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AT THE CROSSROADS OF EURASIA IN THE 21ST CENTURY

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PARTICIPANTS:

Moderator:

FIONA HILL
Senior Fellow and Director, Center on the
United States and Europe
The Brookings Institution

Panelists:

JOHANNES LINN
Nonresident Senior Fellow, The Brookings Institution
Senior Resident Scholar, Emerging Markets Forum

MARTHA BRILL OLCOTT
Senior Associate, Russian and Eurasian Program
Carnegie Endowment for International Peace

PRADEEP MITRA
Former Chief Economist, Europe and Central Asia
The World Bank

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P R O C E E D I N G S

MS. HILL: I'd just like to welcome all of you here. This is actually an event that is hosted by our program on Global Economy and Development, and I'm Fiona Hill, the director of the Center on the U.S. and Europe in the Foreign Policy Program.

But we always collaborate very closely here at Brookings, and this is a great event that we've been looking forward to for some time, because it features one of our very closest colleagues, Johannes Linn, who many of you will know from his various guises at the World Bank and also when he was the Director of the Wolfensohn Center here at Brookings. He's still a fellow at the Program on Global Economy and Development, but Johannes is also now leading an effort at something called the Emerging Markets Forum, which we'll see featured here, and he's been focusing, as he has been for many, many years, on economic development in the broader Caspian region and specifically in Central Asia and how economic development, trade patterns, communications, transportation, and everything have been reviving since the collapse of the Soviet Union several decades ago.

Now it's really quite remarkable to think how long this is, but of course Johannes still looks remarkably youthful as do the rest of his fellow panelists in spite of looking at this for a long time. (Laughter)

And today we're celebrating the publication of a book that has come out of one of the conferences that they held in Switzerland on the developments in the broader region, and the book is available -- or was available -- at the front of the meeting. And two of the main authors of the book and who were also participating in the forum in Switzerland, Martha Olcott, our colleague from next door at Carnegie, and Pradeep Mitra, who was the chief economist at the World Bank specializing in Central Asia, are both here to talk about many of the issues that were raised in their chapters in the book.

And we're especially pleased that Martha is here. You might have seen Johannes and I huddling at the beginning, because we were trying to figure out which Central Asian country she might be in if she wasn't here.

Martha is just finishing up two books that we'll plug now, because I'm sure we'll all be hearing about them soon, one on Islam in the States and Uzbekistan, which she's just finished and about to come out, and another on Tajikistan, and she's just come back from Tajikistan. This afternoon she's going to testify in Kyrgyzstan down at the Helsinki Commission at the Congress, and then she's heading off to Kazakhstan. We also have the ambassador of Kazakhstan here.

So, we ought to have a chart here, plotting Martha's moves around Central Asia as part of this, but in any case we're really pleased that she's here.

And Pradeep Mitra we're also very pleased. He just came from a little closer.

But this is a really good event, and what we're going to do is there's going to be lots of PowerPoints, because of course these guys all have the World Bank imprimatur on this. In Foreign Policy we don't bother with PowerPoints, but in Global Development you have to have a PowerPoint.

So, what we're going to do is you're going to see us all shuttling backward and forward between the podium. I'm going to hand it over to Johannes, then Martha will come up and give her presentation and Pradeep, and then we'll cluster over here and engage all of you, because I see there are so many experts on the region here, and engage with all of you in a conversation.

So, thank you very much joining us, and for those of you who haven't got a seat in the back, there are a number of seats down here toward the front. Please do come down and take a seat. Thank you.

MR. LINN: Thank you, Fiona. It's great to be here under your leadership and moderation. We'll all do a good job, I think, as a result of this.

Fiona is, of course, a great expert also on Central Asia, so I'm especially delighted that she's here to help us. And I hope you'll chime in with your own views. Actually, Fiona was the guilty party for why I ended up at Brookings when I left World Bank eight years ago, so I owe you special thanks.

Anyway today we in a sense celebrate, as you said, but it's really just I want to share with you a book that has been recently published for Emerging Markets Forum by Sage, and as you will have seen it's in the back. There are also fliers available in case you want to order it.

The book is -- I have not done a book launch as much as I think Martha has, so if this isn't exactly what you expected, please accept my apologies. But I figure, you know, we'll try to give you some idea of what the book is about and maybe tease you into actually reading it, maybe even buying it. But we'll see about that.

First thing, I want to say a few words about how did the book happen, how did it come about. The Emerging Markets Forum, which is the platform on the way the book was produced, is an outfit that sits actually right down the street at the end of Virginia Avenue. The Emerging Markets Forum brings together high-level government officials and corporate leaders from around the world to engage in dialog on key economic, financial, and social issues facing emerging market countries. And the Emerging Markets Forum organizes events for about 100 to 150 people of this ilk once a year for a global audience, if you wish, and once a year more or less also with a regional focus. In other words, on Africa, on Latin America, on Asia. And we had one set of meetings for the Eurasian Emerging Markets Forum -- the Eurasia EMF -- and starting 2009 was a preparatory meeting and then 2010, which looked specifically at the regional

integration and cooperation issues in Central Asia and the Caucasus and was strongly financially supported by the Swiss authorities, I should mention here. It brought together experts and representatives from government and corporate sectors internationally but also from the region itself, and so we had a very good discussion on this set of issues that I mentioned.

Fueled in a sense -- this discussion was fueled by six discussion papers, which we've now turned in the book -- the six papers briefly listed. I actually map into the chapters of the book. But first of all, a chapter, a paper framing the issues is our basic setting and overview in asking some questions. If any of you are professors here who need some examination questions for your students, you want to go and check the questions, because they were then to guide, actually, not only the papers, the subsequent papers, but also were to guide the discussion at the forum. And I think it's one way to actually motivate thinking and open up the issues for everyone reading the book but beyond that to sort of mull over what might be some of the answers, and perhaps we can follow up on that in the discussion today.

We then were very fortunate having two chapters contributed by Martha - - Martha Olcott -- one on the political dimension. As the co-editor, I desperately wanted a political chapter in there, because from my perspective -- and you'll see it in a minute again; I'll stress it again -- the political and governance dimensions really are actually critical as we think about a regional integration, cooperation, long-term growth prospects in Central Asia. So, having Martha contribute this chapter from my perspective was an absolute must, and I was very, very happy that she did so. She also contributed a chapter on energy, specifically on oil and gas, which of course is a major driver of integration, maybe even cooperation in the region.

We had a paper by Richard Pomfret from Australia who's a real expert

on trade and transport issues in Central Asia. He's written about Central Asia for probably three, four decades. An excellent economist. Unfortunately, he's not here today, because he happens to be in Australia.

We had Dennis de Tray, a former colleague of mine from the World Bank, who was director for the Central Asian Countries for a number of years write about the business environment as a key aspect of regional development, regional integration.

And, finally, Pradeep Mitra, who was at that point still just retired from the World Bank as chief economist for Europe and Central Asia, on the impact of what was then very much alive in 2010 still and to some extent still today, and we'll hear from him on the impact of the global crisis on Central Asia.

The book, in addition, has a summary of the EMF event, which was produced by one of our Swiss colleagues, Mr. Hyme, and it has quite a useful -- I think you'll find the data annex that Natasha Mulkinshe produced. Natasha is the young lady who was selling the book back there but also, by the way I should mention, was absolutely essential in pulling the book together, working with our publishers, and doing a yeoman job in trying to actually bring the book out. So, many thanks to you, especially, Natasha.

So, that's the background on the book. Just to say what the book doesn't do. It doesn't cover the water and energy nexus, the hydro-energy nexus, in any great detail. It does not deal with capital markets and financial integration or agricultural development and food security; human development; a number of threats that the region faces whether it's environment, climate change, or natural disasters; nor the issues of drugs, epidemics, and conflict. So, one has to make choices of course. These issues are left out. You can find I'm sure, treatment of them elsewhere, including of course in Martha's work.

I just want to mention here that in parallel there's an exercise going on that is led by the UNDP referred to as CARRA -- Central Asia Regional Risk Assessment -- which actually covers a number of the issues, particularly water and energy, security, food security, natural disaster risks, and what the international community in particular could and should be doing about those issues. And I have -- hardly legible -- some reference -- if you want to get the reference to a website, I'd be happy to help you with that.

Now, the core of the book and the core of the issue that we're focusing on is the question how can Central Asia and the Caucuses be effectively connected through the rest of the Eurasian super continent and indeed through their big neighbor since they're landlocked countries to the rest of the world? That is sort of the big challenge. It's of course sometimes seen through the lens of how do you reopen, in a way, and reestablish the Silk Road, a modern Silk Road, as some people refer to it.

So, the big issue is, really, being at the core of the super continent, the Eurasian super continent. How do we turn what has often been seen as a great disadvantage of landlocked great distance from world markets into an advantage, namely the fact that Central Asia is now at the center, in fact, of the biggest and the most dynamic economies of the world? Its links, in a sense, provide its local bridge, a continental bridge, to East Asia, to South Asia, to of course Russia, to the E.U., and to the Middle East as is sort of demonstrated here.

Now, it doesn't mean that all the trade flows will ever flow through Central Asia. In fact, even if the infrastructure and the soft transit and transport aspects work really well, maybe only a fraction of trade will flow physically through Central Asia. But the potential for increased transit and, of course, the other side of coin -- improved connectivity of Central Asia to those big, important, and rapidly growing neighbors, at

least in the case of East and South Asia, is absolutely amazing. And it's something that I think we've only begun to focus on and realize in the last five years or so. Previously I think it's fair to say all of us in this room thought of Central Asia as a far-away, distant, landlocked, and rather desperate place.

The numbers that you see on this slide show the rapid growth and trade between East Asia and the E.U. about tripling between '95 and 2008 between South Asia and E.U. on the bottom right, again tripling or more so, and between East Asia and Middle East down the left -- just showing the dynamism of trade that exists and therefore the potential from an admittedly extremely low base that Central Asia has as a transit on the one hand and as an access to markets on the other hand.

In this sense, therefore, the issue of regional cooperation integration isn't just about creating a large and central Asian and Caucuses market. It isn't just to connect the countries among each other. But it is really to allow the countries to connect to the rest of the world, and since a lot of that connection has to take place through their neighbors, their immediate neighbors, namely other Central Asian and Caucuses countries, the need for cooperation to establish that link is absolutely critical.

Now, some things are really happening. We have, for example transcontinental transport and trade corridors that are being developed now under the umbrella of the regional organization called CAREC, Central Asia Regional Economic Corporation, Forum, which by now includes 10 countries, including, by the way, China, now Pakistan, and Afghanistan. It does not include at the moment all the south Caucuses countries. It only includes Afghanistan. Nonetheless, the fact that at the core of this continental geographic space we now have -- supported by six international organizations including Asian Development Bank, World Bank, EBID, and others -- an effort to develop systematic transport corridors across the Central Asian space. This is

absolutely, I believe, critical. And you can see from the colors, blue is “already completed”; “ongoing” is red; green is “firm, planned for ’11-’13”; and yellow, “’14 and beyond.” You actually see the potential for the development of not only a physical network, a physical connectivity, but also a very important part of it is improvements in trade, facilitation, and transport for facilitation.

So, this is a set of developments, which I think goes well for the region both in terms of intra-regional connectivity but also connectivity, especially connectivity with the rest of Eurasia and the rest of the world.

Now, aside from that, there’s a second bullet here, if you wish, the physical transport infrastructure and quality of services improvement. We also still have some work to do -- the region, I should say, the countries, on trade policy. Tariffs are generally quite low, but joining the WTO is, indeed, a major challenge and opportunity for most of these countries. Some of them, like Kyrgyzstan, are already members of WTO.

Making sure the border crossings have efficient and indicated border services following the example of Southeast Europe where major improvements have taken place over the last 10 to 15 years is definitely something that is being pursued under the CAREC program but needs still to be pushed much harder.

Behind the border business conditions, obviously critical, whether it’s logistics that allow the actual trade and transport to happen within countries, but also improvements in the business climate are critical.

And, finally, monitoring progress -- that means making sure that improvements that are being planned and invested in actually happen and result in reduced cost and reduced time requirements for transit and transport and trading, and indeed one of the strengths I think of the CAREC program that I mentioned earlier is that it specifically measures progress in terms of cost reductions and time reductions along

the transport corridors that are being supported by the investments that take place under the CAREC umbrella.

Now, the bottom line on this part of the argument is that improvements in trade transport are essential, but they won't be easy. We've recently -- of course, all of you -- many of you are likely familiar with some of the difficulties that we have still, whether it's border blockages between Uzbekistan and Tajikistan, whether it's export restrictions or agricultural products from Kazakhstan or other examples where there are clearly still major and significant problems that occur.

We still have clear evidence of corruption within countries along transport routes where traffic police extract payments from travelers, and of course on the borders we still have significant issues.

So, the challenge now is to actually get over the hump having made commitments under CAREC and elsewhere. The challenge is to get over the hump and actually get on with it. And this in the end, I believe, requires the political will and the improvement in the governance and especially anti-corruption areas that tend to be the key to actually promote improved trade facilitation and transport facilitation.

And as I will repeat a couple of times in a way leading up to Martha's contribution, it's the politics and the governance, stupid, paraphrasing Bill Clinton.

Now, a few more words about the business climate, which Dennis de Tray analyzes in his chapter. I will flash up -- you won't be able to read it, but just to whet your taste -- some data that he pulled together on the business climate. This particular graph shows business climate conditions in Central Asia in relation to some comparative countries: Indonesia, Malaysia, Philippines, and Vietnam. It shows in the first three columns some rankings of the countries according to the World Bank's Doing Business ranking, the Global Competitiveness Report is the second one, and then the

Corruption Perceptions Index is the third one. We then also have GDP growth rates, net foreign direct investment flows, and manufacturing value added. Just some indicators of what the business climate and its impacts in the country -- presumptive impacts in these countries demonstrate.

We also have some additional data from his chapter for Armenia, Azerbaijan, and Georgia and, for good measure, thrown in Mongolia. Now, if you look at the data, they're not entirely uniform. They're telling mixed stories. There's actually some good news. For example, for Kyrgyzstan and for Georgia you find that Doing Business rankings are remarkably good. If you look recently at some of the Doing Business reports you'll find that Tajikistan was the best to perform in terms of the rate of improvement in the last year or two. However, if you look at some of the other ratings, such as the Corruption Perceptions Index, you will see that maybe, as one would expect, the countries for this particular region are basically all in the bottom third or quartile of the performance.

Generally, I think it's well recognized that the business climate conditions remain difficult.

Now, we all know from I think general studies on growth -- for example, the Growth Commission and the Nobel Prize winner Spence -- that the business climate is critical for growth and it's doubly critical for small and landlocked countries. If small and landlocked countries want access to the big markets, they need to be doubly effective in actually managing their business climate.

Central Asia and the Caucuses -- I think the data but also other information shows it's not hopeless. We've had rapid growth in the 2000s up to 2008, and we'll hear more about this from Pradeep when the crisis hit. Connectivity is improving in transport and, very importantly, internet access. And we have some

improvements -- some limited improvements -- in the domestic business climate.

Now, each country has its own big challenges in improving the business climate, and Dennis actually looks at each country, and you might want to check that out. However, the point to be made here: If these countries work together or in tandem in improving the business climate, actually there will be maximum benefits because of spillover effects. The neighborhood effects that we know occur if one country is doing badly in terms of business climate that actually has bad effects on the immediate neighbors in general, also.

At the core of improving the business climate will be to reduce the incidence of corruption and, as Dennis points out, to reduce what he calls the credibility deficit for investors. And, again, it goes back to -- it's the politics and governance, stupid, in the countries.

Now, I will close with a few observations that the Emerging Markets Forum -- the Eurasian Emerging Markets Forum drew out of the discussion papers in the following discussion, which I just want to share with you. They're somewhat general, and that's in the nature of the -- I think the nature of the beast, but I think they're still useful to contemplate.

First of all, the group thought it would be helpful to start a high-level dialog with political leaders in the region. Since the political leaders are absolutely critical, having them think about these sets of issues and perhaps talk to a few leaders, ex-leaders, former leaders from maybe small countries that are comparable at least in terms of their experience in the global economy might indeed be helpful. It's an issue and opportunity which the Emerging Markets Forum institutionally is now pursuing to see whether something like this can be set up.

Secondly, there was a conclusion that one should focus on the

opportunities for cooperation where they are -- the low-hanging fruit, if you like -- for example, dealing with common threats such as national disasters, with food security issues and others, rather than necessarily trying to tackle the big, difficult ones such as, of course, water and energy nexus. It's important to include the important players in the neighboring countries Russia and China but increasing also South Asia very likely and have them engage in a dialog with their Central Asian neighbors because, of course, Central Asia being a stable, prosperous, and effective transit point will be increasingly important.

Building resilience and macroeconomic policies actually -- and we'll probably hear from Pradeep to some extent -- the countries that are really quite resilient in the face of the recent crisis or maybe even surprisingly so to some of us but reinforcing that will be important in the future.

Ensuring that international partners, not only the multilateral ones but also the bilateral ones, stay engaged and keep a long-term time horizon is critical. We found in our research on regional cooperation that regional cooperation always is a long-term proposition. It never happens quickly in the short term. So you need to stay engaged both from within the region but also through your support from the outside region.

And then for all of us I guess important to remember is that we need to consider cultural, historical, and political dimensions especially as we think about how Central Asia and the Caucuses can move forward.

Thank you very much for your patience, and I'll now hand off to Martha.

MS. OLCOTT: Thank you. It's a pleasure to be here, to be sharing the podium with my distinguished colleagues. It's great that the book is out. And I do feel privileged to have been able to do two chapters for it.

I have not just come back from Tajikistan, though. I've come back from Kazakhstan and Kyrgyzstan. But I am just finishing a book on Tajikistan, as Fiona mentioned.

And in my presentation today I try to bring together the two papers that I wrote, and then I'm going to end with some conclusions that aren't on the slides about how the year has changed things, because this book was written -- none of us updated our papers. We just cleaned them, and I'm real thankful to the Emerging Markets Forum for enduring my tables, because I'll present here some material that isn't -- I don't think all these charts are in the book, because we have copyright issues, but -- so for the slide show there are no copyright issues, but I don't have the copyright on everything I'm showing you.

Okay, the slide show tries to bring together the two chapters in talking about -- the first was on rivalry and competition in Central Asia where I sought to explain the causes of the conflicts and the tensions that exist in the area. And I did, as the slideshow talks about. I mean, it's competing notions of history and geography. Some of these have become more apparent in the past year.

The other was the lingering impact of the Tajiks of a war, which I have a slide. That was always the model of what hell could look like in Central Asia. This occurred in other places. Since -- and I'll come back to this at the end -- there are new fears in terms of regional cooperation that are brought on by the unrest in Kyrgyzstan, regime change, but especially the unrest in the south and -- by the Arab spring -- so the fear of overflow across borders has become more profound than when we gave the papers a year ago, and I certainly would have put that in.

Competing leadership styles and economic philosophies, which I'm not going to talk about much today, but which I talk at some length in my paper -- I mean,

that you have a competition in the region between let's crudely call it the Kazak model of development and the Uzbek model of development between opening to a global system and macroeconomic reform and deciding to put -- have a conservative state-driven approach to economic development and assert the need to protect one's population above all to external shocks. And I'll come back to that, too.

The lack of cooperation in the water energy nexus -- and I just bring this up slightly in the chapter. I'm happy to talk about it in questions if people want. I mean, this is obviously a topic that I have -- because I'm writing a book on Tajikistan and its political economy -- spent a ton of time on it -- and the consequence of these topics, which -- and I think this is slightly less strategic than a year ago in the Central Asian states. Because of this conflict, it is possible for outside actors to play one state off against the other. And I would argue that the states of Central Asia try to play outside actors off one against the other in their desire to gain advantage over neighbors. But, again, I think this is a factor that in this tenth year has not become more profound. If anything, it's become more limited.

Okay, let me talk briefly about the competing oceans of history in these wonderful historic maps. I think it's really -- when you talk about all the Central Asian states -- and increasingly as we hit the 20th anniversary of independence, I'm concerned when we lump all these countries together, because as somebody who -- you know, as a frequent flyer on all these national airlines, these countries are very distinct, one from the other, and each trip the distinctions become more profound. So, they're evolving in very different ways, and when I'm classifying them together, it's because they still -- you know, for some of them they still reach the sea through each other, and they still are members of the same -- many of them are members of the same organization. Some of them -- nobody's a member of all of the same organizations as everybody else. Okay so --

because Kyrgyzstan is still the only one in the WTO.

All right, but at the core in this process of national consolidation and state building are very different conceptions of history, very different conceptions of how you tell the history of Central Asia. And each of the countries tells the history of their own people and their own country in a way that is from their point of view and in some way encroaches on the territory of their neighbor. And I'm not saying that they have claims to each other's territory -- some do. But what I'm saying is that when they tell of the great past of their people, the boundaries of that great past are different than the boundaries of today in each case.

And I'm just putting forward, quickly, three different sort of maps of Central Asia that give you people's historic mindsets. And this is a 10th century map, and the light blue is a Samani state and that's really the Tajik view of history. The Tajik view of history starts their history -- I mean it starts it before, but the core of its history is the Samani Empire, and this is their view of what Tajikistan is. Tajikistan is that place that ruled at that point in time. And of course the capital of the Samani Empire was Buhara, and Buhara, the Mausoleum of Samani himself on some of their currency. So, it's one of two cases that I know of where you put an object in another country on your national currency; the other is Mount Ararat in Armenia. And there may be other countries that do it, too, but these two are very striking.

The second is -- this is a map of 14th century Central Asia, and this is the period of Timur. And this is really the conception of state building of Uzbekistan. They build their state around the legacy of Timur -- other legacies, too, but with Timur's statue downtown and the museum right there. You know, this is their notion of the relationship of state and society, their golden period in history. And this -- the territories overlap. It's a different view of history for sure. And it makes a claim that the Uzbek

people -- that these are their ancestors. It's not making an ethnic claim, but it is claiming ancestor-dom (phonetic 00:32:04) from this point in time.

This is a historic map of the '60s, the 20th century, but why I have it is -- I mean, this is the Kazak view of history in a sense. You know, it starts with the period of -- the formation of -- the period of what the Kazaks now consider their period of Kazak statehood, and I will be corrected if I'm using the wrong term. But it's where this period, beginning in the 15th century and going through to the 18th century before colonial rule came, and it's that much looser territorial expanse that they talk about when they talk about that history. So, that's their reference point. The Kyrgyz and Turkmen have different reference points.

Okay, the Civil War. Again, I make the point that the Civil War until the Kyrgyz crisis was the routing point of what people feared in the area. Now what people fear in the area is regime change and transition. And whether this is -- and I'll come back briefly to this in the conclusion -- but whether this longevity in office is now a real fact, this was a fact that people were concerned about in the region when they talked about stability -- cross-border stability risks. They were concerned about before events in the Arab world, and my assistant, Diana Galpern, found these pictures of all the presidents when they took power and what they look like today. And it just -- it makes the point with the region's three longest-serving leaders that they've gotten older and two of them are over 70.

So, whether or not there will be a contagion factor from the Middle East, and I don't believe that there will, at some point the leaders will change, and that's what people are concerned about. Instability at the time that leaders who don't leave office to be replaced in an electoral process at the end of whatever term they're in right now could lead to unrest. You know, that if there is a sudden regime change by popular overthrow,

which I don't think people see as a real threat in most of these countries, or by nature taking its toll by people reaching the natural end of their lives. That is the concern.

The water-energy nexus I still believe is the major risk to stability in Central Asia, although -- and I say this in the paper although now I would really argue that the Kyrgyz-Uzbek border creates a huge ongoing risk in the region, too. But the competition -- I mean, this is the water, this is the flow of the two rivers -- the competition over water resources in the Amu Darya River -- there is a regime that governs the Syr-Darya River and interstate regime that does a much better job governing the Syr-Darya River. It's really -- the fights are really over the headwaters of the Amudarya and the Tajik plans to develop the Rogun Dam and if the dam is developed and if the hydro-electric station is developed outside of guidelines -- before guidelines issued after a World Bank report is done and it hasn't even been started when I last checked -- it was just going to start -- they were giving the contract the end of June apparently -- if the Tajiks go too far on their own, then that creates the risk in the region of instability based on water.

The second paper is based on oil and gas, and I'm going to go much faster through this, because I want to talk about some of the conclusions and I only have about five minutes.

The point that I tried to make about -- I tried to make two points in the paper about oil and gas reserves, and they haven't changed dramatically over the last year. The first is to really talk about -- I mean, I think when we -- I'm trying to think of what it says clearly. We shouldn't confuse the geopolitical questions about the development with the reserves and the significance of the reserves themselves. They're two separate questions. I mean, the mineral -- the fossil fuel resources are important to three essential Asian states. We tend to talk about the great geopolitics in terms of two

states -- Turkmenistan and Kazakhstan -- but really we have to look at three states. Uzbekistan makes a great deal of its national income from its gas sales, and Uzbekistan produces -- I don't have the production table in here -- Uzbekistan -- this is oil reserves, this is gas reserves, and you see the relative positions in both. You know, when we talk about oil, Kazakhstan is the only global player in the oil market. When we talk about gas, you have three critical players potentially -- Turkmenistan, which is clearly a global player, and Kazakhstan in which gas is more than just an economic trifle. And in Uzbekistan where the reserves are much smaller than Turkmenistan but where Uzbekistan still produces roughly the same amount of gas each year as Turkmenistan, one of the big differences is that Uzbekistan uses a lot more of its gas than Turkmenistan. It has a population that's almost eight times the size, and it's an important source of domestic fuel.

But at the same time Uzbekistan has been a traditional and very important regional gas provider. And it's also an export provider for Russia, you know. Uzbek gas does go into the Russian system.

So, we have to look at it as an economic question for the countries involved as well as for a geopolitical issue. And I think in terms of the geopolitical issue, it's important not to exaggerate the importance of these countries as providers. I mean, as I say, Kazakhstan is clearly a global oil provider. Turkmenistan is a global gas provider. But if I had to choose between whose shoes I'd want to be in, I'd rather be global oil provider than a global gas provider, because oil doesn't get stranded and gas can get stranded, or you can get tied to a single purchaser.

Okay, proven reserve service -- skip over it so I can go to it.

In terms of the pipeline, since the book has been written, there's been very little change or movements on the pipeline question. It looked like, in the beginning

of the year, that the Turkistan -- the TAPI pipeline across Afghanistan was getting more life but it seems to be dragged down a little again this last week or two. But that's the only one where I think that there is new movement.

It's a big story, really. It's the introduction of China. And that I talk about in this paper, and that hasn't changed over the past year at all. This is a period of -- this is a picture of the presidents of all the countries involved -- Uzbekistan, Turkmenistan, Kazakhstan, and China -- opening the first spigot to allow the flow of gas through the pipeline that goes across all their countries. It's a rare moment to get all these people together being photographed alone without outside actors -- you know, without other countries. And I think this really speaks to the importance -- the symbolic importance of this photo is really it speaks to a new reality in a region, which is China's emergence as a critical player and, I would argue, the long-term, single, most important player in the Central Asian economy. It doesn't mean they overshadow everybody else, but I think we're entering a period where they will be the dominant foreign actor.

And this is like my penultimate point before I go to the conclusion. The big change that I talk about is, I think, to draw everybody's attention to this Yolotan project in Turkmenistan, which is now entering its first phase, which is the first major project in Central Asia -- giant project, global project -- with a mega-deposit in which there is no Western multinational oil company involved, in which the technology for a difficult-to-work project is coming in from service providers. If this succeeds -- and the first indications are that it will -- then we we've really reshaped what it takes to develop oil and gas in difficult areas, and this is a very new phenomenon and a real increase in China's potential.

I'm going to get rid of the pipelines and go to the end.

Let me just spend my last two minutes talking about what's changed and

summarizing what I think has changed over the past year since the papers were written.

As I've talked about, Kyrgyzstan has clearly become the focus of regional concern. Will this current Kyrgyz model hold? And I think this is really the question for other political actors in the region. I think we exaggerate the degree to which politicians in Central Asia are concerned that this parliamentary and not presidential and this is democratic and we don't like democracy. I think, really the focus is will this create a stable government in Kyrgyzstan. And if this model works, does it stop the concern to not have political turmoil in Kyrgyzstan? And the question is whether it will work, whether the Kyrgyz will in their own way transform the system into something else, into a stronger presidency -- which I think may well happen -- and will they continue to hold the lid on tension in Southern Kyrgyzstan, whether the situation will be stable, because there is real concern that after -- if there's instability in Southern Kyrgyzstan, it could be difficult for Uzbekistan to play the same role of accommodating refugees temporarily like they did the last time. So, there's -- nobody wants Uzbekistan to be pulled into a conflict in Kyrgyzstan.

This says displace Tajikistan's internal problems as a focus, and the water tension between Uzbekistan and Tajikistan, but the situation in Tajikistan still concerns other political actors in the region.

On the positive note, I think that the crisis in Kyrgyzstan has caused, at least in the short term, it has been a cause of more rapprochement at this moment in time between the Kyrgyz and the Uzbeks that have been before the two governments are working together with less tension than was the case previously. And I think that the relationship between the Uzbek government and Kazak government has also improved to some degree, that there has been a lot more regional dialog and dialog across leaders on the issues in Kyrgyzstan. So, in that sense, I don't think that there has been a short-term

hit on regional cooperation, just that there is a new level of concern.

Regional cooperation -- the water energy and exits remains as it is a point of tension.

Okay, the point about -- Johannes' point about improved transport. I think that there still are competing new transport routes. There's still difficulty between a Kazak-driven vision of what these new transport routes -- how they should be favored in an Uzbek-driven vision, of how they should be favored -- and the two countries still have trouble working closely together on these questions. And I think that the Kyrgyz crisis certainly has served once again to raise -- to point up how all the states in the region will vote for national security over free-trade regimes, because borders really did close at the time of the Kyrgyz crisis. And border regimes have not returned to where they were. Even though they've gone back part way, they've not returned to what they were before March 2010.

And I think it's important to note that the customs union in Kazakhstan being in it and Kyrgyzstan not being in it has shifted some of the terms of trade.

Okay, energy. The Chinese project is moving forward. And I think -- and this is my very last point, I think that in the past year we have seen China become a stronger economic partner of each of the Central Asian states than they were previously. They're more involved in transit projects with Kazakhstan. They've become a more active partner with Tajikistan in metal -- not just in metals extraction but also in processing of metals. They've expanded their reach economically in Uzbekistan as well, and that's a big change.

So, I think overall if we talk about, you know, who is going to help shape the directions that all these states -- emerging individually and collectively -- I think we see overall that it's harder and harder for people outside the region to really impact the

region directly or indirectly and bilaterally has proved the most effective thing. And when bilateral ties are reinforced by multilateral memberships, that's when you get the strongest combination of all. Thank you.

MR. MITRA: Okay, we've heard about what Central Asia looked like in the 10th century. What I'm going to be talking about is something that is much more contemporary, and one could argue that perhaps for that reason, the impact might be short lived than broader historic review of where the region stands.

So, this paper was written about a year and a half ago. It covered the impact of the global economic crisis, which was a very real event at that time in December of 2009, and it was motivated by, say, well, there's a lot of attention on what happens in Central Europe and Eastern Europe, in Russia, Ukraine -- how has this crisis affected some countries that are not on the radar screen on a daily basis. And this covered Caucuses, Central Asia, and Mongolia. So, that was the motivation, and the three questions that the paper deals with are, No. 1, how did that recession get transmitted to these countries; secondly, how did they try to recover and does that pose any systemic issues for the future; and, third, were there some reforms we could have suggested by the impact of the crisis which were possibly more important than others?

So, I'm not going to go through the whole side, because some of these things are less central to the story. This is more setting the stage about real GDP growth, current account balances, and so on.

The one point to make here is that most of the imbalances that one saw were driven by private-sector-driven borrowing, as indeed it was in places further west, unless as a consequence of government imbalances. That's No. 1.

No. 2, there's a real split between Kazakhstan on the one hand and the other countries, because Kazakhstan is much more integrated into global financial

markets, and so in fact Kazakhstan experienced its financial crises a year before everybody else did in the fall of 2007 when, because of concerns about creditworthiness there was a sudden stop in capital flows from the outside world. And Kazakhstan therefore had to deal with two crises -- one in 2007, and then its reinforcement when the global financial crisis struck in 2008.

So, to the channels of transmission. Now, we know that Russia is extremely important in the region. When Russia sneezes, some of the countries catch a cold; others contract pneumonia. It depends on the intensity. But the first thing was that the slowdown in Russia and also to some extent in Ukraine led to the export demand being constrained. So, that was the first shock they had to deal with.

Secondly, there was a fall in remittances. The construction sites in Russia simply started to close down, and people who had been working from these countries -- and, as you know, Tajikistan is one of the most remittance-intensive countries in the world, but it is Republican, Armenian -- and also important, they had people coming back. There was a real fear at the time, a year and a half ago, as to whether this would create social tensions and how the country's concern would be able to manage those tensions.

The third instance, they were all -- a lot of them are commodity-producing countries. The commodity prices took a dive during the global economic recession, and so this affected the oil exporters, the corporate exporters, and the aluminum exporters. The names are being written up there. Now, I already mentioned the last bullet, that the way in which this crisis was the same for this region as for the U.S. and Western and Central Europe was in Kazakhstan, which faced this capital account crisis as a result of a sudden stop in capital flows. In that way, Kazakhstan was different.

So, let's -- those are the channels of transmission. Let's look at the

policy response. I don't think I read I read everything that's on this chart. It's in the paper anyway.

But basically there were three kinds of responses. First was fiscal; second was what to do about the financial sector because the banks were affected; and the third, which is on the next slide, which I'll come to, is the social safety net. What do you do when you have not only a huge downturn in economic activity but also returning workers -- remittance workers -- from Russia and Kazakhstan?

Now, on the fiscal, there's just one point to be made, which is virtually all the countries decided that they were not going to tighten their fiscal policy very much, because that would aggravate the recession. So, the wisdom of counter-safety for policymaking was very much in evidence. But the problem was where would they get the financing to do that? What happened was that the commodity exporters -- Azerbaijan, Kazakhstan, Turkmenistan, Uzbekistan -- had stabilization funds, which they used to support fiscal policy during the recession to give their countries a little bit of stimulus. And the energy importing countries -- Armenia, Georgia, the Pyrenees Republic, and Tajikistan -- had IMF programs, which is what the stabilization funds in the oil exporters were designed to do. But the extent of fiscal accommodations varied, because some of the countries had come into the crisis with large amounts of cash, and others not, and so there was a tradeoff between how much stimulus you could give and how much better accumulation there would be, attention that is not entirely unknown in this country.

Now, the second set of issues is financial sector, and here banks got into trouble mainly because on their asset side they had made loans that went bad, and so there had to be a resolution off the balance sheets. But the first part was also important - what we call containment, which is suddenly you find on the liability side of the bank balance sheets that external wholesale funding dries up. That's what happened in

Kazakhstan in 2007. In Georgia after that conflict with Russia in the summer of 2008, predators were refusing to roll over maturing external debt. So, it was a problem that one had to contain -- the crisis on the liability side of the bank balance sheet, and these were the countries -- Kazakhstan and Georgia for example -- where it was important, but in Ukraine, for example, there was a little bit of a bank run because depositors were not confident that banks would make it true. That fortunately was less important in the Caucasus and Central Asia. So, one had the containment on the liability side and the resolution on the asset side, and the resolution has turned out to be much more important and indeed the banking sectors have not fully recovered even now from the shocks they had at that time.

Now, the third part of the policy response was social safety nets. It will take me too long to go through this diagram, so let me give you the gist of what it is. It measures on the horizontal axis the coverage of social safety nets, that is to say, what proportion of the poorest quintile of households do they reach? So, being further to the right is a good thing. Look at the vertical axis, which is targeting accuracy, which is what proportion of the money that a social safety net puts out actually goes to the poorest quintile of households. So, there, too, being higher up is better. So, northeast is better than southwest is the message here. We classified the countries.

Now, the size of the bubble is actually how much the social safety net transfers. So, being a large bubble to the northeast is better than being a very small bubble on the southwest. And you can look at, for example, the story in Georgia in the middle. They had a pretty good -- they do have a pretty good (inaudible) social assistance system, both in terms of coverage and (inaudible) for generosity.

And in general if you look at Armenia and Georgia on that slide and you compare it with the Central Asian countries, the safety nets were better developed in the

Caucuses than in Central Asia and Mongolia. And so what the international institutions were saying at the time is stand these things up where you have them and where you don't have them this is a good time to start.

So, those were the three elements of the policy response -- the fiscal, the financial, and the social safety net. There is a discussion of structure reforms here. There are some very interesting findings in a book that we did at the time about how the whole socialist world, by which I mean the countries of the former Soviet Union and the loss of those countries of Central and Eastern Europe, suddenly found by 2008 that infrastructure -- fiscal infrastructure and education, social infrastructure, which of course the socialist countries were extraordinary good at, that they had lost their edge in those two areas compared to non-transition counties at the same level of per capita income as they were.

So, this came as a real surprise to those of us who were working on this at the time, and I think it also came as a surprise to the countries.

So, let me not go through the conclusions here very much, because I have given you the main points. The issue is now, 18 months on. Is there something that is different? And I don't follow these countries as closely as I used to when I worked in the World Bank. But when I see what, for example, the IMF has been saying in its latest World Economic Outlook, which came out in April, they're saying well, the terms of fate have moved around, commodity boom in progress, so that's benefited some of the countries in this region. The workers are beginning to go back to the construction sites in Russia and Kazakhstan, so that's also working in their favor.

The thing that hasn't changed is that the financial sectors that took a hit in 2008/2009 still have not recovered, and there's a big agenda there. And the social safety nets, which as I said presented a mixed picture depending on whether one was

looking at Caucuses or Central Asia, haven't changed very much. Their bottom line is that they expect about 6 percent growth in Caucuses and Central Asia, which is pretty respectable. But, as you know, the world -- the recovery from the recession is something on which questions have been recently raised about how durable it is, whether its life is to be a double-dip, what might happen in Russia, which is a big driver for these countries, and so we'll have to wait and see how these countries eventually come out.

But let me thank you for your attention and for giving the benefit of your focus to countries that are not normally talked about very much in the financial press. Thank you very much.

MS. HILL: Great. I want to make sure -- are these mics working? Everyone can hear us in the back? Yup? Excellent.

We have about 25 minutes left in the program, so what I'd like to do is take maybe three questions or comments from the floor, and as I'd already noted there are a number of people in here who are also experts on the region, and we'd like to hear from you, too.

We have a microphone here coming down the aisle, and if I could ask when you ask a question or make a comment if you'd also introduce yourselves for the benefit of the audience.

This gentleman right here please with the glasses. Thanks.

MR. BEERY: My name is Brian Beery, and I'm a Washington correspondent for *Europolitics*, and my question is a bit more on the geopolitics of the region.

You know, your three main regional neighbors -- China, Russia, and the E.U. -- and I guess at this point they're all competing for, you know, the attention or the greater trade links, especially on the energy front. I'm just wondering from the

perspective of the Central Asian governments, do they have any natural historical inclination to push them in one direction or the other; or are they just approaching it from a very *realpolitik* point of view and whoever sort of courts them the most and offers them the most -- just how are they dealing with that issue?

MS. HILL: Good, thank you.

Thought I saw someone at the back. Maybe -- yup, gentleman right behind you here, and this gentleman here at the front. Thank you.

MR. MITCHELL: Yes, hello, my name Jay Mitchell. I'm with the U.S. Department of Agriculture, and you had referred to the Russia-led customs union that involved some of the Central Asian countries. I'm curious as to how the speakers, the distinguished speakers, see the development of that. How successfully will it be economically and also politically? How successful will that be -- Russia's ability to continue to project some kind of dominance in the region, vis-à-vis China or other countries which are seeking to, you know, enter it. So, I'm curious -- any views you have looking forward on the customs union.

MS. HILL: Good, thank you.

And then the gentleman here at the front. Thanks.

SPEAKER: Hi, I'm Alton (inaudible) from the Krygyz republic. I'm an expert not from here. I'm from Insider. I would like to know your views and deliberation on the two main topics which are narrowing on first the Northern Distribution Network, which is really coordinated by the United States Central Command and Transportation Command in carrying goods to Afghanistan and via Central Asian states and Russia.

And, second, a special question to Martha about 20 years of experience. Do we have succeeded in building or ended the state formation process and how it will survive?

Thank you.

MS. HILL: Is that a specific question for Kyrgyzstan or for Central Asia overall? For Central Asia overall, yeah. Well, that's a big question. Perhaps, Martha, I'll take the next round of questions if you'd like to start there. So, 20 years is the reason we have the anniversary coming up of independence(inaudible) succeeded.

MS. OLCOTT: I'm going to do a whole year of programming in the region on this. So, come back to me in another year. I mean, I think that it's really -- it's too big a question to try to answer here and now. I think that there have been -- as I said in my talk, the fact that you have five countries that have survived, 20 years is already more than many people thought was going to happen. You have some real -- you have real differences between the countries. I mean, Kazakhstan has made itself some major -- a major/minor international actor in the sense that they have a global role that they're beginning to carve out for itself. No one's -- but that's what I mean by major/minor, that they are seen as a responsible, active global player. They're the only country in the region that has gotten to that point. The Uzbeks have some dreams of it I think but they haven't gotten to that point.

So, I think in each case you have to look very seriously at how much they've achieved, which is consolidating nations, even the two most fragile of them, which are Kyrgyzstan and Tajikistan. And in all size cases, you know, to have really created some sense of nation, which in my belief in all five cases will continue to survive the political transition that they say. More detailed than that I really have to, like, tell you to wait till next June when we begin attacking this systematically.

Let me take quickly some of the other points that came up.

The Northern Distribution Network I don't want to really want to spend a lot of time on. I think the question of the Northern Distribution Network is really outside

the purview of this book, which was attempting to be a global look at more general problems in the region.

I think -- you know, I think that this has been a basis of enhanced U.S. cooperation with all the countries that are involved in some form with this, and the question that most people ask is what is going to be the future of this cooperation as withdrawal from Afghanistan begins to occur? I don't know what President Obama said this morning, but, I mean, this was going to be the big topic. And I do think my last comment on this is that it was a lost opportunity in these 10 years of engagement in Afghanistan to build more regional cooperation and more capacity for producing things in the region than was achieved. I think a huge lost opportunity. That's what my second chance was about and we concluded that we lost that opportunity.

The customs union -- I don't -- I mean, I don't like to talk about Russian dominance. I mean, you're going to talk about it in other ways. I do think that Russia plays different roles in each of these economies. My own work talks a great deal about the role of remittances and the interdependence. Kazakhstan was very interdependent, as has been pointed out in terms of its banking crisis. But I think that one of the things if we talk about 20 years is the capacity for any one actor who dominated previously to keep dominating has really been reshaped. All the five countries are very active definers of their own preferences. They define their own preferences with a sense of what their capacity is. These are the other people's capacity, like Russia, but I don't think we're in a position of Russian domination. Russia's terms of trade in the energy industry have changed dramatically in the course of the last 10 years. I think Russia -- even Russia to some degree recognizes its declining capacity to be a single -- to be an active agent, save where it's the Russian Federation that is the host.

Whether people court them historically -- I mean, obviously there are 150

years of interaction between the Central Asian economies and the Russian economy. This generation of leaders is still Russian-speaking. But I think the relationships are determined by practical concerns more than anything else. With China the same. I mean, the histories of the Kazak and Kyrgyz people both have periods where they feared the Chinese. You know, it's certainly a national issue. Kyrgyz nationalists have done the most with this as a platform than anybody else in the region. But everybody's very pragmatic about what China offers. And that takes me through all the questions.

MS. HILL: Martha, let me just actually press you on one issue and actually your comments have raised for me from the other questions that were posed from the audience a couple of other points.

One is really Turkmenistan. We actually didn't really speak about Turkmenistan too much in the overviews, and it always seems to be the odd man out, so to speak, in Central Asia. Partly, that's my preference, the choice at least of the leadership of opting out of so many of the multilateral arrangements in professing utility. But it's also because it's perhaps the most impenetrable of the states, the most isolated in many respects in terms of transportation and communication, although less so now. Lots of national conferences do take part in Ashgabat, and there are a lot of tons of Caspian trade. But when you talked about the two most fragile states of Kyrgyzstan and Tajikistan, we talked about leadership transitions. Obviously, Mr. Niyazov has left the scene as a result of natural causes. There was a rather opaque transition. And it just still leaves a question about what we might expect down the road for Turkmenistan.

The issue was really about the NDN, as our colleague suggested and perhaps actually Johannes and Pradeep may comment on this as well, as to whether the development of the NDN over the last year or two years, since our colleagues at CSIS have done quite a bit of work on that, which I know you cited in the book, whether it

spelled anything different and additional to the transportation, communication, and transit networks that were being developed anyway under CAREC and Traseco and some of the other multilateral and whether there's something that is being developed as a result of NDN that might stay on after withdrawal. Clearly it's been a spurt of rail transit and has been very beneficial to the Russian railway networks in particular that had seen a drop-off in their freight as a result of the recession. And none of this has been free. The U.S. has been paying for a lot of this transit, so -- I mean, could we expect another long-term impact to rail transit and other freight forwarding as a result of the withdrawal that may be detrimental to some of the transportation developments?

And then you mentioned, you know, the legacy of elites who were Russian-speaking. What is going to be the lingua franca in the region moving forward? I mean clearly, there's been a big boost in English language study. At one point Turkic or Turkish language through networks of Turkish language skills I was developing.

But there is a lot of question about do people invest time and effort in Chinese language study or is the English language, you know, sufficient as Russian erodes, as perhaps the lingua franca in the region. And I think that's another point in the communications -- little communications -- that, you know, Johannes was touching on in the overview, that it would be, you know, curious to see where we see things heading.

So, if you want to pick up on some of these and then, Johannes and Pradeep, because I can ask you to think about those questions as well.

MS. OLCOTT: I'll do the Turkmen and the legacy. They (inaudible) I think together.

Turkmenistan is the most impenetrable for us as Westerners to start to add some very close society to us. I think -- in that regard, I didn't speak about its fragility. When I lecture on the Arab spring and its impact on Central Asia, I always say

that, you know, the one place where I think we can't predict what's going to happen is Turkmenistan. It's not clear to me that Berdymukhammedov is fully consolidated his power. I don't believe that you'd have an Arab spring there. I think in this society you don't understand well. There's always a chance that there will be an elite-led effort to replace somebody. That doesn't mean -- I just can't -- I'm not predicting it, but I can't put odds on it either way, you know. That's always something that we have to prepared for in a country we don't understand well.

But I do disagree with your notion that Turkmenistan is isolated. I mean, I don't think it is isolated. It's not open to us, you know. And I think that Turkmen movement to Turkey, Turkmen movement with Iran has increased dramatically. And that really takes me to this notion of I don't really see this as a region as we move forward. If we go 10 years down the road, I think that Central Asian states will hang together even less well than they do, that people -- each country will have different patterns of international integration.

And the lingua franca is going to show that up. There isn't going to be a lingua franca in the area. The Central Asian leaders will no longer be able to meet in private as a group if they choose to without translators if we go 20 years down. There won't be the same languages for each of them. I don't know that the Central Asian -- the Turkmen leader in 20 years will have Russian. I doubt he'll be fluent in Chinese. He may be fluent in English. But to count on all these five people having the same language, that they can talk to each other, is going to be very remote.

There's much more attention to Chinese language education than there was previously, but it still remains a small group of people by comparison to those who know English. And of course in many of the countries Russian is going to remain a key second language for much of the population. But, no, it's going to be a different world.

And the Northern Alliance -- and I'd be curious to get everybody else's reaction -- it's created some investment in things that weren't getting as much investment when you're talking about the rail links. Much greater ease of transport across the Tajik-Afghan border, and that's going to stay, and that may actually be a destabilizing force in the future. If Afghanistan doesn't hang together as a country, it will put Tajikistan hanging together as a country at much greater risk.

But the biggest bottlenecks are the ones that Johannes talked about that haven't been addressed, you know, by this, but Tajiks still don't have shipping alternatives by rail that bypasses Uzbekistan. And there hasn't -- as I said -- the Northern Distribution Alliance Network in my view hasn't created a new basis of regional trust in addition to not creating this regional -- the kind of economic interdependence healthy for all of them by producing things in the region -- hasn't been produced. It hasn't created new reservoirs of trust either among the Central Asias or I would argue, you know, there's not long -- there's concern about U.S. longevity. So, it's not created long-term trust of the U.S. either.

MS. HILL: No, those are very important points. I especially think the point that the region is not isolated, it just may be isolated from us is perhaps one of the most key takeaways here.

I think that's a point that you would be making, Johannes, in your overview in any case in these shifting regional patterns so.

MR. LINN: Right. Well, maybe just picking up on the India and Northern Distribution Network, what I've seen written on it is mostly through the lens of what does it mean for Afghanistan, in particular the shifting balance between supplies through Pakistan, which have been dropping quite rapidly relative to the much now, very significant amount of support that comes nonlethal I guess mostly through -- all of it

through the Northern Distribution Network. There has been very little analysis, in fact none that I've seen, that looks at the impact on both positive and negative -- positive in demonstrating that this can be done, that it's, you know, at one level cost effective. It's probably a bit more costly than the other way, but it can be done. So, that's good news. Setting up longer-term links and institutional frameworks for facilitating that trade probably helpful, on the other hand, as Martha in the past has pointed out to me I think rightly. Maybe the deterioration of road networks in particular that results from it, and the costs may not be fully recovered. Nobody frankly knows, has looked at this.

So, this is actually I think an important research topic that maybe the World Bank at some point -- our colleagues there, former colleagues, should pick up on and sort of, you know, cost benefit analysis of what -- plus what is the lasting impact and even more so what could be done to maximize the beneficial long-term impact. Use this window -- and it's probably just the window for a while -- of opportunity, both in terms of demonstration fact but also in terms of lasting improvements in institutions and so on. So I think it's a very interesting question. I'm glad somebody raised it. But I don't have the answer, and I don't think at this point anybody has the answer. If somebody does, please let me know.

On Turkmenistan, I haven't dealt much with Turkmenistan, but I do see now a number of signs of Turkmenistan actually integrating more at least in terms of international institutions. It's now much more open, as far as I know, to, for example, collaboration with Asian Development Bank, also with UNDP. I don't know about the World Bank. Maybe you know something about that, Pradeep. I haven't followed it. It has also joined -- it is a huge step for Turkmenistan -- it's joined the CAREC. Now, CAREC is not a formal agreement-based organization. It's more of an informal forum. But still for years Turkmenistan's been sitting on the sideline. Now it has joined. I think

that's a terrific sign and now it can be integrated also as a result in -- if you remember that cordo-map I showed exclusively incorporated which it hadn't been so far in terms of planning, monitoring, and so on, which is very good news. So, I'm actually on that ground but it's a limited picture I have. I'm somewhat more optimistic than I have been in the past.

On the lingua franca, again to some extent basing my experience on sort of 15 years of working in Central Asia, I've seen -- in the formal settings and in interacting with people of relatively high private sector and public sector levels in the region -- I've seen a significant improvement in the ability to speak English and even in the ability now also with the broader context of course -- you now have, you know, Tajiks are meeting with Afghans. Now they could speak, I guess, and do speak Farsi.

MS. OLCOTT: And they do.

MR. LINN: Even Uzbeks, they most likely will speak English and many of them will be able to do so, at least at the higher levels.

On the other hand, it's still true today in the CAREC context for example, the Russian speakers will speak both to each other and huddle in corners, which can be helpful or not, depending on their relationship, while the English-speaking, whether it's Mongolians, Chinese, or Afghans, now Pakistanis, will tend to sort of speak English with each other.

But my prediction would be, frankly, over 20 years English will be the lingua franca at the higher level of exchanges. Now, that is not necessarily in the popular domain where Russian still will be very important, of course. And Chinese may increase. Also Turkish may be a factor.

But I think my projection would be that in terms of a higher level of engagement it will be that English will be the lingua franca for better or, who knows,

maybe worse. I don't know.

Let me close my response quickly on the first question -- the geopolitics. I would maybe start from a different perspective, not so much one of the leanings of the orientations, natural or otherwise, of the Central Asian and Caucuses countries but more thinking about it from the perspective of the big sort of neighbors and powers in the geopolitical context. And what I've been impressed with, especially for Central Asia -- maybe less so the case in the Caucuses -- as I've been watching this over the years is how, if you step back and think about it, how fundamentally aligned many of the interests are between Russia, China, E.U. and the U.S., the U.S. being the most distant in some sense; frankly, on the ground the least important in many ways, in many, many areas. But the interests are aligned in the following sense, that a stable, prosperous, and integrated Central Asia is a common interest for all of them. And a Central Asia that is split, that is at war with each other, that is poor and deteriorating, that maybe is, you know, the potential hotbed for terrorism is in nobody's interest. So, from my perspective, that is the overarching alignment of interest.

Now, they're -- you know, they're competition in some instance for energy resources, theirs of course in the global geopolitical scene. There's still some sense of, you know, will somebody cue my line that the U.N. or whatever or not and so on. But in general I see if anything, the great game in a sense is over that is my bottom line on this.

Now, from the country's perspective, I think it depends to some extent. You have countries like Kazakhstan and Kyrgyzstan, which culturally, linguistically, and so on are still vague, very much oriented toward Russia, at least as far as I see this. You have an Uzbekistan that is maybe much less so and in some sense more isolationist. Turkmenistan is difficult to tell. In the Caucuses of course it's quite -- there are

considerable differences of orientation. Fundamentally, my sense is realpolitik is most of it now when it comes to the political decisions, and, you know, opportunities for playing one off against the another in terms of big neighbors will be chosen where it brings gains.

What I miss, frankly, and this is where, coming back to one of the conclusions of the Emerging Markets Forum, I don't feel we yet see among the countries what maybe is an artificial region but they're there for better or worse, all of them, is among the leadership enough recognition that there are huge opportunities for more cooperation and that that economic perspective would drive their political decisions. That I don't see happening yet, and to me that was the biggest, less takeaway from Martha's paper on that -- maybe -- I don't know whether we'd put it that way but that the economic benefits don't yet, you know, sort of play the role that they should.

Now, if you go back, you know, to the Yugoslav experience and post-Yugoslav experience, of course the lesson to me there was that the economic benefits of integration cooperation weren't worth a damn. When people decided they wanted to make war with each other because of whatever political and ethnic reasons, you know, the economic damage and the economic losses were worthless. So the big fear I have for Central Asia is sort of if you wish a Yugoslav-Southeast Asia scenario of the 1990s and I'd hope and pray that it won't happen, I don't see it at the moment. I don't see that risk materializing, because I think ultimately the sense of preservation and the sense of long-term stability among the leadership is also strong. But, really, the concrete wish to create economic benefits from greater cooperation, that doesn't seem to be there.

MS. HILL: Pradeep, perhaps you could pick up on that last point about the concrete economic benefits and how do things seem to you in having listened to an answer to the question.

MR. MITRA: When you look at the data on trade flows on remittances,

to some extent on foreign direct investments, for Caucasus in Central Asia overwhelmingly it's still with Russia. That is not, to me, anything that would suggest an unreasonable degree of dominance or anything like that. That's the natural -- I mean, if you look at the degree of integration with Russia compared to degree of integration of various neighboring countries with other big countries in other parts of the world, this is in no sense abnormal or excessive.

So, it seems to me that one should not draw necessarily political lessons about Russian dominance or hegemony or whatever it is from that data. But it also shows at the margin, certainly for Pyrenees Republic and for Kazakhstan a hugely growing trade link with China and that will become important. But the little bit that's happening is happening at the margin.

So, point No. 1, yes, there will be integration with big countries. I haven't mentioned Turkey, which is important for some of the circulation countries in terms of FDI and so on. This will continue. That's the normal state of affairs, and it will probably increase.

But I just want to make a slightly broader point here, which is what do we learn from the experience of these countries in responding to a global crisis about the benefits of isolation versus integration?

Now, a lot of these countries were pretty isolated in terms of world financial markets and international trade flows, and they weren't that hard hit by international events. They were hit by trade with Russia and the immediate neighborhood, if you like. But Kazakhstan is the interesting exception, because it was integrated into one financial market, and as a result of that in part it suffered a huge shock both in 2007 and 2008, which came to the financial sector, because it had a more developed financial sector and it was integrated.

It's interesting how the Kazakhstan authorities have dealt with that and imposed solutions and so on, which do offer some lessons on how to do this kind of thing. But on balance, I would say that more integration, although it brings risks, at the end the benefits outweigh the risks if the process is reasonably managed. And so I think we can look forward with a certain degree of optimism about increasing integration of Caucasus in Central Asia but bearing in mind that there will be setbacks but not to interpret those setbacks as the harbinger of some long-term, unfavorable trend.

MS. HILL: Well, Pradeep, that actually seems like a good place to stop. We should always stop while we're ahead, and we're already outside the time, and I think that was actually a very good rack-up in terms of not being put off by the setbacks. And we also came up with a number of other areas that could certainly give Martha another book project. And actually I see some people in the audience who might be looking for one.

And the longer-term impacts of the Northern Distribution Network, as Johannes has pointed out and everyone else has, obviously needs a lot more scrutiny and against the backdrop the announcements or at least the discussions today about withdrawal from Afghanistan about the impact that might have on Central Asia from these transportation linkages that were just starting to be consolidated gives us a lot of questions in looking ahead.

But I'd like to thank all of the audience for coming. I do hope that many of you managed to get hold of the book and really great -- a lot of thanks to Martha, Johannes, and Pradeep and all the other authors for doing such a great job. So, thank you, everyone. (Applause)

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I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

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