

**Central Asian Economic Integration:
An American Perspective**

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Thank you very much, Fred, and thank you all for coming out tonight. And let me say what a pleasure it is to again share a podium with Beth Jones! Beth and I did this last August in Almaty, where I gave a speech on U.S.-Kazakhstan relations, so I think we're about ready to take our act out on the road.

Let me say, too, that I'm particularly delighted to speak at this Institute. For more than a decade, it's been *the* gathering-place for Central Asian studies in Washington.

When I took this job about seven months ago, Fred invited me to speak once, as he put it, I had "settled" into my job.

Well, I'm not sure I've really had much time to settle in.

In just seven months, Kazakhstan's President Nazarbayev has visited the White House and we issued a forward-looking Joint Statement.

Tajikistan held a presidential election and has inaugurated a new Cabinet.

We continue to face considerable challenges with Uzbekistan, but are taking steps to improve our relations while stressing the need for democratic progress.

We've gone through a lifetime of ups and downs in our relations with the Kyrgyz: from the summer low of reciprocal expulsions of our diplomats to the autumn high of street protests peacefully resolved. And of course, President Bakiyev visited Manas Airbase to celebrate our joint efforts to secure Afghanistan's future.

And in Turkmenistan, President Niyazov has passed from the scene and a transition is now underway.

In short, we're awfully busy in this part of the world.

We've inaugurated some new consultations and are forging new relationships. With some, such as Britain and Germany, we are expanding ties to longstanding U.S. partners in Central Asia. With others, such as Japan and Korea, we are forging ties to partners who are a bit less traditional in the context of Central Asia but no less important.

I've been to Berlin, Brussels, London, Seoul, Tokyo, and Central Asian capitals from Ashgabat to Astana. I'm off to Ankara this month. And my boss, Richard Boucher, has been to most of these places and then some: Moscow, Beijing, New Delhi, and elsewhere in his own long list of consultations on Central Asia.

So, Fred, it's a pleasure to be here at last now that I'm, well, "settled."

Thanks for hosting me. I look forward to our conversation.

I'm sure you all know our basic approach to Central Asia: We aim to support the development of fully sovereign, stable, democratic nations, integrated into the world economy and cooperating with one another, the United States, and our partners to advance regional security and stability.

So what I thought I would do tonight is to focus on one specific element of the American approach to Central Asia: our effort to promote regional economic "integration."

"Integration" is an amorphous phrase, overused and sometimes abused. As Grant Smith said to me when we first planned tonight's program, a

great many American Central Asia specialists have become jaded about the idea.

And no wonder. American officials have talked about Central Asian “integration,” in one form or another, for fifteen years.

In the 1990s, it was Deputy Secretary of State Strobe Talbott, who, in a seminal speech at this very Institute, called for “the right kind of integration” and spoke of “a valuable trade and transport corridor along the old Silk Road between Europe [and] Asia.”

But a decade later, we face some new circumstances, notably, from our point of view: a new situation in Afghanistan, and the fact that the world’s most dynamic and fastest-growing economies no longer lie to Central Asia’s north and west but rather to its east and south.

So last year, when Secretary of State Rice called on Central Asians to leverage trade as “a powerful engine of growth and opportunity,” she based her call on some changed circumstances.

Tonight, I want to make three basic points about this new U.S. approach to economic integration in Central Asia:

First, I want to say what we think integration is.

Second, I want to talk a bit about what it isn’t.

And third, I’ll say something about what the United States is actually doing, giving you a few examples and drawing a link between integration and our continuing emphasis on reform.

First, let me say what integration *is*:

When we speak of “integration,” what we mean, in essence, are cross-border economic linkages: trade, investment, and the human and physical infrastructure that facilitate them.

This means roads and power lines, of course. But it also means fostering complementary trade regimes and a common commitment to widening this landlocked region's access to a wider world.

Nearly everything the United States does in Central Asia—from our multimillion dollar programs to modernize border facilities and harmonize customs, to our efforts to promote the rule of law—can help to facilitate cross-border trade.

And this, we believe, is to the benefit of all five countries in Central Asia.

Second, let me say what integration *isn't* because there has been a lot of misunderstanding about precisely what we are promoting, especially since we reorganized the State Department exactly one year ago this month.

Take an editorial I read last August in China's national newspaper, the *People's Daily*:

Under the ominous title, "U.S. Scheming for 'Greater Central Asia' Strategy," the editorial reviewed several recent U.S. initiatives: a conference on electricity cooperation in Istanbul; our efforts to promote energy, transportation, infrastructure, and construction links; and so on.

Then it accused us of trying to "penetrate" and "control" Central Asia, and talked even more ominously about "chessboards," geopolitical "blueprints," and "pawns."

But we don't regard Central Asians as *anyone's* pawns.

In fact, I would argue that, if anything, it has been the other way around: Over the past fifteen years, Central Asians have demonstrated remarkable skill at turning great power rivalry into an asset that maximizes their independence.

We put Central Asians *themselves* at the center of our approach to this part of the world.

Let me be clear about that: we view strong, sovereign, independent nations as our primary partners in this region. And we reject the notion, once again so fashionable, that Central Asia is merely an arena for outside powers to compete for influence.

Central Asians are not the objects of our struggles with others. They are the very focus of our policy.

And if Central Asians themselves are the focus of our policy, then we have every incentive to help them tap economic opportunity in every direction on the compass: west, east, north, and south.

In short, our policy is not "anti-" anyone. Nor is it focused in any single geographic direction to the exclusion of any other.

Rather, as Secretary Rice has said, it is to give impetus to a "corridor of reform" extending southward to Afghanistan and the Indian Ocean, even as the region's ties expand eastward to China, Japan, Korea, and the Pacific Rim.

And while looking for these new opportunities to the south and east, the United States firmly supports maintaining and expanding Central Asia's robust ties to the Euro-Atlantic community, not least through NATO and the Organization for Security and Cooperation in Europe.

What we really are talking about is the restoration of traditional Continental trade, or, more precisely, helping to foster trade *within* an Asia—central, south, and east—that once again is becoming an integrated strategic and economic space (as it was through much of history), and *from* that more integrated Asia to points in the global economy beyond.

We are not talking about severing the region from other longstanding ties.

And how could we, anyway? An existing—and extensive—network of pipelines, power lines, railroads, and highways to Russia and other Commonwealth of Independent States (CIS) countries provides the current backbone of Central Asian trade and commerce.

It clearly is not in Central Asians' interest to rupture profitable links.

What *we* want to do is to help Central Asians forge some new connections: to trade and investment opportunities, cross-border energy projects, additional deep-water ports, and the enormous possibilities of the global market.

Our focus is to support Central Asian sovereignty. And quite logically, more options in more directions, from the steppes to the sea, mean more opportunities and, thus, more independence.

Countries should never be left with only one option — one market, one trading partner, one vital infrastructure link.

Central Asia is a landlocked region, far from major maritime trading routes. But it once was a crossroads of global trade, and it can once again be an important part of that trade.

Indeed, it's useful to think about this in light of the traumas caused by the collapse of Soviet power. That collapse erected international borders where none had existed, divided families from communities, and separated water from farmers and fields.

Just take a drive around the Fergana Valley, as I know many of you have and as I myself did last October in Kyrgyzstan.

Or look at a border checkpoint, separating what once was an integrated commercial community between Kara-suu in Kyrgyzstan and Kara-su in Uzbekistan.

It's easy to see that new borders created new complications.

But while some international borders rose, others fell.

And the ability to cross borders since 1991—to cross from Central Asia to points in Afghanistan, China, and beyond—represents an unprecedented opportunity to tap the extraordinary economic dynamism that now surrounds the Central Asian region.

Perhaps that's why, when I walked through a market in Kara-suu last October, I met Chinese traders from as far away as Fujian, three thousand miles away on China's eastern coast opposite Taiwan.

For our part, we see opportunities to help nurture such ties in every direction — but increasingly to the south precisely *because* it is the least developed direction, and also because of our unique role in a reopened and rebuilding Afghanistan.

Let me give you a few examples to show what we are doing.

The most exciting immediate prospect is for a regional electricity market.

And Bob Deutsch, who is our senior advisor on integration, together with the Agency for International Development (USAID) and our Trade and Development Agency (USTDA) are all working hard with Tajikistan, Kyrgyzstan, and others to help make this a reality.

Central Asia has significant seasonal electricity surpluses and the potential to develop thousands of megawatts in new capacity. Its hydro-electric potential is particularly tempting. And gas and coal resources add to that capacity.

For its part, South Asia needs energy to fuel its economic expansion. By 2015, Pakistan projects electricity demand to more than double. India's growing economy requires the addition of a nearly 50 percent increase in capacity by 2012. And while the Kyrgyz Republic currently earns about one U.S. cent per kilowatt hour on power sold northward, just think of the opportunities since Pakistan's generation costs average about 5 cents while India's cost for peaking power may be double even that.

So the opportunities are great if—and it remains an “if”—countries can cooperate to develop the right infrastructure and investment regime.

That's why we are working closely with the countries of the region, including Tajikistan, as well with International Financial Institutions and the private sector, to bring such ideas to fruition.

In Dushanbe last October, Afghanistan, Kyrgyzstan, Pakistan and Tajikistan signed a memorandum of understanding for a model project to trade 1,000 megawatts of electricity, if feasibility studies demonstrate economic viability. The World and Asian Development Banks (ADB) are financing these studies, which should allow concrete decisions to move forward by mid-2007 and electricity trade to begin in 2010.

If the international community can help build these power lines—and if they can supply reliable electricity on a sustained basis—more investors will be looking to develop Central Asia’s hydropower to help meet consumer need.

Here’s another example:

USAID’s Regional Energy Markets Assistance Program is helping Central Asian partners to organize their domestic markets. Our goal is to help them deliver better service and prepare the institutional and regulatory framework for new regional trading arrangements.

And we are looking to similar opportunities in other areas:

Telecommunications: USTDA will host a regional forum this April to help Central and South Asian partners attract additional investment through regulatory reform.

Donor coordination: Working with the ADB and two strategic partners—Japan and the EU—we seek to lend additional impetus to the ADB’s Central Asian Regional Economic Cooperation, or “CAREC,” program. By creating a forum with the world’s three major market economies called “CAREC Plus Three,” we aim to give market approaches a new push in the region, working closely with CAREC’s eight member states and six multilateral development institutions.

Infrastructure: This summer, we will inaugurate a U.S.-funded \$36 million Afghan-Tajik bridge: open 24 hours a day, with customs and border facilities on both sides, and the capacity to handle 1,000 vehicles per day.

So we are building bridges literally, not just figuratively.

We are funding customs and border-crossing facilities throughout Central Asia at about \$65 million.

And we also continue to seek reduced trade and investment barriers through our Central Asia Trade and Investment Framework Agreement, which includes all five Central Asian countries, but also Pakistan and Afghanistan as observers.

Now, it's important to link all this back to our continuing emphasis on economic reform.

Bringing down barriers to trade is not a new idea. We're not the first to advocate it. And we know it has a long, even painful, history in this region.

Part of the problem involves political tension. For fifteen years, a pivotal challenge for Central Asians has been to build independent identities. But many shared links that existed at independence—energy, water, trade relations—made good economic sense. In many areas, Central Asians remain deeply dependent on each another. Yet this reality is deeply disquieting to some.

What can *we* do?

For one thing, we want to help Central Asians feel secure enough to work jointly in support of economic development. Thus we have long supported efforts to enhance cooperation among Central Asian nations, especially in trade, energy and border security.

USAID, for example, has spent \$39 million on transboundary water and energy projects.

At the end of the day, we believe the promise of economic development is best achieved to the degree that governments and peoples think and act as an integrated region. Reducing barriers and moving toward the long-term goal of becoming a more cooperative marketplace will benefit consumers, make Central Asia more attractive to foreign investors, and forge new patterns of collaboration.

Of course, we're not naïve:

We know our talk of reform is often seen as a direct threat to existing structures and political interests. Odd as it may sound, leaders in some countries find our vision alarming.

We want to reassure them. We think reform makes sense — not just for “our” agenda but for theirs.

Let me give you two examples: rule of law and structural reform.

Like all U.S. officials, I talk constantly about the rule of law. And last fall, a senior Central Asian official objected to my points, telling me, in so many words, “we can discuss that when we get to your democracy agenda; I want to talk about trade.”

But I *am* talking about trade.

Promoting the rule of law is not, as some might have it, a solely “American” agenda to ensure better governance and democratic development. It is, too, a fundamental part of building the more attractive economic and investment climate that so many of our Central Asian colleagues hope to create.

How many companies will invest where the rule of law is uncertain, where contracts can be shredded at whim, and firms have uncertain means of legal redress in the event of a contractual dispute?

Likewise with our agenda for structural reform, an area in which Kazakhstan has excelled.

Lowering barriers facilitates trade. And expanded trade, in turn, facilitates positive—and mutually beneficial—changes in society. By promoting growth and cutting poverty, creating equality of opportunity, reducing corruption, and strengthening civic engagement, trade invests people (and countries) in a positive vision of their future.

And nowhere has this point been made more powerfully than in the UN Development Program's *Central Asia Human Development Report*, which predicted that slashing trade costs by 50 percent could increase Kazakhstani GDP by an estimated 20 percent and Kyrgyzstan's by 55 percent over ten years.

So let me conclude with this:

The United States is deeply committed to assisting four kinds of Central Asian economic "integration."

- We are helping the five states to lower barriers, thus integrating with one another;
- We are helping them to integrate with Central Asia's neighbors, tapping economic opportunity in every direction on the compass;
- We are helping them to integrate into the global economy and international institutions, not least by supporting WTO membership for all five states; and
- We are helping Central Asians to integrate into customary international norms, rules, and economic practices. And this is one reason we speak so often of reform and the rule of law.

It is a volatile, but exciting, time in Central Asia. And if the first fifteen years of independence too often saw divisions between these countries, the next fifteen should be focused on forging connections for mutual benefit.

For the people of this dynamic region, we look forward with optimism to pursuing this goal, to helping provide greater choices and options, and to enhancing the long-term stability and prosperity of all.

Thank you very much.