state-owned and semistate-owned companies are investing throughout the region in all of the sectors, energy, telecommunications, natural resources, even some consumer goods, and they are doing it in ways which are comfortable for the Central Asian state-owned kinds of traditions and so forth. It is a major source of employment for millions of Central Asians who have no other way to make a living, and the remittances from the largely illegal employees in Russia are really an important source of income, particularly for Tajikistan and the Kyrgyz Republic, but also for Uzbekistan, and could be in some of these countries a very significant portion of the revenue that is used to fund their budgets. To some extent, Russia is to these countries as the United States is to Mexico: just no matter what you do, no matter how illegal you state their condition, they just keep flowing in all the time and their remittances go back.

It is also a continuing trading partner, and it has provided and continues to provide humanitarian assistance to Tajikistan, and will be an important role model for the young people in all of these countries. And I think in the future, it will remain a willing protector of the status quo for the current political elite. So officially it is a very convenient partner for some of these

countries because it does not demand the kind of transformation of the political elite that some other partners might require.

On the other hand, Russia is also, I think, doing its job to some extent in promoting regional cooperation, but it does it in an interesting way, trying to use the regional organizations of which it is a member in trying to lead in that direction. So it has its own self-serving and narrowly defined objectives in promoting the kind of regional cooperation that it thinks will enhance its own economic and political status in the region.

I think, as Ben said, that China is really the wave of the future, and I guess maybe it is partly because I was just recently in Xinjiang, and when you go to Arumchi [ph] and see what has happened in that city, and I think you have been there, Fred, quite a bit, you begin to realize what the future of Xinjiang is going to mean for Central Asia.

MR. STARR: It is all Han.

MS. BLAXALL: It is all Han, but it is booming. This is the Wild West for China.

Kazakhstan has had billions of investments from the Chinese, and the pipeline now is predicted to start shipping I guess principally Russian oil, but to start shipping sometime in the next few months. The CNPC took over Petro Kazakhstan for more than 4 billion recently. China after Andijan provided a $600,000 loan to Uzbekistan for energy exploration. In other words, it does not just focus on Kazakhstan. There are other grants, trade credits and loans

that have been provided through the Shanghai Cooperation Agreement. There is an agreement, and actually more than an agreement, I think that is underway, the gas pipeline venture between Turkmenistan and China. And there is movement, I do not know the exact status, on the pipeline from Turkmenistan through Afghanistan to India and Pakistan, and China has recently expressed interest in that. Also like Russia, China is also promoting regional cooperation. but, again, through institutions that it can to some extent lead, and the Shanghai Cooperation which was originally a Chinese idea is the best example there.

Just a couple of comments on China. It is also very much involved in encouraging development of new roads and railroads. Certainly the new road from Khorugh in Tajikistan to Kashgar, while it is still a very small activity, is a very big, important difference in Tajikistan and allows Tajikistan to bring in consumer goods without having to go through the Dushanbe route. And it does, in a sense if you think visionarily for the future, if that be such a word, it is the beginning of the development of a road network that might offer Tajikistan the opportunity to become a central conduit in a trade network that linked Afghanistan and Pakistan and the Central Asian Republics with China. So you might say that if you thought about this in a different way, it offers new opportunities.

I think the future with China is going to continue to grow. I think it is going to reflect the economic growth of Xinjiang, as I said. In 2005, the trade turnover between Xinjiang and Kazakhstan alone was more than $5 billion, or a

$1.7 billion increase over the same amount in 2004, and I understand that more than 70 percent of China's total trade with Kazakhstan comes from Xinjiang. So as Xinjiang continues to grow, which it is, we are going to see further economic ties between Xinjiang and Central Asia that is even independent of what official Chinese policy in Beijing might try to encourage. I understand, also, by the end of 2006, there are going to be 31 border crossings from Xinjiang and from Russia all the way down, and that is going to give more opportunity for Xinjiang to be a player here.

I think there are some opportunities with Iran. Certainly, the oil-swapping opportunity with Kazakhstan is allowing Kazakhstan to develop new markets using Iranian oil which it substitutes with oil from its Caspian operation. In South Asia, both India and Pakistan have expressed interest in joining or associating with the Shanghai Cooperation Organization in which they are now official observers. Both countries tend to operate bilaterally on economic and commercial deals, but they seem to be willing to encourage regional solutions to development problems. India already has a 15 percent holding in an oil company in Kazakhstan, and a 10 percent holding in the Kurmangazi fields, and they are looking at hydropower investments in Tajikistan and the Kyrgyz Republic and so forth. So energy is driving India closer to Central Asia, and it is also driving it to look at joint opportunities with China.

Let me just make one more comment, because I said I would not talk for more than 10 minutes. The second question I was asked to look at was the

international community. How can it better support effective integration of Central Asia into the global community? I just want to say a couple of things that come out of the report directly since I worked on the report, and that is that the international donor community certainly can help to encourage energy supplies, promote access to points of sale, through helping with infrastructure planning and thinking through with these countries what makes sense, it an apply modern technology to agricultural growth in ways that preserve scarce water supplies, increase productivity in the agricultural sector, contribute to environmental quality, and maximize market opportunities. There is a lot of technical assistance that still needs to go on there, and it is absolutely critical for doing something about poverty in the rural areas.

Then just two more points from our report, the international donor community must also continue to work on transport networks across the region, and between the region and its neighbors, and it has to keep in mind throughout that the goal of all of this is to try and reverse the poverty and depravation that still is very much pervasive throughout the region. In order to do so, and this was Johannes's words in the report, we have to think about scale. We have to provide enough aid so that it makes a difference and it does not just get dribbled off at the margin and really has no effect at all. We have to continually think about a regional approach to growth. We have to make a priority of improving governance, and encourage these donors to coordinate among themselves so that their goals are complementary rather than either conflicting or at cross-purposes.

And of course, in order to do all of this, we have to support the indigenous regional organizations so that ultimately these countries take responsibility for their own development.

[Applause.]

MR. PASCUAL: Martha, thank you. Fred, a comment?

MR. STARR: I once knew a South Louisiana farmer who was driving along, and a big bird flew into his windshield and splintered it. He was 25 miles from home, and I saw him when he finally arrived home. I asked, How did you do it? He said, Well, I drove with my eye on the rear-view mirror. That is what we have seen today. The notion that the south is some dead end is only possible to someone who is driving with their eyes on the rear-view mirror.

You heard what Dr. Ghani said about the cost of marketing cotton through the Baltics versus marketing cotton through Pakistan, or Iran or wherever. I am sorry, folks, this is reality. It is arrogant, it is simply arrogant for a bunch of academics to sit here and say countries that are producing their cotton and exporting at a huge cost through one route should not have equal access to a cheaper route. It is arrogant and it is presumptuous.

To go further, other products, oil, gas, Turkmenistan does not arouse a great deal of sympathy right now in many quarters. I just remind you that at several points in the last 15 years their sole export route for their most valuable commodity has simply been cut at an instant drop of 35 percent of GDP. What kind of arrogance is it to say that that country should not have

alternative routes to get its most valuable product to market? There is something morally wrong about that. And the same is true for everything else that we are talking about. It is fair to ask rather than tell. Sit down calmly and talk with the governments, talk with the people, and what do you hear? We heard I thought an extremely important statement here from Dr. Ghani.

What has changed in terms of the view forward? The most fundamental change in the last 5 years is the removal of Afghanistan as an insurmountable impediment. This changes something that was true for 100 plus years. That was a closed border, largely, not entirely, especially after 1937. That border is now open, but because of the international institutions, you called them the interlocutors, driving with their eyes on the rear-view mirror, they are telling rather than asking countries what they should do, and we are not taking advantage of it. Maybe this is the difference between international, if you will, financial institutions and academia on the one side, and normal business judgments. Normal business judgments would say open this route, take advantage of it in all its various ways, and then let the people in the region make the judgment on which routes they want to use.

What am I saying here? Very simply, I think the notion that what in this rather generic and anemic term, international interlocutors, that they are shaping, we, you, are shaping reality, not always in very positive ways, has to be understood. We have offered endless advice to the poor Central Asians today, but we have also, I think, might conclude that maybe we need some advice

ourselves, that we may be missing it, we may be in our arrogance acting in ways that we do not understand.

Let us go through one by one. I will do it alphabetically. What is China doing? Its chief interest has been to control dissent in Xinjiang. That is why the SCO was created, period. They were very honest about it. And the second interest is energy. That is fine.

India. India for the time being has no really clear interest. It is formulating one fast, but for the time being, its policy is controlled by Kashmir. It will change.

Russia. Keep the door to the south closed, of course. The efforts that it has gone to to keep the doors to the south closed included a full war against Afghanistan in which a quarter of a million people were killed. Doesn't that give some cue?

MR. GHANI: Two million.

MR. STARR: Two million were killed. Doesn't that give some clue that they take keeping that door closed seriously? That is not a generous policy. These are not rational decisions. They are based on some serious emotional matters.

The European Union for the time being, sorry, it is not a player. Meeting with both of the next two presidencies, this might change on the margin, but except for energy, it is not likely to.

The U.S. was active before 9/11, but after 9/11, focusing everything on the operation Enduring Freedom. There is not yet a post-post-9/11 policy that affirms a longer-range vision for the region. And let's be honest, we did it on the cheap, that has been said, but we paid about $250 each per capita in Korea and Taiwan when those countries were being brought out of oblivion, Afghanistan cost about $150, much, much cheaper, and our total expenditure in the rest of Central Asia is about 50 cents per capita, so it has been done on the cheap.

My point is these countries are not necessarily pursuing the most noble and broad-minded policies, let alone the international financial institutions about which Dr. Ghani spoke. There is a kind of developmental Heisenberg Effect here that we in our arrogance refuse to acknowledge. I would submit that the next paper that we need is a rigorous analysis of all the interlocutors', national and institutional, actions to see what they tend toward and to what degree are these based on sovereignty-limiting, if you will, sustainability-limiting assumptions on the part of the interlocutors. And if that is the case, then the problems that we are addressing here today may be as much of the making of these institutions and neighboring countries as of the benighted Central Asians themselves.

[Applause.]

MR. PASCUAL: Thanks, Fred. To be fair to the dynamics of the conference and what we are trying to achieve, it is not so much to just prescribe,

but the very fact that we are having this exchange of ideas and thoughts is, indeed, intended to be able to put the dynamics on the table that are in fact actually influencing the region, and by understanding those dynamics, then have a better sense of how to deal with the conundrum of how to better formulate policy toward Central Asia. Indeed, we cannot just look out the rear-view mirror, we have to actually look out the front, but that is, indeed, the very spirit of this conference, so I think we should at least recognize or acknowledge that. Fiona?

MR. HILL: I think I will speak from here so I don't have to fall off the stage trying to get to the podium which I have done before. You can tell I am bit scared of that prospect.

I think actually I would like to follow-up with a little bit on what Fred said because we may have got the impression from Fred's presentation that there are some really sharp differences in the conference today, and actually I don't think there are. I think what we really heard here underscores the fact that this is a region in flux. Perhaps the problem is not that we have been looking in the rear-view mirror, but we all tend to get more fixed views of areas that we have been dealing with. Over a period of time, you like to try to pin things down, but really, Central Asia is a region that is changing rapidly in spite of what we may see on the surface as rather still traditional, conservative states, and I think what you see depends on where you are standing at this particular point in Central Asia.

I thought that the Tajik Ambassador had a rather kind of image for this when he talked about the green light suddenly being switched on in the traffic light, having it being red or amber for some considerable time, and now everyone was trying to figure out where to drive because in the past, all the roads led to Moscow, and now there are kinds of roads leading in many different directions. Even if they may not all be paved or opened again, there are still lots of prospects to go in different directions.

I think if you were to go around different parts of Uzbekistan, Tajikistan, particularly in the south, Turkmenistan, you might have a different idea of where you might be going, southern Kyrgyzstan also, than perhaps if you are in northern Kazakhstan or in Kyrgyzstan, northern Kyrgyzstan, at this point.

Having just come back from the norther part of Central Asia, remember, Kazakhstan never used to think about itself as part of Central Asia, and increasingly now, it is still trying to figure out where it is. Kazakhstan, of course, wants to chair the OSCE, the Organization of Security and Cooperation in Europe, not just to be a leading member of the new entity for Asia. In Kazakhstan right now you are looking in fact to China and to Russia. You are not really thinking quite so much at this particular point, but you may be in the future, of different prospects to the south.

It is the same in northern Kyrgyzstan. We are starting to see members of the Kyrgyz and Kazakh elite sending their children to China, for

example, to learn Chinese, just as they are still going to universities in Russia or studying in Russian-language institutions inside Kazakhstan and Kyrgyzstan.

If you get to southern Kyrgyzstan and you go to parts of Uzbekistan, people are starting to look south. Remember that the invasion of India was first started in Andijan, Babur set off from Andijan to move south, so it is always Central Asians moving south, rather than perhaps Indians and Pakistanis and others moving north. I think Fred has a point in this, but we have to wait for the Central Asians to start to move, and I think some of them are. I have talked to many people who have started to look south, just as Fred is indicating. So we have, again, I am just trying to underscore here, a complex shifting situation where all of the things that we have heard today hold true.

I think what Ben was trying to do and what Martha and others have underscored is to get a bit of a corrective on our perceptions of the role of Russia, because the role of Russia has been a lot more positive over the last several years in particular more than one might have anticipated initially. In fact, Russia's greatest contribution to regional security in Central Asia has been in absorbing the surplus labor of the region, rather than in building bases or trying to reestablish its military presence in the region, especially through the Shanghai Cooperation Organization or the recent opening of the base at Kant.

The big problem with this, of course, is what happens over the longer-term with Russia's economy? All of this depends on the continued ability of the Russian government and the Russian economy to sustain growth, and I

think there are some big questions about this over the longer-term. So the continued focus on Russia that we see to some degree now may be a fairly short-lived thing. In the next 10 to 15 years, I think we could see a dramatic change. In fact, it may be sooner than this because we are already seeing the tapering off of growth in Russia's energy sector which is, of course, the main driver of Russian economic growth at this point.

With China, we have talked about this a great deal. I mentioned that we are starting to see Kazakh and Kyrgyz students in particular going to China to study the language. For now, many regional governments see the Chinese government as quite helpful, but there is a great deal of anxiety over the longer-term about what are China's intentions for Central Asia, so, again, we have a big question mark about how much the interest in China will persist over the longer-term. While there is a big boom in Xinjiang, I think it is true that many governments and many business people are starting to look towards China, but there is still a lot of anxiety about what is the vision of China.

The role of the U.S., I think, actually, is extremely complex here. Nobody picked it up in this panel, but it was hinted at in many of our other panels today. Martha Olcott touched upon it. Paradoxically, the role of the United States in terms of promoting regional development made it being very negative. Martha mentioned, and a couple of other people also mentioned, that since the forced withdrawal of the U.S. from Uzbekistan, we have seen Uzbekistan entering into many of the organizations that it had previous ignored,

because one of the problems of the United States in the region is we have always tended to choose strategic partners. In spite of having a regional approach that was outlined by our colleague from USAID, we have always looked for the regional partner. Uzbekistan was that for a long time, even before September 11th, and of course became more important the case once the base in Karshi-Kandabad was established, and that enabled the Uzbek government to in fact pursue a more independent line, because the Uzbek government was able to leverage U.S. security support and assistance in really trying to carve out a role for itself that was separate from the rest of Central Asia. That has ended, and I think the Uzbek government is now starting to reassess its own interests in regional cooperation in a way that it was not before, so paradoxically, a decline in U.S. influence that many people here are concerned about, may be more beneficial for regional cooperation. That is also a kind of somewhat provocative thought here.

I think what Fred said about Europe is very true. In recent interviews I did in Central Asia, we were asking about how they saw Europe, one of the most common references was remote and bourgeois, which is a slightly strange comments, but that resonates. Europe was very distant from Central Asia at that point. Even the quasi-European or future European presence of Turkey has declined a great deal over the last several years, so the role of Europe I think is a big question mark over the longer-term and whether Central Asian governments and business people will start to look to Europe more in the

future I think is very much questionable. And I do think that, as Fred has very passionately and eloquently stated that South Asia is a big prospect for the future, the question is just which stage in the future.

Again, just to wrap up, I think we have a period of flux here and that is what our seeming disagreements seem to be reflecting, that we are not sure, as Ashraf Ghani himself said, because of the role of different networks, the opaqueness of political decision making, so many things in Central Asia are still unpredictable, and I think we are at the cross-roads right now where some things will become clearer, but not for some time.

[Applause.]

MR. PASCUAL: Thank you. The floor is open.

QUESTION: I actually do not have a question, I will just sort of throw in a couple of numbers into the discussion because I think they are relevant. We did actually last year an assessment of corridors connecting Central Asia with South Asia, and we actually identified something over 50 different corridors and looked at an investment of about $5 billion generating trade in an amount of about $12 billion between coming up from the north, down to the south.

The question maybe I do have is, why is in particular Pakistan doing so little in terms of connectivity to the north? And why does it take so much time in order to get products to their ports in Karachi? And isn't there a level of competition between Karachi and Bandar Abbas?

MR. PASCUAL: Let me take two other questions.

MR. SMITH: This is Grant Smith from Central Asia-Caucasus Institute. There has not been much mention of Iran, a couple of minor mentions, and I would suggest that while it is not in league with China, Russia or the U.S., it is in league with South Asia in the short term, and the shortest route to the Persian Gulf right now is functionally I suspect through Iran rather than Pakistan because of the slowness of the Karachi port and other things. That route is being improved with Indian assistance. The shortest route to Turkey is also through Iran from Central Asia, not through the Caucasus, but through Iran, because of the difficult of just transiting the Caucasus and getting across the Caspian. This is something that I think people need to recognize. It may not be consistent with U.S. policy, but it is something that we need to put into the equation.

MR. PASCUAL: One more question.

MR. MUSSIENKO: Boris Mussienko, with Democracy International. I have a question for Dr. Ghani. Could you give us a practical glimpse into what is being done about this critical issue of the narco-rent problem in Afghanistan? What is the prognosis of solving or getting this problem under control, and the war lords, and how long do you think this problem will take to get under control so some real progress can be made in trade and stability in Afghanistan?

MR. PASCUAL: Ashraf, do you want to start on Pakistan and narco-rents?

MR. GHANI: Sure. First, I think the hypocrisy of the international system has to end. This is not the problem of the producer. It is the problem of the consumer.

[Applause.]

MR. GHANI: Unless the middle class here stops attending to its habit, it is the professionals here and in Europe that are impoverishing us, and it really needs to be attended to as a global problem. It is not the producer's problem alone. We need to work together, and it is going to require a different strategy. I think repeating Plan Colombia in Afghanistan is nothing but a strategy for disaster. You spent $650 million on education, giving it to these rent-a-cops and not $150 million on alternative livelihoods. What kind of strategy is this? I have been in print on this when I was in the government. The last thing I wrote in The New York Times was about this.

The other is we need the global private sector's involvement. The international financial institutions cannot generate prosperity. They can generate infrastructure, but they cannot generate prosperity. It is the global corporations, and we need a very different type of strategy if we are going to take the problem seriously. Otherwise, everybody is affected. It has reached your shores. It is no longer a European problem. It is 2 years that Afghan heroin has reached California, and all the evidence indicates that the heroin and

cocaine networks are combining; via Indonesia it has reached California. So the United States can, again, cannot simply be indifferent to this and say that this is Europe's problem. We understand this.

Point two, it is going to take 10 to 20 years. State building and bringing prosperity is a 10- to 20-year prospect, and this cannot be done without investment in human capital. I had to beg to obtain assistance Kabul University, the leading university in the country. I lose power ten times a day in my office, and no one is helping, and unless you provide a part of upward social mobility for the children of the cultivators of opium, what hope do they have? State building and stability cannot be done on the cheap, and that proposition really needs to be revisited. You are not in Afghanistan because you love us, because you did not do that between 1991 and 2001. You are there because it is in your interests, and if it is interests, then we really need to combine and produce the type of strategies, co-produce strategies, and put in the type of resources. On a per capita basis, among post-conflict countries we have received the smallest amount.

The other is aid has to combine with trade in development, and we need different kinds of partnerships. The point about Pakistan is precisely that it was just me pressing Shaukat Aziz, and I did not receive sustained support from anybody saying that the Port of Karachi is a problem. The reform of the Port of Karachi will do more for Afghan development than a billion dollars in aid, literally, a year, because it can generate the same sort of thing. And right

after Berlin when I got $8.2 billion in March 2004, I requested to go to Biskek which the UNDP at my request convened, I did not get a cent, but the implication of that long-term was far more important than the Berlin conference for us. We need to be able to think through these flows and stocks.

Working with Central Asia is going to require patience. It is going to be gradual. It is not going to be a sudden breakthrough. Again, to agree with Fiona Hill, it is an issue of diversification. The south option need not be against the northern option. The way we need to think about it is how to increase overall wealth, and that is going to come from a variety of approaches. The southern approach is one, the northern can be another, and, again, it is really imperative to engage Russia productively in some of these developments. We cannot just ignore there is an historical factor, but what would be the limits, and what type of regime, and this is going to require mediation.

One of the things that is missing in all of this is the nature of brokers: Who is going to be able to be the broker in these relationships? To what extent can international financial institutions work on this? To what extent can international security institutions? To what extent can international political institutions? Johannes's suggestion for a special envoy, a special representative of the Secretary-General then assumes a new conflagration, because that requires a different type of mediation skill and allows us, I think, to work together.

My last point is, unless the security, aid, and political institutions are brought together to be aligned and work together, this very complex strategy cannot work because it requires coordination of messages, facilitation, and a degree of brokerage that some institutions by their articles of agreement are forbidden to engage in, like the World Bank, or the Asian Development Bank, but they need to be brought together so we can move together.

MR. PASCUAL: Does anybody want to comment on that?

MS. BLAXALL: Just a couple of comments. I mentioned the swaps with Kazakhstan, and there is a lot going on with Iran in individual countries, the train through to Uzbekistan, the roads now have gone on, there is a lot of activity of Iran in Tajikistan, both humanitarian and investment for the future, there is a lot of activity. But one thing we have to remember along the lines of what Ashraf Ghani just said is the role of the U.S. here is not an encouraging one. Because of our own particular policy vis-a-vis Iran, it is very hard for donors and certain other bilateral activities to support the infrastructure needed to accomplish these goals with Iran. And while the private sector in conjunction with state-owned enterprises or partial state-owned enterprises has come up with some creative solutions, there really is a limit to how much can go on given the U.S. position vis-a-vis Iran. You were just telling me, Mr. Ambassador, about that with Turkmenistan, and I think it is a lesson we have to remember.

MR. PASCUAL: Let me take two more questions, and then I will turn to the panel for some final comments.

MS. MANDEL: Judith Mandel, Washington Group International. We have heard a lot of discussion about the role of the states in the region in coordinating and cooperating, but there seems to be a thread through many of the discussions that there really is not enough of this coordination and cooperation among the so-called donor countries or the countries that are north, south, east, and west. This has been a perennial problem within the U.S. government, and certainly in the U.S. government as it relates to the E.U. in providing assistance as it relates to World Bank programs. What I am trying to get at is the issue of developing mechanisms for ongoing coordination to avoid duplication or unnecessary duplication. I wonder whether you see any trend toward solving this as a means of pooling resources and using that assistance more effectively with the countries of the region.

MR. MILLER: Sutherland Miller from the Services Group. I have two related questions. The first, I am just curious for anyone to comment on, if Russia and China perceive their commercial interests in Central Asia as being particularly competitive in a negative sense. Second, if there is an economic logic to Central Asia's relationship economically being rooted more in China, Russia and Iran, should we be worried about the agenda in promoting increased transparency and more efficiency in the civil service and improvements in the way these governments regulate the private sector?

MR. PASCUAL: What I'd like to do is ask our panelists if they would be willing to make any final summary points that they want to make, and

in the course of that, then address the two questions that have been put on the floor. Do you want to start, Fred?

MR. STARR: With regard to the international organizations and countries, the issue with regard to external states is that in the long-run, we have talked about their activities and their initiatives, but an equally important question is, What restraints are there? What self-restraints and mutual restraints are there? It seems to me that Mr. Tokaev, who is the Foreign Minister of Kazakhstan, has figured this out with great clarity. In 1997 he wrote a book in which he laid out the proposition that to survive as a sovereign state, Kazakhstan had to balance Russia with China. Then in 2001, early in the year, he wrote a couple of articles in which he expanded this thesis, and he said to balance Russia and China, we have to engage the United States as three partners. Now his thinking as a week and a half ago when we discussed this is very much along the same lines, hoping Europeans and Americans will come in together more actively, and hoping in the long-run that India also will be a player.

Suppose this happens. What do you need? Eventually this will lead to a kind of, inevitably, after bumping heads, to what in the 19th century was called a concert, a series of understandings that are all based on self-restraint and mutual self-restraint. It seems to me unless we start laying the basis of this now by putting this greater Central Asia on the agenda of bilateral discussions with the other principal parties, and that means China, Russia, India, eventually

Iran, Turkey, Europe, Japan, Korea, unless we start doing that now, we don't have kind of concert in the long-run.

One thing I think we can be very sure of on the basis of the last century and a half is any effort by one state or a grouping of states to dominate and control this region is going to lead in the long-run to very unfortunate results. That does not have to be the case. I think history is moving us toward a kind of pluralism based on these great centers of economic activity around Eurasia, but for the time being, we do have to deal with some old-think that is focused for the time being, and it is not the only thinking present in Moscow, rest assured, but for the government there for the time being, it is still zero-rum thinking.

This is not the case in China. I think they have shown much more nuanced views, and I do not think they have reached definitive view. But unless the U.S., Europe and other countries begin this process of discussing rules of the road, if you will, what are the necessary self-restraints that must be observed: I'll observe them if you observe them sort of thing. Unless that process is begun now, which is a mediation process which the international organizations could play a serious role in, we will miss the chance in the future.

MR. PASCUAL: Let me continue to ask our colleagues here on the panel to give some final comments, but if we can keep these very short since we have hit on the 6 o'clock hour and I know lots of people are anxious to go. Ashraf?

MR. GHANI: The first point about coordination is that the aid system, particularly in its bilateral form, was designed to support local industry, and this needs to change. In Afghanistan, one dollar of U.S. assistance is worth 20 cents, one dollar from the World Bank given in cash is worth five dollars, and we need to enter into this calculation and understand it. Eighty cents of U.S. assistance comes back to U.S. contractors. If we want to make the policy correspond to the intentions of the leadership because of the levels of existing rules, there is need for fundamental change.

The second, we need to begin if we want to be pragmatic, Europe began very pragmatically around coal and steel. Part of the thing is the agenda of riches that Johannes so well laid down for us, but where is opportunity is going to be very different. Hence, we need to understand his emphasis on clusters and a bilateral set of relationships, as well as keep pushing the general agenda of region cooperation. That is how lessons will be formed, that when the advantages of cooperation are actually demonstrated on the ground and things will work out on that basis, we can move.

The third is its unpredictability. But precisely because things are unpredictable, we need to be prepared for different scenarios because when opportunity presents itself, whether it is a change of leadership in one country or another, or a change in policy, then one is able to present a menu of options. So it is not just one set of recommendations for all contexts.

Last but most importantly, I think engagement needs to continue, analysis needs to be enriched and further deepened, discussion needs to take place, both at the level of the leadership in these places, and in terms of new interlocutors. Particularly in that regard, the types of changes based on comparative past understandings, that if not undermined in existing elites' hold on power, realistically, again, need to be demonstrated how certain types of changes, broadening of economic opportunities like trade if not actually undermine the hold of the political elites needs to be dealt with much more creatively, and I think that would be a sort of realistic engagement.

MR. PASCUAL: Thank you. Ben?

MR. SLAY: Just very briefly with regard to the question on Russian and Chinese economic incentives in Central Asia and more generally, I think that Russia and China have two great things pulling them together which in some ways are consistent with the kind of regional cooperation for Central Asia that we are talking about. The first is that China has a great demand for energy and Russia has a large supply of energy. It is in some respects a match made in heaven that can defuse a lot of tensions, and if the cards are played right, the Central Asian countries, at least the energy suppliers such as Kazakhstan, can benefit from this as well by also supplying China as long as they maintain the relationship with Russia as the Kazakhs are doing. It should not be a problem.

The second, of course, is that both are very concerned about American influence in Central Asia, ergo the Shanghai Cooperation

Organization, and the desire to minimize that is I think responsible for a greater willingness to permit in some sense stronger Central Asian states than might otherwise be the case, and a greater willingness to provide military security guarantees to Central Asia than might otherwise be the case.

With regards to this north-south business and the farmer from Southern Louisiana, I guess I would say here that I was only trying to differentiate between what is desirable and what is inevitable at least in the short-term. Anyone who has spent time in Tajikistan, of course, realizes the misfortunes that Tajiks, and Uzbeks, for that matter, who live in Afghanistan and have been sundered for a long time by the border that came from Russian Empire experience. Anyone who has been to Tajikistan and sees the cultural affinity with people speaking Farsi from Iran realizes that there are some very unnatural distinctions there.

But that having been said, there is such a greater economic center of gravity to the north and the east, and the trade is growing so much faster, that for the short and medium term I was simply suggesting that it was inevitable there would be more pull in that sense without necessarily commenting on the desirability or the appropriateness of international organizations to promote one thing or another.

Finally, I would suggest, Fred, that if I understood your analogy correctly, the driver from Southern Louisiana who had his windshield shattered

by the bird did, nonetheless, manage to get home at the end of the day. Thank you.

[Laughter.]

MR. PASCUAL: Martha?

MS. BLAXALL: Just a couple of comments. Regarding that question about Russia and China, and I think you said their private-sector investments were viewed as competitive or complementary, I am not quite sure I understood the question right, but in any case, I think the point is this, and that is, even though Russia is a major supplier and exporter of oil and China is the second-largest importer in the world now, in fact, what was interesting to me is the fact that the Chinese have recently put energy on the Shanghai Cooperation agenda. What that says to me is that they are prepared to cooperate in some way with Russia within the Central Asian context which has not been the case, because as you probably know, there has been a lot of back and forth with China and Russia over who was going to get Russia's oil from Eastern Siberia and the Russian far east. Where is that oil going to flow? Is it going to go out to Japan through the Russian far east, or is it going to go into China through that geographic area, and it looks like it is moving away from the Chinese option. So, clearly, despite that concern, and maybe because of it, the Chinese might have agreed that they should cooperate more with the Russians. I do not know. I have not talked to anybody about that. Someone here may know the answer

better, but I think that there will be both competitive and noncompetitive forces in that set of interactions as we move along.

I just want to say one other thing about the coordination among donors. It seemed to me, because I was the person assigned to do the detailed analysis of what the donors were doing in the region, both the major bilateral donors and the major multilateral donors, and what was interesting to me is that there were a lot of examples of coordination and sharing on specific things like regional environmental kinds of programs. But what there has not been from my perspective, and I do not know what goes on in the internal bowels of the World Bank or the ADB, but I do not see, certainly, the bilateral donors taking a broader perspective than their own national interests in a very fundamental sense. I do not see them sitting down and, as Fred and Ashraf Ghani have just suggested, taking a look at what is the vision of the future development of these countries, what ways does the private sector have to interact with the public donors in order to make this thing work, and, therefore, within those different scenarios, what can we do to make our programs more effectively contribute to a sensible development strategy for the future, almost in a DOD sense of scenarios of the future. Maybe this goes on, but if it goes on, it is not evident to those of us on the outside, and I think by sharing these scenarios, if they do go on, or by creating them if they do not, would make everybody's interactions in these regions, including the governments of these regions themselves, work in a much more effective way.

MS. HILL: Just a final comment. I think what Martha just said actually doubles back on what Fred said about the need for a series of mutual understandings about the region, and I think the biggest problem of all is that every single one of the major players in Central Asia, the outside players, lacks a vision for Central Asia itself that is based on a clear understanding of what people in Central Asia want. This is a major problem not just of the United States, but also, frankly, of China and Russia.

Particularly, to get back to the gentleman's question about the private-sector influence of China and Russia in Central Asia, most of this is not real private sector. In fact, when you are looking at Russian investment in particular, there is always the hand of the state behind it. In fact, that raises a big question mark, sadly, for some of the projects that our Ambassadors outlined in their panel earlier today. For example, the promises of huge, billion-dollar investments in Tajikistan. A lot of this depends on the willingness of the Russian state to put money into these projects. That then raises the question of what happens about the rent seeking and infighting in Russia itself as we approach 2008 and the question of who is in Putin's spot, is it Putin or someone else afterwards.

For example, in the case of Rusal and UES, this combined promise to invest in Tajikistan's aluminum smelter and hydropower complex, the individual entities, the companies, Rusal and UES, do not have the investment rubles, dollars, whatever currently we are talking about here, to put into these

projects, and so it will require debates within the U.S. government to decide to put forward guarantees of this investment, and, in fact, some Russian state funding. So this raises the big question of what does Russia see as the long-term development, just like what does China see, and what does the United States. Ashraf Ghani has painted a very bleak but sadly true picture of really what happens to U.S. investment dollars, and I am afraid that probably Russian and Chinese investment also mask as a very different reality when you look at them. So this dialogue that Fred was suggesting, all this multiplicity of dialogues, is extremely important. None of us have a vision for what we want to see Central Asia being, and I think the UNDP report, just to finally give a clap on the back to Johannes and his team, really tries at least to tackle that, to think about what would be a longer-term development strategy for Central Asia, one that actually touches upon the welfare of the human beings, of the human development, of the people who live in Central Asia, and I think that we could use this as a very good starting point for thinking about this issue.

MR. PASCUAL: Fiona, thank you. Let me just say a couple of words to wrap up, and I will try not to take you too much longer, and I am certainly not going to try to cover a summary of everything that was done throughout the day.

Let me just try to hit on--

[End Tape 4 Side B. Begin Tape 5 Side A.]

MR. PASCUAL: [In progress] --the dynamism of the region, that there are tremendous dynamics at play regardless of who is trying to influence them or control them, and they are going to continue. So it really reinforces the point that those dynamics need to be understood, and they need to be influenced in such a way to try to make them as constructive as possible so that in the end, as Fiona was saying, they can come back to the benefit of the people of Central Asia.

That means that one needs to understand the international dimension, but for the countries of the region, it also means that they have to understand that if they are going to get the full benefit of those dynamics, there are certain things that they are going to have to do in terms of opening their borders and having greater transparency themselves. There is a bargain here that both parts have to be a party to.

I think it is important to underscore a point that was made throughout many of the discussions about the nature of the hyperpresidencies in the countries of the region. It is a political reality that we are dealing with. The irony of it is that you get centrally controlled states where the individuals at the top have the ability and the capacity to make deals, and that at least should offer some potential. Yet at the same time, we have also seen that it is a region that has been characterized by a lack of trust which means that the leaders of these states do not trust one another fundamentally. It also means that when you get

political insecurity or a sense of political competition, it is actually hitting against those very leaders who are at the top.

So, hence, a political reality for the United States, one that we have to grapple with. As a nation we have espoused a strategy that is based on promoting democracy, something which is a positive value, yet at the same time, how is it managed and how is it done in this area in a way that, in fact, deals with these realities of hyperpresidencies and lack of trust and the fact that those individuals are so powerful? But for the leaders of these countries, how do they take into account the reality that there are very few states in the world that, in fact, have not made some form of political or democratic transition, and how do they manage it, and how are they willing to engage their partners in way to do that much more constructively?

We are not offering answers here, but we have to recognize this dynamic and this tension between the hyperpresidencies, political transition and change, building trust, eventually needing some form of democratic systems that gives some voice to the people, and if these things are not dealt with in an open way and discussed in an open way, then it is not going to be of positive benefit to the region.

One of the things that we heard throughout was an irony in which you have very strong and centrally controlled states, but at the same time you have weak states, you have weak governance, you have weakness in economic policy. What we have heard that is strong is we have strong security sectors,

and we have strong illegal networks. So what do you do with all of that? One of the things that might be an area to explore is if you are trying to build trust and you are trying to create some greater transparency, that perhaps working with those security sectors and trying to explain to them why the rule of law is in their interest, might perhaps provide a foundation for some positive developments in the future, particularly if you can engage those security sectors on issues such as rules and regulations on borders, transit, visas, on labor markets, on WTO, because, ironically, it could be in their interest if approached correctly to have greater transparency and stronger rules of the road to combat those illegal networks that you were laying out to begin with. Can this be a foundation that can be used for better cooperation?

Earlier in the discussions today, somebody was outlining the different countries, I think it might have been you, Fred, and they noted the importance of Kazakhstan as a country that has power, wealth, and the potential to be a positive influence for change. How can we build on that? How can we tap Kazakhstan much more effectively to be a pull factor in the region? Uzbekistan, I think, is a country that cannot be ignored, and in the blocking factor of Uzbekistan we have seen over and over again, particularly in relationship to transit and movements. What can be done to engage Uzbekistan in a way that gets it to see more creatively that opening its borders and participating in the dynamics of change in the region can be in its long-term interests?

One of the things that may be interesting to explore, and this builds on the theory that Fred just mentioned of including the countries of Central Asia in bilateral discussions with other key countries in the region, can China be potentially a positive element in the dynamics of change here with Uzbekistan, and because it is such a powerful force now, can China play a role in engaging Uzbekistan to encourage for greater openness on its borders?

The issue of water came up over and over again, water and electricity. In some ways, on the one hand, it is a topic which should not be intensely political with a capital P, but at the same time, most of the efforts at water cooperation over the last decade have really failed, so perhaps this may be an issue that is important to come back to again and bring the key actors in the region together, but bring them together with those in the surrounding countries that have a stake as well in the use of the water and the electricity resources and see if there can be a path that is put forward on how to promote progressive change.

I think one of the points that was made earlier in the day is that there should be early tests of commitment, because if as a result of attempts to revisit this water and electricity issue again results in another round of failures, one has to wonder whether or not it is worth continuing to push this issue at this particular time. Yet at the same time, the potential is so great that to just turn one's back on it seems to be the wrong thing to do.

I think the discussion on migration is particularly important, because in one of the earlier panels I think an excellent job was done in outlining the potential benefits that can be had from greater transparency and changes in rules and regulations. This is something that does not require a lot of money, it requires political will and a change in policy, and greater transparency in policy, and is one which I think has a great deal of prospect.

The transport issues, particularly the cross-border transport issues, Ashraf mentioned Pakistani cotton, the opening up of transport routes to Pakistan, and in return, getting from Uzbekistan a commitment to open up its railways, an interesting set of dynamics that are worth putting on the table to think about.

For the surrounding states, one of the things that was interesting to me is that we talked about Russia and China and their influence on regional dynamics from an economic perspective, and we did not talk about their roles from a political perspective for the most part. Certainly, one of the things that they offer which may not necessarily be the most constructive is they offer a political model which many of the countries in the region are pretty comfortable with which could be counterproductive over time. One of the things which all of the countries that have an interest in trying to think about, Russia, China, Iran eventually, India, the United States, Europe, is how do we get out of looking at this region from a zero-sum perspective, that if one country, one external actor, gains, that the others lose, because I think one of the things that came out of this

panel in particular is that there is a dynamic of change here that is going to pull at different parts of the region and offer prospects for different parts of the region, so what can be done to change that zero-sum perspective. In particular, I think reinforcing the water and electricity opportunity might be one that would be worth exploring because it can actually be one in which all of the actors have something to gain.

The final point that I would make is a number of points that were made on civil society, on regional radio, television and newspapers. In principle, I agree with this tremendously. I am a great believer in the development of civil society, greater information and greater transparency. We have also seen how difficult it has been throughout the region and how information networks and news networks have been shut down at different times when they have given the wrong perspective. I think we cannot afford to simply shut the door on these issues, and perhaps one of the constructive roles that the international community can play is actually to encourage a dialogue between key governments and their civil societies on an issue which I think all of them have an interest in, which is in border security. I think so many of these civil society organizations can actually be a force for positive change in promoting greater understanding of movements across borders, that many of these civil society organizations have an interest in combating terrorism, that they want to distinguish themselves from the extremists, and if in fact you can get a different dialogue between these civic organizations and some of the governments of the

region, perhaps that can be a foundation that can being to build a little bit of trust between governments which are strong at the center and which have, in many cases, alienated their civil societies.

I want to thank the work that UNDP has done in sponsoring the development of this Human Development Report. Johannes, congratulations to you for pulling together such a tremendous team to work on different aspects of the report, and for pulling together a conference that allowed us to have a real dialogue and discussion about how to move forward. It has been for us a tremendous partnership between the Brookings Institution and UNDP to be able to have this opportunity to share these ideas and have this kind of, not just intellectual dialogue, but a practical dialogue on how to move forward. Thank you very much for devoting your day to this.

MR. LINN: Thank you.

[Applause.]

MR. LINN: I would also like to thank Sara Hommel and the team that made it all possible in Brookings and the UNDP. Thank you very much.

[END OF RECORDED SEGMENT.]