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## Central Asian Regional Integration and Cooperation: Reality or Mirage?

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### INTRODUCTION

For centuries Central Asia<sup>1</sup> was in the backwater of global political and economic attention, tales of “Great Games” and “Silk Roads” notwithstanding. However, interest in Central Asia from outside the region has been on the rise in recent years: Central Asia’s energy resources are of great importance to its neighbours in Europe and Asia. In addition, China wants a peaceful backyard, while Russia considers Central Asia part of its historical economic and regional interests and draws heavily on Central Asia migrants. Turkey is attracted by the common Turkic heritage of the region. Iran shares language and cultural ties with the Tajik people. The Central Asia’s Islamic tradition connects it with the Middle East and other Islamic countries. And now NATO countries rely on Central Asia for transit of their nonlethal military supplies in their engagement in Afghanistan.

There is wide agreement that economic prosperity and political stability in Central Asia is critical not only for the 60-plus million inhabitants of the region, but also for Central Asia’s neighbours, since Central Asia serves as a strategically important land bridge between Europe and Asia. Since the five Central Asian countries are landlocked small economies, a critical prerequisite for long-term

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<sup>1</sup> Central Asia is here defined as comprising the five former Central Asian Soviet republics: Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan.

economic growth and political stability is successful economic integration underpinned by effective regional cooperation<sup>2</sup>.

This paper therefore addresses the central question of what are the prospects for regional economic integration and regional cooperation in Central Asia. It starts by briefly reviewing the role of Central Asia in the context of the overall process of Eurasian continental economic integration. It then considers what are the benefits and obstacles of regional integration and cooperation in Central Asia against the backdrop of lessons of international experience with regional integration and cooperation, and looks at four of the most important recent regional cooperation initiatives. In closing, the paper provides an answer to the question whether regional integration and cooperation in Central Asia are for real or only a mirage.

### CENTRAL ASIA AT THE CORE OF EURASIAN ECONOMIC INTEGRATION

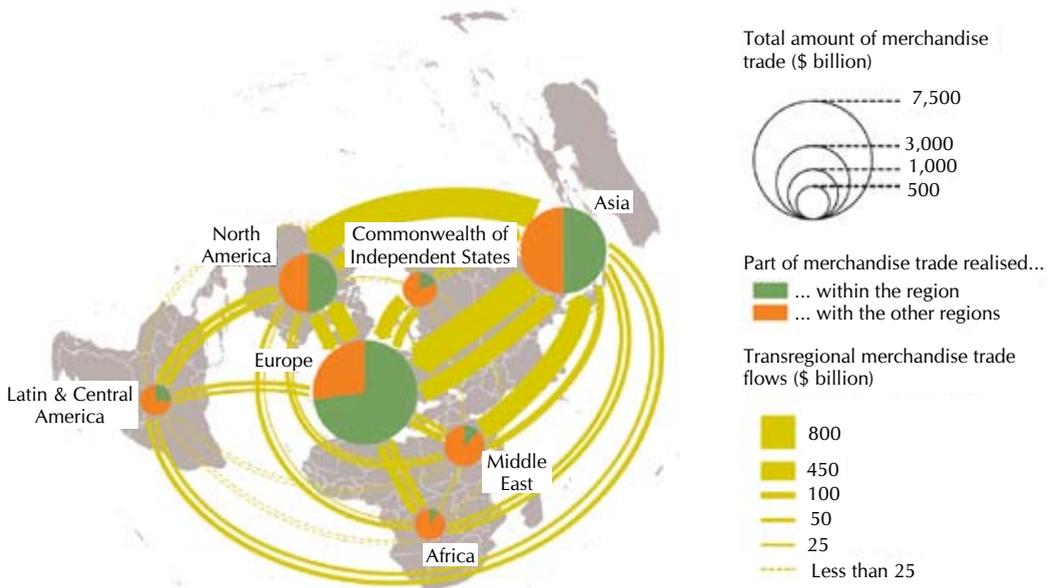
Central Asia lies in the heart of the Eurasian continental space, where Eurasia is defined to cover all of Europe and Asia, including the Middle East and Arab Peninsula. The opening up of China to the rest of the world in the early 1980s and the disintegration of the Soviet Union in the early 1990s, tore down the political barriers that had held back the continental economic integration process of Eurasia. This meant that Eurasia could now catch up with the economic globalisation process that had advanced rapidly in the rest of the world after the Second World War<sup>3</sup>. One indicator of the rapid integration process of Eurasia is that today the largest share of world trade takes place between Eurasian economies as shown in *Figure 6.1*. While much of the trade is carried on traditional maritime routes, the long-term potential for land routes to take on an increasing share of continental trade – from traditionally minimal levels – is significant, as other continental integration processes have shown, most notably in Europe and North America.

These developments are of great significance for Central Asia. During Soviet times, Central Asian economies were mostly oriented towards Moscow. Now they can increasingly look towards China, South Asia, Europe and the Middle East to gain access to markets, while maintaining strong links with Russia. Central Asia's neighbours make up a large share of the global economy and count among them the most dynamic economies of the world. Where previously it might have been accurate to consider Central Asian countries as handicapped by their

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<sup>2</sup> "Regional economic integration" refers to the economic links formed between economic agents in different countries of a particular geographic region through trade, transport and communications, financial flows, and migration. "Regional cooperation" refers to the coordination of efforts by governments to provide the necessary public infrastructure that supports regional economic integration and to remove barriers to regional integration that may arise from national policy regimes. (Linn, 2011)

<sup>3</sup> See Linn and Tiomkin (2006) for a full exploration of the evidence on Eurasian economic integration, and Linn (2007) and Linn (2011) for a discussion of the significance of Eurasian integration for Central Asia.



**Figure 6.1.**  
**Global trade flows**

(2008, \$ billion)

Source: Gill and Raiser (2011)

land-locked position, it is now more appropriate to think of them as facing great opportunities for being “land-linked” to the world’s great and dynamic economies<sup>4</sup>. Not only will they benefit from access to their neighbours’ goods, energy, capital and labour markets, but also from the potential transit trade which will develop across Central Asian territory in linking Europe and Asia from East to West and North to South.

One way to look at this potential process is to compare Central Asia with the successful, small, land-locked countries of Europe: Austria, Liechtenstein, Luxembourg and Switzerland, and now Czech Republic, Hungary and Slovakia. Rather than suffering from their land-locked location, these countries have long taken great advantage of the historic economic integration process of Europe and been able to create great prosperity for their citizens<sup>5</sup>.

### CENTRAL ASIA’S REGIONAL ECONOMIC INTEGRATION AND COOPERATION: BENEFITS AND OBSTACLES

For Central Asian countries to benefit from access to their big neighbouring economies they have to overcome the legacy of disintegration that haunted all of

<sup>4</sup> The idea of Central Asia benefiting from a “land-linked” status can be found in CAREC (2012)

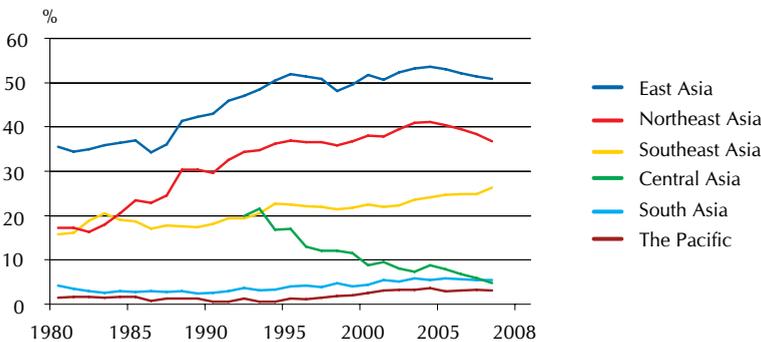
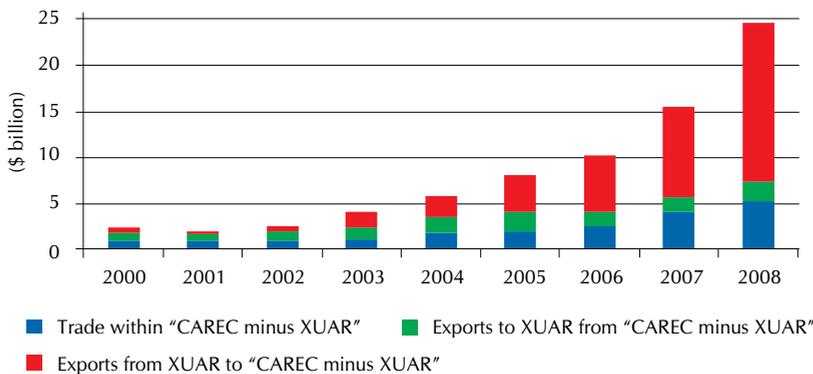
<sup>5</sup> Geographic distances to neighbouring economic centres are of course much greater for the Central Asian countries than for the land-locked countries of Western and Central Europe. But with the advances in transport and communications technology, economic distances have shrunk dramatically over the last 150 years, and especially over the last 50 years.

the former Soviet republics. As the Soviet Union broke up, the long-established intensive economic links between the republics were dramatically ruptured. This contributed to the deep and protracted economic downturn throughout the Former Soviet Union (FSU) (Linn, 2004). Central Asian countries, along with the rest of the FSU, recovered from the transitional economic recession beginning in the late 1990s, and indeed during the 2000s emerged as one of the most dynamic economic regions in the World (chalking up average growth rates of 8-10%) (IMF, 2011). They re-established growing trade links with each other, with their big neighbours and with the rest of the world. *Figure 6.2* shows that

**Figure 6.2.**  
Trade Growth in Central Asia, 2000-2008 (\$ billion)

Source: CAREC, 2010 (based on unpublished research by Roman Mogilevskii)

Note: "CAREC" covers the membership of the Central Asia Regional Economic Cooperation Programme before enlargement in 2010 (Afghanistan, Azerbaijan, Kazakhstan, Kyrgyz Republic, Mongolia, PRC, Tajikistan, and Uzbekistan). "CAREC minus XUAR" excludes Xinjiang Uyghur Autonomous Region, China



**Figure 6.3.**  
Intraregional trade shares in Asia

Source: ADB, 2010

intraregional trade between Central Asian countries grew five-fold during 2000-2008<sup>6</sup>. However, despite this rapid growth, the share of intraregional trade in Central Asia relative to the region's overall trade dropped dramatically after independence while it increased in other part of Asia (see Figure 6.3).

<sup>6</sup> Figure 6.2 shows a broader country grouping for Central Asia than generally used in this paper by including countries that were members of the Central Asian Regional Economic Cooperation programme (CAREC) as of 2010.

This demonstrates that there remains much to be done to improve the interconnectedness of the five Central Asian countries with each other and with their neighbours. The Asian Development Bank (ADB) and UNDP carried out a comprehensive assessment of trade opportunities and constraints in 2005 and found that average trade cost and time requirement for shipments to and from Western Europe from and to Central Asia, and within Central Asia were about twice those expected with normal transport conditions (ADB, 2006; UNDP, 2005). The principal reasons for these elevated time and monetary costs were delays and costs (both legal and informal) of border crossings, behind-the-border barriers (poor logistics, police barriers, illicit fees, etc.) and infrastructure structure bottlenecks. The ADB and UNDP reports projected significant potential increases in trade and resulting benefits from systematic improvements in these areas. Moreover, with a halving of the cost of transcontinental shipments through Central Asia, the region would become cost competitive with maritime shipping, while further enhancing its advantage in terms of much shorter time requirements<sup>7</sup>.

In addition, the UNDP report identified a number of other areas in which regional cooperation would generate significant benefits, including improved use of the regional energy and water resources, improved preparedness for natural disasters, and prevention of conflict. Very roughly, UNDP (2005) estimated that the potential benefits of effective regional cooperation for the countries of Central Asia could lead to a possible doubling of regional GDP over 10 years, over and above the level achievable without cooperation<sup>8</sup>.

In short, there is little doubt among economists that the benefits from regional economic integration and cooperation are significant for Central Asia. However, there are many obstacles to realising these gains in the political and governance realms. In the political arena, all the leaders of the newly created states of Central Asia prize their countries' sovereignty, while some of them compete with each other for control of resources, especially water and energy (Tajikistan and Uzbekistan), and for supremacy in regional leadership (Kazakhstan and Uzbekistan), or prefer to operate in strict neutrality to the point of isolation (Turkmenistan) (Olcott, 2011). In terms of governance, Central Asian countries

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<sup>7</sup> See Pomfret (2011) for comparative cost and time data of maritime and overland routes in Eurasia. A further factor to consider is the newly elevated risk from piracy for shipping routes through the Indian Ocean.

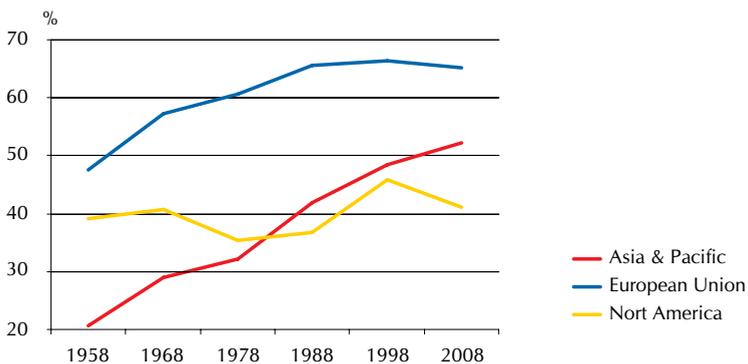
<sup>8</sup> This is on the high side among available estimates of the benefits of cooperation. A recent review of benefits from regional cooperation around the world showed estimates of benefits from tariff reductions in Asia to be relatively minor; benefits from infrastructure investments and quality improvements in the range of 10–20% of GDP over 10 years; and for the Maghreb region in North Africa the benefits from entering a trading bloc with the European Union, the liberalisation of services, and investment climate reforms have been estimated at 40–60% of GDP over 10 years (Linn, 2011). For a skeptical view of estimates of benefits from regional trade integration see Prokop (2012).

suffer from limited or poor accountability in public decision-making and policy, pervasive corruption, smuggling and drug trade, all of which serve the interests of the governing elites and undermine their willingness and ability to control security forces and border control agents effectively. Accordingly, governments find it difficult to implement their stated intentions to pursue the goals of improved border management, control of drug trafficking, and reduced behind-the-border harassment of private business and investors (de Tray, 2011; Shishkin, 2012).

This begs the question whether regional integration and cooperation in Central Asia have a chance to succeed. To answer this question it helps to consider the experience with regional integration and cooperation elsewhere in the world, a topic that we turn to next.

### THE INTERNATIONAL EXPERIENCE WITH REGIONAL INTEGRATION AND COOPERATION

Along with the global economic integration process worldwide, regional integration (as reflected in the rising share of intraregional trade in total trade) has progressed rapidly in many parts of the world. Leading the pack is Europe, but it is closely followed by Asia (see Figure 6.4). However, regional integration



**Figure 6.4.**  
Intraregional Trade Shares

Source: ADB, 2010

has not been matched by equal progress with regional cooperation in most regions. In fact, most efforts to create and sustain regional organisations have fallen woefully short of lofty political pronouncements. Even the European Union, long held out as the paragon of successful regional cooperation, has always had notable shortcomings in the way the regional institutions have functioned and Europe has recently run into dramatic problems as a result of the poorly designed common currency project of the Euro, combined with weak macroeconomic management and structural policies in individual EU countries (Soros, 2012).

A recent review of the experience with regional cooperation initiatives worldwide and in Asia concluded with nine lessons that are highly relevant for Central Asia<sup>9</sup>:

1. Building effective regional institutions is difficult, takes a long time, and requires incremental, gradual, and flexible implementation with visible payoffs.
2. It is preferable to keep the number of members in sub-regional and regional organisations manageable. Membership should be based on shared geography and common regional interests.
3. Adequate funding mechanisms for regional investments are essential.
4. Successful cooperation requires leadership at the country, institutional, and individual levels.
5. External assistance can be helpful in setting up and sustaining sub-regional institutions, but it cannot substitute for ownership of the process from within the region.
6. Open regionalism – i.e., the creation of institutions that are open to extra-regional participation and do not discriminate against non-regional economies in the long term – is the most successful strategy as demonstrated in the case of East and South-East Asia.
7. Regional economic cooperation organisations that involve ministries of finance or economy and central banks tend to be more effective than those that rely on the leadership of line ministries or foreign affairs.
8. Transparency and the engagement of the business community and civil society strengthen the mechanisms for regional cooperation.
9. Monitoring and evaluating the performance of countries under regional agreements is important, as are incentives for better compliance.

### RECENT REGIONAL COOPERATION INITIATIVES IN CENTRAL ASIA

For Central Asia, as we have noted earlier, intraregional trade has expanded significantly in terms of volume, but its share in total trade dropped precipitously since the 1990s. In part this reflects three factors: (a) overall trade expanded very rapidly, more rapidly than GDP, as the ratio of trade to GDP rose from an already high level of 63% in 2000 to 76% in 2008 (ADB, 2010); (b) Central Asian economies have similar economic structures and all rely principally on natural resource based exports<sup>10</sup>, and hence one would expect relatively low

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<sup>9</sup> This section is based on Linn and Pidufala (2008) and Linn (2011)

<sup>10</sup> In Soviet days, Central Asian countries actually had a differentiated industrial base, but much of this was destroyed as a result of the collapse of the Soviet Union (Linn, 2004).

intraregional trade shares; (c) where there were no external borders and hence no trade barriers within the Soviet Union, countries in Central Asia introduced significant barriers to economic exchange across their sovereign borders after independence<sup>11</sup>.

Despite – or maybe because of – this trend, there was no dearth of efforts to create regional organisations to foster regional cooperation in support of regional economic integration involving Central Asian countries. On the contrary, a large number of regional organisations and forums were set up in the years following the collapse of the FSU, with overlapping memberships and mandates creating a “spaghetti bowl” of regional institutions. Most of the regional organisations in Central Asia have been characterised by weak organisation and funding, with little or inconsistent engagement by key countries and national leaders, and none of them was able to affect decisively the way in which the countries of the region cooperated in the economic sphere (Linn, Pidufala, 2008). In fact, many of the obstacles that have prevented effective regional cooperation through regional organisations in the rest of the world have also been at work in Central Asia: lack of ownership and political commitment by leaders (despite public statements to the contrary), lack of funding mechanisms, lack of transparency, lack of engagement by the private sector and civil society, and lack of a clear results agenda and monitoring of progress.

There are some signs, however, that regional cooperation has been given a new impetus in the last few years, albeit coming from very different directions. In the remainder of this paper we will focus on four of the most prominent examples: The Shanghai Cooperation Organisation (SCO), led by China and Russia; the Eurasian Economic Community, led by Russia; recent initiatives focused on integrating Afghanistan with its neighbours, led by the United States and Europe; and the Central Asia Regional Economic Cooperation programme (CAREC), led by the Asian Development Bank with the support of China.

### **The Shanghai Cooperation Organisation**

The SCO was formally established in 2001 with six members: China, Kazakhstan, Kyrgyz Republic, Russia, Tajikistan and Uzbekistan<sup>12</sup>. They declared that the “Shanghai Spirit”, i.e., “mutual trust and benefit, equality and consultation, respect of diversified civilisations, and seeking common development”, represents the guiding principle of the organisation as members seek to cooperate in three areas: security, economics, and humanitarian concerns

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<sup>11</sup> These barriers were not principally due to high tariffs, but due to non-tariff barriers, including quantitative restrictions, arbitrary, costly and time-consuming border crossing conditions, and poor logistical support. See, for example, UNDP (2005).

<sup>12</sup> Subsequently, India, Iran, Mongolia, Pakistan and Afghanistan obtained observer status and Belarus, Sri Lanka and Turkey are “dialogue partners”.

(Yang, 2012). While principally focusing on Central Asian regional security concerns, including cross-border drug trafficking, terrorism and crime, the SCO since 2003 also has made regional economic development and cooperation one of its goals. However, to date SCO has not been able to deliver much that represents significant progress in terms of regional economic cooperation (Linn and Pidufala, 2008).

A number of factors explain this. First, the leading two member countries, China and Russia, do not necessarily see eye to eye on key regional economic development challenges, such as energy and trade development, with Russia concerned about China's growing influence in the Region and its interest in maintaining control over regional oil and gas transit (Cooley, 2012a). Second, since the SCO operates on the principles of consensus decision-making and non-interference, it is not in a good position to resolve conflicts among members, such as border closures or regional water management conflicts. Third, while China supports the Central Asian members of SCO with significant financial resources<sup>13</sup>, notionally under the umbrella of SCO and in support of regional infrastructure, they are in fact bilateral financial flows; the Interbank Consortium which was established by SCO in 2009 does not appear to have developed into an effective financial coordination mechanism for funding regionally coordinated infrastructure investments. Fourth, SCO has not established close relationships with any of the other regional organisations, even where there could be complementarities, as for example in the case of CAREC (see below). Finally, the Secretariat of SCO, based in Beijing, has a limited mandate and limited technical capacity for developing, implementing and monitoring effective economic cooperation strategies for Central Asia.

A number of these constraints were highlighted in connection with official contributions to the 2012 SCO summit in Beijing, including by the Chinese President Hu Jintao who "called for the SCO to be built into an effective platform for increasing international exchange and influence", and by Chinese Vice Foreign Minister Cheng Guoping, who referred to the need to "balance regional stability versus the principle of non-interference", to balance "the ability to act versus adhering to the principle of consultation to reach consensus", and the need "for the SCO to improve its process, rationalise the working mechanism, and improve its decision-making efficiency (China Weekly, 2012; Cheng, 2012)". And Sun Changhong, Deputy Director of the Eurasian Research Institute of the State Council Development Research Centre, commented that SCO is progressing with "setting up conferences and meetings, and reaching resolutions and agreements, but they lack specific targets and specific implementation"

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<sup>13</sup> At the 2012 SCO summit in Beijing, China announced a \$10 billion loan package for Central Asia. (Reuters, June 6, 2012, <http://www.reuters.com/article/2012/06/07/us-china-sco-loans-idUSBRE85602920120607>; last accessed July 20, 2012)

(Sun, 2012). Thus it appears that China in particular wishes to turn SCO into a more effective regional organisation for economic cooperation in Central Asia than it has been hitherto.

### **The Eurasian Economic Community**

After a decade of limited effectiveness since its foundation in 2000, EurAsEC<sup>14</sup> has recently become much more active. Russia and Kazakhstan, together with Belarus, have with surprising speed and apparent success set up a customs union, effective July 2011, when the customs barriers came down between these three countries. The customs union may expand to include Kyrgyzstan and Tajikistan, but will likely not extend to Turkmenistan and Uzbekistan in the foreseeable future. Fourth, and most recently, in October 2011, the then Prime Minister Putin announced plans for the establishment of a Eurasian Economic Union, which would push ahead with further market integration among its members (Halbach, 2012).

These recent efforts followed two earlier, related initiatives: First, in 2006, Russia and Kazakhstan set up the Eurasian Development Bank, which now also has Kyrgyzstan and Tajikistan (in addition to Armenia and Belarus) among its members. While EDB is not formally affiliated with EurAsEC, it finances the development of national and regional resources and infrastructure in EDB's member states, which are broadly similar to those of EurAsEC<sup>15</sup>. Second, Russia and Kazakhstan set up an "Anti-Crisis Fund" in 2008, managed by EDB, with \$8.5 billion in resources to support the poorer member countries in dealing with the fall-out of the 2008-2009 global financial crisis<sup>16</sup>.

Looking ahead, the strength of EurAsEC is that it has a strong national champion in Russia, a focused mandate on economic integration, and partners with an effective financing instrument (EDB). A limitation of EurAsEC is that it does not include key Central Asian countries (Turkmenistan and Uzbekistan) and does not fully conform to the principles of "open regionalism". As its reach extends and its internal cooperative mechanisms get stronger it may well reinforce barriers against non-members in Central Asia<sup>17</sup>. Finally, it is not clear whether Russia's ambition to create an economic union is serious and whether other current and prospective members of the customs union

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<sup>14</sup> Current members are Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan as members; Armenia, Moldova and Ukraine are observers (see EurAsEC, 2011).

<sup>15</sup> The members of EDB are Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan.

<sup>16</sup> Russia contributed \$7.5 billion, Kazakhstan \$1 billion, Belarus \$10 million, and Armenia, Kyrgyz Republic and Tajikistan \$1 million each (EurAsEC, 2011).

<sup>17</sup> Reportedly, the border controls between Kazakhstan and Kyrgyz Republic have been considerably tougher since the creation of the Customs Union (Smith, 2010). This has been one of the factors driving Kyrgyz Republic to seriously explore membership in the Union, even though it will also have significantly disruptive impacts on its trade with China, which had grown rapidly as Kyrgyzstan with its hitherto open borders had developed as an active transit trade route for imports from China into Central Asia.

share it, considering their likely resistance to a tight embrace by a dominant Russia.

### **Regional Initiatives focused on Afghanistan**

A second new regional initiative – or, more accurately, set of initiatives – is focused on the challenge of how to integrate Afghanistan into a regional integration process that will help it to strengthen its economic development and support its political stability, especially after 2014, when the current engagement of NATO forces in the country is expected to end. Based on a vision that sees Afghanistan as a “hub” or “roundabout” for Eurasian integration, and in particular for strengthening the North-South axis connecting South Asia with the rest of Eurasia (Starr and Kuchins, 2010), recent initiatives include the “New Silk Road Strategy” (NSRS) of the United States, the “Regional Economic Cooperation Conference on Afghanistan” (RECCA) and the “Northern Distribution Network” (NDN), which transfers nonlethal NATO supplies to Afghanistan.

The NSRS represents a vision and call to action rather than a well-articulated and organised strategy, let alone a regional organisation<sup>18</sup>. It endorses the concept of integrating the economy of Afghanistan with its neighbours as a hub for Eurasian economic integration. It calls on Afghanistan’s international partners to support the development of regional transport and energy corridors. With no substantial new resources contributed by the US or the Europeans beyond their continuing large financial engagement in Afghanistan and their low levels of aid to Central Asian countries, it is not clear that this initiative on its own will add much substantially to help regional integration in Central Asia.

Potentially of greater significance is RECCA, which represents a recurrent series of conferences involving Afghanistan, its neighbours, and international partners. The Fifth RECCA conference (RECCA V) convened in Dushanbe, Tajikistan, on March 26–27, 2012. It extended and deepened agreements among the participants in five areas: infrastructure (transport and energy), human resource development (including vocational training and labour market facilitation), investment and trade (including transit and border management), regional disaster risk management, and regional fiber optic connectivity. With commitments to support specific projects and institutional initiatives, and a well-articulated monitoring process of progress from one conference to the next, the RECCA process potentially can serve as a driver of regional cooperation initiatives. Among the major projects supported are improved rail and road links of Afghanistan with its neighbours, major regional energy transmission projects for and through Afghanistan<sup>19</sup>, and the development of

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<sup>18</sup> See *Hormats (2011)* for an official statement on the New Silk Road Strategy.

<sup>19</sup> Including the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline and the Kyrgyz Republic-Tajikistan-Afghanistan-Pakistan electricity transmission line (CASA 1000).

regional institutions devoted to vocational training (in Tajikistan) and disaster management (in Kazakhstan) (RECCA, 2012).

Another development involving Afghanistan, and of regional significance for Central Asia, is the Northern Distribution Network (NDN). Set up in 2009 to facilitate transport of non-lethal supplies for NATO from the Baltics through Russia and Central Asia as an alternative to the increasingly unreliable supply lines through Pakistan, the use of this transit route intensified with the "surge" of NATO presence in Afghanistan in 2010 and was especially important as Pakistan closed its border to NATO transit in 2011 and into 2012. While facing many obstacles and continuing challenges in managing the extended and costly transport lines<sup>20</sup>, NDN has demonstrated that the transcontinental transport routes involving rail and roads from Europe to Central and South Asia are viable alternatives to the traditional sea routes (Kuchins and Sanderson, 2010)<sup>21</sup>. As the NATO military engagement in Central Asia winds down in the run-up to 2014, it is expected that NDN will also serve to support the removal of equipment from Afghanistan (Tynan, 2011).

In sum, the focus on Afghanistan as a key connecting hub in Eurasia and the need to stabilise its economic and political development has served to place a lot more attention on the broader neighbourhood in which it lies, and especially on Central Asia. Moreover, for Central Asia a stable, prosperous Afghanistan is critical, not only to avoid the disruptions that could once again emanate from a conflict-ridden neighbour (refugees, terrorism, drugs, etc.), but also to gain access to Central Asia, to the dynamic economies of South Asia and as the shortest and cheapest way to connect to sea ports and hence to world markets. Unfortunately, the prospects for turning around Afghanistan on a lasting basis are at this time at best uncertain, and so it is not clear if Afghanistan in future is a plus or minus for the longer term development and integration of Central Asia into the world economy.

### **Central Asia Regional Economic Cooperation program<sup>22</sup>**

In 2011 CAREC celebrated its 10<sup>th</sup> anniversary of existence as a regional forum for Central Asia. It emerged from a regional initiative for Central Asia started by the Asian Development Bank in the late 1990s. The first of the annual ministerial conferences of CAREC convened in 2002<sup>23</sup>. It set in motion a

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<sup>20</sup> Critics have charged that NDN has supported authoritarian regimes, reinforced local corruption at borders, and failed to encourage local private enterprise (Cooley, 2012b).

<sup>21</sup> However, according to Pentagon data, the cost of shipping a container on NDN remains substantially higher than the alternative route through Pakistan (\$17,500 compared to \$7,200 per container) (Tynan, 2012).

<sup>22</sup> The author served as Special Adviser to CAREC from 2006–2010. This section is informed by his observations gathered in that capacity. For official documentation on CAREC see <http://www.carecprogram.org/> (last accessed on July 20, 2012).

<sup>23</sup> The 2002 Ministerial Conference brought together five member countries (China, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan). Azerbaijan and Mongolia joined in 2003, Afghanistan in 2005, and Pakistan and Turkmenistan in 2010. In addition, six multilateral institutions are members of CAREC: ADB, EBRD, IsDB, UNDP, and WB.

substantial effort to support the intraregional economic integration of Central Asia and its integration with its neighbours, modelled on the example of the Greater Mekong Subregion Programme (GMS), also initiated and supported by ADB beginning a few years earlier<sup>24</sup>.

Like GMS, CAREC is focused on a limited number of areas of regional cooperation, involving principally the development of regional trade, transport, and energy corridors. Like GMS, CAREC is not a formal treaty-based organisation, but an informal forum, supported by an organisational structure that comprises annual ministerial meetings, complemented by more frequent meetings of senior officials and of technical committees which prepare sectoral strategic plans and investment programs. Like GMS, CAREC enjoys the strong support of China, which participates actively in both.

CAREC's current membership consists of 10 countries and six multilateral institutions<sup>25</sup>. The participation of multiple multilateral agencies is a unique aspect of CAREC (not found in GMS or any other regional organisation). It allows the cooperation and coordination not only among the member countries but also among the key financial supporters of regional integration. ADB staffs and manages the CAREC Secretariat. Unlike GMS, CAREC has not yet seen the direct engagement of the member countries heads of state or heads of government.

CAREC's principal goal is development through cooperation, based on the vision embodied in its motto: "Good neighbours, good partners, good prospects". In the course of its existence, it has formulated a clear and persuasive vision of why regional integration and cooperation matters for Central Asia and for its neighbours, based on the notion that its location at the core of the dynamic Eurasian continental economic space allows it to transform its traditional handicap of land-locked location into an advantage of land-linked development (CAREC, 2012)<sup>26</sup>.

In its first 10 years of existence CAREC saw strong growth in regional investments and technical assistance activities, funded primarily by the multilateral agencies, with ADB as a principal source. Most investments were in the transport sector (see Table 6.1 and Figures 6.5 and 6.6).

Much of the investments took place after 2006, when CAREC ministers approved its Comprehensive Action Plan and developed sectoral strategies that provided roadmaps for agreed follow up. By 2011, CAREC member countries

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<sup>24</sup> For a brief summary of GMS see Linn and Pidufala (2008)

<sup>25</sup> See footnote 26.

<sup>26</sup> This theme was first introduced to CAREC ministers by the author in a presentation at the 2007 Ministerial Conference in Dushanbe, Tajikistan (Linn, 2007).

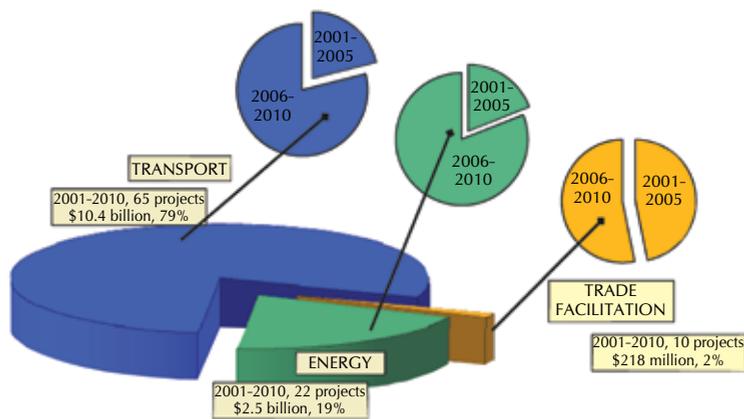
Indicator	2001	2006	2010
Number of investment projects approved (loans and grants; cumulative since 2001)	6	43	96
Annual average volume of new approved investment projects (loans and grants; 3-year rolling average, \$ million)	444.5	630.8	2,862.2
Volume of approved investment projects (loans and grants; cumulative since 2001, \$ million)*	247.1	3,227.9	13,191
Number of technical assistance projects approved (cumulative since 2001)	3	77	153
Annual average volume of new approved technical assistance projects (3-year rolling average, \$ thousand)	6,814	13,413.3	13,747.3
Volume of technical assistance projects (cumulative since 2001, \$ thousand)	2,476	60,682	136,334
Number of completed technical assistance projects (cumulative since 2001)	3	64	73

**Table 6.1.**  
CAREC Operations in 2001-2010

Source: Central Asia Regional Economic Cooperation Programme Project Portfolio

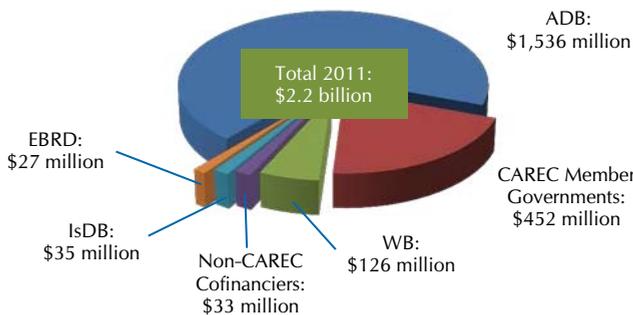
Note: Where rolling averages are used, 2001 reflects data for 2001-2003, 2006 reflects data for 2004-2006, and 2010 reflects data for 2008-2010.

\* Figures include only disbursed tranches of multifinancing facility investments.



**Figure 6.5.**  
CAREC Investment Loans and Grants, by Sector and Date (2001-2010)

Source: CAREC Project Portfolio, 2010



**Figure 6.6.**  
Financing of CAREC Programs (2011)

Source: CAREC, 2011a

and organisations had approved a total of \$14 billion in funding for regional investments and advisory activities under the CAREC umbrella.

CAREC's strongest area of engagement has been in the area of transport and transit and trade facilitation. The CAREC Transport and Trade Facilitation Strategy (TTFS) identified six priority transport corridors traversing Central Asia east to west and north to south and connecting with Eurasian transport arteries. For each corridor, TTFS noted infrastructure bottlenecks as well as key border crossing points and their investment requirements, as well as complementary needs to improve border transit and logistics arrangements. A core component of TTFS was the establishment of a corridor monitoring programme under which the time and cost of transit was to be measured based on regular vehicle surveys, allowing CAREC to assess whether and where the investments and procedural improvements along the corridors actually led to progress in reducing transport and transit barriers and where further action was needed.

CAREC has a number of strengths, in line with many of the lessons from the international experience of regional cooperation identified above:

1. CAREC is an action-oriented, pragmatic alliance of countries and institutions, with a long-term vision and a clear focus on a few key priority sectors.
2. It builds mutual understanding and consensus through work in its technical committees and senior officials meetings, leading to constructive discussions and agreements in the ministerial conferences.
3. Countries participate in CAREC through their technical ministries (Finance, Economy, Transport, etc.).
4. CAREC developed a good action plan and sectoral strategies with a clear results framework, against which progress is monitored and evaluated regularly<sup>27</sup>.
5. It mobilised the multilateral organisations' financial resources for coordinated investment and capacity building.
6. It has supported the creation and dissemination of knowledge products and the development of training initiatives, through its affiliate, the CAREC Institute<sup>28</sup>.

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<sup>27</sup> In 2010 the CAREC secretariat carried out an assessment of progress achieved during CAREC's first 10 years of existence (CAREC, 2010). Since 2009, it also prepares annual development effectiveness reviews which report progress against baseline indicators in key results areas. So far, no independent evaluation of CAREC's performance has been carried out.

<sup>28</sup> The CAREC Institute was set up in 2006 as a "virtual" entity, managed by ADB.

7. CAREC has developed a transparent approach to reporting on its work, with its public website ([www.carecprogram.org](http://www.carecprogram.org)) making available key documentation of CAREC sponsored meetings and events.

CAREC also faces many challenges, not unlike those confronting other regional institutions<sup>29</sup>:

1. Some key regional players are missing, foremost among them Russia<sup>30</sup>. Russia was formally invited to join CAREC in 2006 and sent a delegation as an observer to the ministerial conference in 2006, but never formally responded to the invitation. Since then it appears that CAREC members have lost interest in getting Russia to join, even as the membership was expanded to include Turkmenistan and Pakistan in 2010<sup>31</sup>.
2. While CAREC actively and overall successfully pursued the transport and trade facilitation agenda since its inception, it made significantly less progress in the energy and trade policy areas. Moreover, the critical area of water resource allocation and management was excluded from the CAREC agenda at the outset, at the behest of China and Uzbekistan, ostensibly because they feared that the topic was too sensitive and best dealt with on a bilateral basis.
3. Progress has been greater in regard to physical infrastructure investments, less so in the "soft" areas of improving the legal, regulatory, and administrative aspects of trade, transport, and energy sector management.
4. CAREC has not attracted the attention of the top leadership in Central Asia. Because of that, and because of limited efforts at building broader stakeholder awareness in the region, CAREC has not been able to gain a lot of visibility in Central Asia as an important regional forum.
5. Links between the regional sector strategies formulated in CAREC and national sector strategies have been weak or absent, and forward planning for specific investment projects under CAREC's tutelage has been limited. These factors have constrained CAREC's ability to follow through effectively on its sector strategies.
6. The intensity of cooperation among the multilateral agency members of CAREC has suffered in recent years, as the regular consultation meetings among them withered and inconsistent engagement by the individual agencies at senior levels left ADB with a near-exclusive responsibility for managing the CAREC processes.

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<sup>29</sup> Many of the issues highlighted here were identified in CAREC's 10-year retrospective (CAREC, 2010).

<sup>30</sup> Other potentially important neighbours, who are currently not members of CAREC, are India, Iran and Turkey.

<sup>31</sup> One complication is that Russia is not a member of ADB. Since ADB plays a central role in supporting the work of CAREC, this has been seen as an obstacle for Russia and current CAREC members.

7. Links with non-member partners and other regional organisations have been at best sporadic. CAREC organised two development partner meetings (in 2009 and 2011) for information purposes and has invited official partners to participate in some of its technical committee meetings. The CAREC Secretariat also engaged in some outreach to and meetings with other regional organisations in Central Asia. However, these efforts have at best helped a limited exchange of information, and have not yet resulted in effective coordination among partners and organisations<sup>32</sup>.
8. Participation of and interest from the private sector and civil society has been limited to date. CAREC organised two business forums and some outreach events to civil society organisations (CSOs) in member countries. However, this has not led yet to serious private sector and CSO engagement.
9. The work of the CAREC Institute has been, at best, of limited impact. Its training activities did not focus on specific sectoral and regional capacity building needs, its analytical work has to date not produced significant results, and its networking with knowledge institutions (universities, think tanks, etc.) in the region has been limited.
10. The work of the CAREC secretariat, while of high technical quality, suffered from the fact that after 2007 ADB moved the secretariat, which previously had been located in Almaty, Kazakhstan, to ADB headquarters in Manila, Philippines. This substantially reduced the secretariat's effectiveness in building greater understanding, consensus and capacity for regional cooperation needs among the stakeholders in Central Asia.
11. CAREC has been unwilling or unable to address, let alone resolve, a number of key issues and events that represent a direct challenge to progress in its core mandate of fostering integration through improved trade, transport, trade facilitation and energy cooperation. Among these are the following:
  - The tensions between Tajikistan and Uzbekistan over Tajikistan's intentions to build the hydro-dam at Rogun; this has led to actions by Uzbekistan that have severely affected Tajikistan, including selective border closures, interference with rail transit and blockage of Tajikistan's access to electricity and gas imports<sup>33</sup>.
  - During the food crisis of 2008–2009 Kazakhstan blocked exports of grain, including to its Central Asian neighbours, in the interest

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<sup>32</sup> For a summary of the CAREC Development Partners' Forum in Baku in November 2011 see CAREC (2011b). Participation at that Forum was limited, with statements by non-member representatives made only for the bilateral aid agencies of France, Germany, Japan, the UK, and the US. It should be noted that closer partnership with other organisations also requires receptivity on the prospective partner's side, which has not always been forthcoming.

<sup>33</sup> Uzbekistan has a long-standing practice of severely restricting border exchanges, including mining of some of its borders (UNDP, 2005).

of protecting its domestic consumers. During the unrest in Kyrgyz Republic in 2010 Kazakhstan unilaterally closed the Kyrgyz-Kazakh border.

- The Belarus-Kazakhstan-Russia customs union led to new barriers at the Kazakh-Kyrgyz border, which however the countries' authorities are currently aiming to resolve.
- Kazakhstan and Uzbekistan abandoned the existing regional electric power dispatch mechanism that had existed in Central Asia since Soviet days, directly undermining the development of a regional energy market, one of the key objectives of CAREC's energy sector strategic action plan.
- NATO planned and implemented its Northern Distribution Network without engagement of CAREC<sup>34</sup>.

In view of these many issues and constraints which CAREC has not been able to deal with, the ownership by its member countries of CAREC as a legitimate, relevant and effective instrument for fostering regional cooperation remains in doubt.

The CAREC Strategic Framework 2011-2020, which was approved by ministers in November 2011, promises to address some of the issues identified above, including efforts to increase country ownership and outreach, better linkage between regional and national plans, improved planning and sequencing of the multi-year project pipeline, a stronger CAREC Institute, and renewed efforts to engage the multilateral institutions, other donor partners, as well as private sector and CSO stakeholders. Key issues where the Strategic Framework is silent include (a) how to engage the country leadership more directly<sup>35</sup>, (b) how CAREC can deal with hot-spots of regional tensions and relapses in key areas of sectoral policies, and (c) when and how CAREC's Secretariat can become a truly regional entity that is located in Central Asia, and managed and staffed by Central Asians. As long as these three key issues are not effectively addressed and regional commitment to cooperation is in place, the effectiveness of CAREC will remain impaired and its sustainability uncertain.

The reality is that multilateral institutions do not have the mandate or the clout to generate political consensus on fractious or disinterested regional partners. But this is not to argue that it was a mistake for the multilateral institutions, and

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<sup>34</sup> It is notable, however, that the documentation for the US New Silk Road Strategy and the Regional Economic Cooperation Conference for Afghanistan refer explicitly to CAREC as a significant partner in implementing programs envisaged under these initiatives.

<sup>35</sup> The Strategic Framework notes in passing the possibility of a summit of heads of state or government. However, for this to materialise and result in an effective meeting, it will be critical to engage leaders early by creating their awareness of CAREC and of CAREC's potential contribution. In the case of GMS, heads of state were involved from early on, initially through direct consultations with ADB and the GMS secretariat and subsequently in recurring summits.

especially the ADB, to take on a lead role in creating and supporting CAREC. On the contrary, the fact that CAREC has been able to support key investments in regional infrastructure and some improvements in regional policies and administrative practices can be attributed to a significant degree to the excellent technical and financial contributions made by ADB and its multilateral partners. But, for the longer term, more country leadership and ownership in CAREC (and in other regional organisations) will be a necessary, if not sufficient, condition for success.

## CONCLUSION

Based on the preceding analysis we can now address the question: Is regional economic integration and cooperation in Central Asia a reality or a mirage?

After the disintegration of the Soviet Union and the resultant dramatic economic depression on Central Asia in the 1990s, the region experienced in the 2000s a process of rapid economic growth and of internal and external integration. Within Central Asia, connectivity between Kazakhstan, Kyrgyz Republic, and Tajikistan has increased<sup>36</sup>. There are growing links with Afghanistan. And there has been rapid growth in economic ties with some of the big neighbours, especially China and Russia. A key driver of this process of integration of Central Asia has been the larger process of continental integration of the Eurasian economic space. In this sense, economic integration of Central Asia has been a reality.

But there are serious gaps and major risks to this integration process. First, some of the countries in the region remain substantially closed to intraregional trade and also represent a hurdle to transit trade, especially Turkmenistan and Uzbekistan. As noted, border closures, lack of cooperation in the energy and water areas, and weak governance interfere with intraregional and extra-regional integration. The regional organisations in Central Asia have been fragmented and weak, unable to tackle the sources of interstate tensions, and with at best limited resources and mandates to address key regional infrastructure needs. In this sense, effective regional cooperation among Central Asian states, as beneficial as it would be, remains a distant dream.

This pattern of regional development – progressive economic integration, but hindered by weak institutional cooperation – is a phenomenon that can be found in all regions of the developing world. But four recent developments point to a possible intensification of the regional cooperation process in Central Asia: China's apparent intentions to turn the SCO into a more effective instrument to support regional economic cooperation; the Russian-led EurAsEC process and its progress in creating a customs union; the European-US led effort to support Afghanistan's regional integration process; and the ongoing efforts,

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<sup>36</sup> Even here, however, serious obstacles remain, including limited progress on the critical CAREC Corridor 5 (CAREC, 2012b).

supported by China, to strengthen the CAREC programme. Some links have been established between the third and fourth initiatives (CAREC is seen as an important instrument to support the Afghanistan integration process), but so far there have been few, if any efforts made to connect the SCO, EurAsEC, and CAREC processes.

Looking ahead, therefore, a key question will be whether SCO, EurAsEC and CAREC can develop effective coordination and even cooperation in key areas, taking advantage of complementarities and avoiding measures that could hurt non-member states or that would duplicate effort. As an influential player in all three organisations, Kazakhstan could play a major role in ensuring effective linkages between SCO, EurAsEC and CAREC. Russia and China, the most important players in SCO and respectively in EurAsEC and CAREC, should join with Kazakhstan and the other Central Asian countries to explore the potential for strengthening the synergies and minimising possible conflicts between these three regional bodies.

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