

CENTRAL ASIA

The Way Forward

CENTRAL ASIA IN THE GLOBAL ECONOMY

BY S. FREDERICK STARR

More confident in their independence, the states of Central Asia are beginning to shift from nation building to economic development. Regional cooperation points the way to prosperity.

THE BIRTH OF NEW STATES IS rarely easy. Independence for many of Spain's former South American colonies led in the early 19th century to long periods of one-man rule, a pattern later repeated in many new countries of Africa. Intercommunal violence marked India's emergence as an independent state, and Pakistan was torn by secessionist movements, one of which finally succeeded in forming Bangladesh. China's independence came only after years of military conflict.

The collapse of the Soviet Union in 1991 gave the world 15 new states, five of which lie at the heart of the Eurasian landmass, in Central Asia. Kazakhstan, Kirgizstan, Tajikistan, Turkmenistan, and Uzbekistan could all claim to be the bearers of noble traditions from the ancient past. But none was prepared for independence. Their very borders, the result of Soviet divide and conquer policies, all but assured a difficult transition to sovereignty. The economic system, laws, and political institutions they inherited from Soviet times proved equally incapable of meeting the new needs.

No wonder that each of the new Central Asian states seemed to stumble out of decades of Soviet rule slightly dazed by independence. In the years that followed, the region

endured a ruinous economic slide, a rapid rise in poverty and unemployment, and varying degrees of internal conflict, which, in one nation, descended into bloody civil war.

Because of their centrality, it is no exaggeration to call these five states, along with Afghanistan and Azerbaijan, "the pivot of Asia," as scholar Owen Lattimore dubbed their immediate neighbor to the east, the Xinjiang Uighur Autonomous Region of China. But their first years of independence were painful indeed. Each turned inward, scrambling desperately to build new institutions and to address threats to its sovereignty and viability. These states seemed anything but pivotal.

But after 13 years of independence, Central Asia is finding its feet. The decade of disorientation ended with each country having charted a course for the future. More secure in their nationhood, the new states of Central Asia are moving beyond nation building to focus on the social, institutional, and economic development that will enable the region to make the most of its strategic position, its wealth of natural and human resources, and its deeply ingrained entrepreneurial roots.

This shift represents significant progress. Many commentators equate Central Asian

economies with weak economic performance characterized by declining gross domestic product (GDP), stunted private sectors, high levels of poverty, and severe environmental degradation. Others go further, branding them as capriciously authoritarian states with weak civil societies, human rights abuses, and increasing lawlessness.

The trouble with these assertions is not that they are wrong, but that they are overstated and distorted. They originated as snapshots taken in the early and mid-1990s, before renewal took hold. Rather than return to their subject with a fresh eye, many analysts reprint the old pictures with a few touch-ups and ignore important new indicators that reveal greater dynamism.

Finally, these outdated assessments do not proceed from an adequate recognition of

Central Asia's assets. With a well-educated population of about 60 million people and a combined annual GDP topping \$43 billion, the Central Asian states, along with Afghanistan, Azerbaijan, and the Xinjiang region, reflect market economies still in embryo, with few of the efficiencies created by competition and trade. With the exception of oil, gas, and gold, few investment decisions affecting the region have been taken with an eye to meeting world demand. Nonetheless, the data of the past few years suggest that the first steps toward the creation of an enlarged and economically integrated Central Asia are already being taken.

The region's assets and opportunities are so significant and complementary as to warrant the conclusion that the region, under the right policies,



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is a strong candidate for outstanding economic and social development in the coming years.

The region faces three central challenges: First, can it neutralize the negative effects of distance by developing globally competitive transportation networks? Second, can Central Asians identify and exploit the complementary strengths that exist among regional states and thereby reach beyond limited local markets? Third, and most crucially, can Central Asian leaders develop mutual trust and marshal the necessary political will to respond positively to the first two challenges?

This political will has been largely absent over the past decade but may be finally crystallizing. It is now generally

It is now generally understood that the most serious threats to Central Asia's security are regional in character and can therefore only be addressed regionally.

understood that the most serious threats to Central Asia's security are regional in character and can therefore only be addressed regionally. To varying degrees, necessity is forcing the new states to cooperate. The question is whether they will be as ready to work collaboratively in order to exploit opportunities as to avoid disaster.

This survey suggests that these states now have the political will to work together. Central Asian leaders can take pride in having successfully guided their countries through their perilous first steps as sovereign states. Broadly, they have shown resourcefulness and tenacity in balancing and containing competing interests. As a result, the survival of these governments is no longer

at issue. It is now time for them to move the process forward.

BUILDING ON A SOLID BASE

The Caspian region contains about 4 percent of the world's known oil reserves and possibly a greater amount of global gas reserves. Kazakhstan and nearby Azerbaijan already benefit from these resources and have set up trust funds based on the Norwegian model to channel profits in these areas into the social sector and rural development.

Less known are the region's other mineral resources such as gold, zinc, uranium, and molybdenum, which abound in the petro-poor mountain states. Glaciers atop these mountain ranges release water, which turn downstream deserts into blossoming oases and offer vast hydroelectric potential. Central Asia is the world's second largest producer of cotton and one of the most fertile zones anywhere for high-quality fruits and vegetables. Unfortunately, Soviet planners, eager to forestall economic separatism, deliberately placed agriculture processing plants in the Slavic heartland of the Soviet Union, far from production centers.

Though often a source of conflict, water resources can foster cooperation, as has occurred throughout most of the region's history. During the Soviet era, however, crude irrigation systems caused salinization and waterlogging on a third of all arable land in the Aral Sea basin.

Despite their tremendous potential, Central Asian economies remain among the poorest in the developing world. The region's average per capita gross national product (GNP)—\$726 in 2002—places it among the ranks of low-income developing economies. But the average masks a significant variation in GNP per capita within Central Asia (with Kazakhstan at \$1,510, Turkmenistan at \$1,200, Uzbekistan at \$450, Kirgizstan at \$290, and Tajikistan at \$180). Unemployment in the latter two states is relatively high, and the worst poverty is concentrated in remote mountain zones and border areas.

Any fair enumeration of the region's assets must give pride of place to its human resources. In



With its fertile land, Central Asia is a major world cotton producer.

no area are Central Asia's human resources more strikingly in advance of countries with comparable GDP levels than in education. Soviet policies assured that literacy is nearly universal. Whatever their resources, governments across Central Asia continue to invest in education. Uzbekistan, for example, devotes a larger portion of its budget to education than Russia. Remarkably, adult literacy rates are in excess of 97 percent in all five Central Asian economies. The population is also numerate.

Both enrollment and completion rates at all levels of education remain among the highest in Asia. Secondary enrollment rates are striking, ranging from 78.5 percent in Tajikistan to 88.5 percent in Kazakhstan. University enrollment rates are at 41.1 percent in Kirgizstan, 30.9 percent in Kazakhstan, and 14 percent in Tajikistan. Female participation in education at all levels places

Central Asia at the forefront of the developing world and well in advance of nearly all other Muslim societies. Access to education among people of all incomes is far higher in Central Asia than in China, India, Thailand, and the Philippines.

The strength of Central Asia's human resource base requires qualification in two areas. The expansion of the market economy threatens to decimate the ranks of teachers and university professors, as higher wages and new opportunities of the emerging private sector lure them into businesses and abroad. The second concern involves the continuing short supply of workers with practical modern skills. Millions of older men and women must be retrained if they are to compete successfully with professionals in other modern economies and benefit from the global division of labor. Appro-



Basic education, a building block for sustainable development, is universal in the region.

ropriate policies, and time, will help solve these problems.

DISTANCE AS AN OPPORTUNITY

Under normal circumstances, Central Asia's natural and human resources would work together to generate sustainable economic growth and reduce poverty. One impediment has been that the centers of industry and trade in Central Asia are a considerable distance from the nearest seaports, thereby causing relatively high transport costs for exports and imports.

These costs are driven higher by the inadequacies of the region's infrastructure, especially in the energy, water, and transportation sectors. The Soviet Union built

Meanwhile, Central Asians' age-old skills in dealing with distant markets fell into disuse. After independence, each of the new countries imposed its own visa regimes, border controls, and protective tariffs. Such measures increased transport costs, reduced access to foreign entrepôts, and threw each country back on its meager domestic market. Regional trade all but evaporated.

The key to economic and social renewal in Central Asia lies in expanding regional and continental trade through the improvement of infrastructure and the reduction of government-imposed constraints on region-wide trade.

Central Asians have by no means been blind to the importance of regional cooperation, as

nized periodic meetings and joint projects among countries where Turkic languages are spoken. China entered this busy field by spearheading the formation of the Shanghai Cooperation Organization, and both China and Kirgizstan succeeded in gaining admission to the World Trade Organization (WTO).

All the main international banks and donor organizations advocate regional cooperation as the best way for Central Asia to achieve collective growth and prosperity. The Asian Development Bank, European Bank for Reconstruction and Development, International Monetary Fund, Islamic Development Bank, United Nations Development Programme, and World Bank have agreed to coordinate their assistance for regional cooperation under the umbrella of the Central Asia Regional Economic Cooperation initiative, better known as CAREC. Other major donors, such as the U.S. Agency for International Development and the United Nations Economic and Social Commission for Asia and the Pacific, are likewise pursuing this goal.

Notwithstanding these efforts, regional economic cooperation remains a work in progress. Efforts by international agencies are not without their shortcomings, but regional inertia is primarily the result of domestic policies.

bors. Formerly nomadic peoples like the Kazakhs, Kirgiz, and Turkmen have different approaches to hierarchy, dispute resolution, and negotiation than the urbanized oasis dwellers—the Uzbeks, Uighurs, and Tajiks. Even the dominant religion, Islam, has a different character among the former nomads, who were shamanists until recently, and those inhabiting the ancient centers of the faith on the region's oases. The Soviet system suppressed all these differences, but sovereignty resurrected them, at least in the short run.

Differences in political ideology and economic factors influenced the new states to choose different strategies of development, ranging from Uzbekistan's statism to Kirgizstan's bold *démarche* to the

The key to economic and social renewal in Central Asia lies in expanding regional and continental trade.



Strong family ties underpin Central Asia's rich and diverse culture.

excellent railroads but did not link Central Asia directly with the broader world, except through Moscow. Only one railway line ran east to China. No links were established to India, Iran, and the Middle East.

The region's chief commodities—oil and cotton—were also exported inefficiently through Russia. Another major resource, hydroelectric energy, was scarcely exported at all. The Soviet government discouraged intraregional trade for fear that it might foster solidarity among the Turkic peoples at the expense of their ties with the Slavic north. The entire infrastructure was designed for an autarkic economy based on heavy industry, and it failed to anticipate the needs of an emerging, international service sector.

evidenced by several initiatives created over the past decade. Shortly after the new states were established the leaders of Kazakhstan, Kirgizstan, and Uzbekistan—later joined by Tajikistan—formed the Central Asia Union, which evolved into the Central Asia Cooperation Organization. Later, Uzbekistan persuaded the other four states to declare the region a nuclear-free zone. Russia created the Commonwealth of Independent States and then the Eurasia Economic Community, both involving several or all of the Central Asian states.

At the same time, the dormant Economic Cooperation Organization, which joined Iran, Pakistan, and Turkey, revived and expanded its membership to include the new Central Asian states. Turkey, meanwhile, orga-

PULLING APART: THE COUNTERVAILING FORCES

Since George Washington, leaders of post-colonial governments have emphasized protecting their sovereignty and building security. Acutely conscious of their weaknesses, Central Asian leaders feared that Russia might reassert control over them. Taliban-ruled Afghanistan posed even more ominous threats.

To most dangers, the new leaders responded defensively, turning inward. When compelled to enter into foreign commitments, they preferred bilateral ties rather than multilateral arrangements.

Meanwhile, long-suppressed cultural and ethnic differences began to reemerge. The Tajiks' Persian culture contrasts sharply with that of their Turkic neigh-

WTO. As countries pulled apart, regional trade declined.

The lack of clearly delineated borders—both intraregional and with neighboring states—also threatened to give rise to tensions and negatively affected trade. Finally, many in the region feared that large economies nearby, especially China, would swamp Central Asia with cheap goods and destroy local industry.

Over the first decade of independence, these forces neutralized the benefits that might have come from promoting regional cooperation and trade.

THE CHANGE

All trends eventually reach their apogee and fade. As the new states of Central Asia enter their second decade, is there reason to believe that the forces that pulled them apart have peaked and that a new era of greater cooperation

might be dawning? A mounting body of evidence suggests this is indeed the case. The isolationist phase of national consolidation is waning, and more cooperative and integrative trends are emerging across Central Asia. Five instances of this new development can be cited.

First, destruction of the Taliban regime by the United States and the crippling of al Qaeda removed a major source of regional instability. Radical Islamists still make probes into Central Asia, but governments are now better equipped to deal with them.

Second, despite dire prognoses, all the new states have survived intact. The civil war in Tajikistan ended; the fertile Fergana Valley avoided widely predicted ethnic conflict; and Russia, the past colonial master, has come to accept the new sovereignties as a permanent reality.

Third, the process of reform in every country has advanced so far that the general character of each state is now formed. Each government now accepts that it must deal with its neighbors as they are, and not as it would like them to be. This new realism has resulted in more attention to regional transactions.

Fourth, the task of defining the region's external borders is nearly complete. The borders of Kazakhstan, Kirgizstan, and Tajikistan with China have been fixed, as has Kazakhstan's long border with Russia and Turkmenistan's with Iran. Many intrastate borders in the region are still being delineated, but long sections of the sensitive Kazakhstan-Uzbekistan border are settled, and others soon will be. As this happens, regional comity will revive.

Fifth, new prospects have been opened for trade, challenging governments to adopt economic policies that will position them to reap the benefits. Crucial among these prospects are the opening of the former borders of the Soviet Union to the south and east, enabling Central Asia to become the main truck route between the Urals and West Siberia, Iran, and India, as well as between Europe and China.

These developments are a precursor to a full embrace of regional cooperation and trade, and mark an important shift of priorities. Regional cooperation

is increasingly seen as an essential complement to national sovereignty and a mechanism for enhanced trade-led economic development.

WAY FORWARD: ECONOMIC

Many observers concede that Kazakhstan is experiencing a new prosperity but attribute it largely to the oil and gas sector. Some observers suggest the region has made few other tangible achievements. This view is wrong, even though the initial post-Soviet collapse was real and demoralizing. As the graph below shows, Central Asian economies as a group experienced sluggish GDP growth in the wake of independence (1991-95). In 1996, they began their economic recovery, as evidenced by positive GDP growth, which has continued to the present.

The recent GDP growth (2000-03) of 8.7 percent per year in Central Asia is quite striking. Average growth rates in the range of 10 percent were recorded in Kazakhstan. Turkmenistan grew even more. During this period, Kirgizstan and Uzbekistan recorded respectable annual growth rates of about 5 percent. These rates are similar to those of more dynamic Asian economies and better than Russia's. GDP growth above 6 percent is forecast for Central Asia as a whole for the next two years.

This growth has not been achieved at the expense of unsustainable budget deficits. True,

Kirgizstan's shortfall is close to 5 percent of its budget. But Tajikistan's budget deficit is only 0.2 percent. Turkmenistan's budget is balanced, and Uzbekistan runs a surplus. Heavy borrowing by Tajikistan at the end of its civil war and by Kirgizstan after the collapse of its military-industrial firms has created burdens for the future, but macroeconomic stability is otherwise the order of the day. Inflation has fallen to reasonable levels everywhere except in Uzbekistan.

Another important change is the increasing role of the private sector as an engine of economic growth in Central Asia. As the graph below shows, the private sector share of GDP currently ranges from 25 percent to 60 percent in the five Central Asian

economies. Among other benefits, a rising private sector share in GDP is likely to be associated with increased economic efficiency, rising exports, more rapid growth, and poverty reduction.

Of course, many challenges remain. Unemployment is high in some Central Asian economies, income distribution is becoming polarized (although far less so than in Russia), and the millions living in poverty have yet to benefit from the overall growth. Yet both the direction and rate of change in the region are now so positive that the question is no longer how to create growth but how to sustain and expand it, and how to spread its benefits throughout the population.

In the years ahead, the following factors will play a critical

Central Asian Private Sector Share in GDP

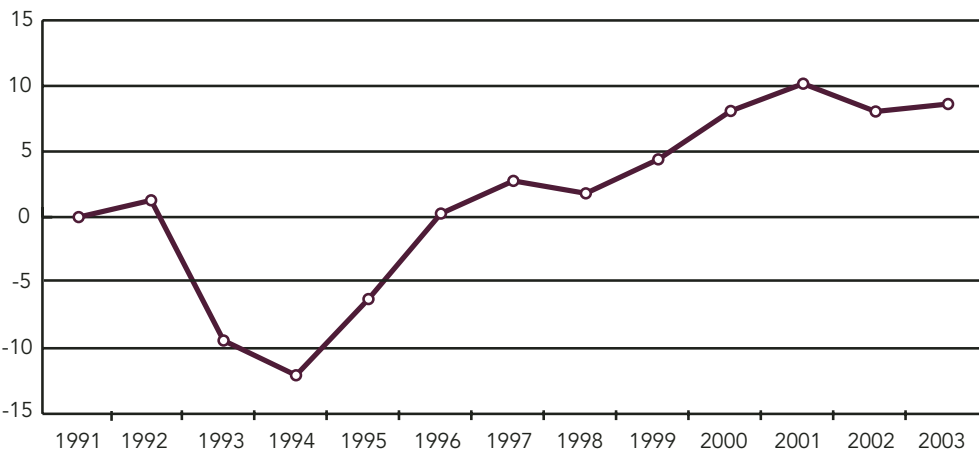
(in %)



Source: European Bank for Reconstruction and Development Transition Report, 2003

Central Asian Annual GDP Growth

(in %)



Source: World Bank World Development Indicators, 2004

role in creating broad-based and sustainable growth.

- **Banking and market reforms:** Central banks are functioning in all states and attracting bright, young, Western-trained economists. But, with the exception of Kazakhstan, private capital markets are underdeveloped. Branches of foreign banks partially fill the gap, but they do not provide credit for small business development. The absence of region-wide banking retards the implementation of otherwise promising projects.

- **Privatization:** Kirgizstan was the first country in the former Soviet Union to privatize land. Today, with the exception of Turkmenistan, all countries have embarked on programs of privatization. Progress has been slow in some countries. Major efficiency gains can be expected from accelerating the privatization process.

- **Taxes:** Corporate tax rates remain relatively high and act as a disincentive to small business start-up and growth. Several Central Asian economies are working to reduce and rationalize tax burdens on business. Much would also be gained by developing more effective systems of tax collection.

- **Securities markets:** Uzbekistan has erected a handsome building for its stock exchange, but few firms are actually listed on the national stock market. The situation is only marginally better elsewhere. Securities markets require laws, enforcement mechanisms, and sophisticated information systems. Until these are in place, capital flows will follow inefficient bureaucratic orders rather than the laws of the marketplace, and small and medium-sized businesses will remain undercapitalized.

- **Infrastructure:** Existing infrastructure reflects the political priorities of the former Soviet Union rather than the market. So great are the region's needs in this area—and so dramatic the likely effects of improvement—that the renewal of infrastructure should be a main priority for international investment.

WAY FORWARD: POLITICAL AND INSTITUTIONAL

Some analysts highlight weak governance as an issue in Central Asia. They argue that authoritarian rule and cronyism hinders economic development. Yet it is easier to level these charges than to explain why they are so. The fact that post-colonial governments in Asia, Africa, and South America exhibited the same tendency provides a hint. In each case, the collapse of the old authority destroyed mechanisms for balancing the interests of regions, clans, and patronage systems. Strong presidents arose by default to fill this role, as they have in Central Asia. Such leaders see their choice as between using the old patronage systems or being defeated by them. Even now, when new leaders champion reform, local bureaucrats opposed to change can easily neutralize their efforts.

The fatalism, however, that insists authoritarianism will hold fast in Central Asia because it accords well with local cultural tradition ignores a number of positive forces at work in the region today. For example, with the exception of Turkmenistan, new constitutions limit presidential terms and call for elections thereafter. Local and international opinion exerts growing pressure for periodic change at the top through transparent elections.

Meanwhile, parliaments are growing in power, as are political parties. Even while some aspiring parties remain unregistered, others, including some created by the governments themselves, are increasingly staking out issues and building constituents from among the electorate. Elected officeholders do not yet play a pivotal role in major decisions in Central Asia. But processes already at work in nearly every country could create systems that allow genuine participation by the electorate and its representatives.

Other positive developments warrant notice. The expansion of the private sector fosters the development of initiative and collaboration that are characteristic of a civil society, even when the legal rights of voluntary associations remain limited.

And the combination of freer travel and improved access to information breaks down autarkic thinking. As all this occurs, subjects are gradually coming to see themselves as citizens.

In judging future progress in these areas, three issues will deserve close inspection. Transparency should be expanded in all aspects of business and society to speed an end to corruption and to strengthen the role of independent courts. Effective and open practices of election, appointment, and remuneration for public officials must replace patronage systems. And civil service reform—especially at the local level—should focus on streamlining and improving

Soviet planners pointed all roads to Moscow, but the region can now look to all points of the compass for growth opportunities.

administrative capacity to establish efficient, market-friendly civil administrations with the skills required to run democratic societies.

WAY FORWARD: INFRASTRUCTURE, PHYSICAL, AND INSTITUTIONAL

Central Asia's geographic location and small population make infrastructure crucial to successful integration in the global economy. Soviet planners pointed all roads to Moscow, but the region can now look to all points of the compass for growth opportunities. In each direction, it finds large markets hungry for natural resources and each other's finished products. A program of infrastructure development that would enable the region to maximize its position would include inter- and intraregional road networks, including routes reaching isolated subregions and

mountain zones; new roads and rail lines to external markets to the east and south, especially to the rail and road head at Kashgar in the Xinjiang region, to Pakistan's emerging port at Gwadar, and to Iran's expanded ports at Bandar-e Abbās and Chābahār; intraregional air links connecting capitals and, equally important, providing direct links between provincial centers and between the capitals; region-wide telecommunications systems that extend connectivity to rural districts and remote centers; reconfigured energy systems and grids, including extensions to support the export of electricity to China and South Asia; and improved and sustainable regional water-sharing arrangements and irrigation systems. None of these requirements presents exceptional technical challenges. Together, they will promote growth and employment generation in impoverished subregions and in the region as a whole.

Clearly, these initiatives will require massive capital investments, conducive trade policies, and decisive measures to improve the effectiveness of governance. Yet this prospect is less daunting than it may first appear. Projects can be ranked by their ability to generate a quick economic payoff. As those higher on the list reap benefits, investments in the remaining initiatives will grow more attractive.

The key to success lies in creating the necessary region-wide institutional arrangements. These, in turn, require a spirit of mutual trust and perceptions of common interests that were scarcely evident during the 1990s. But the process of institution building can itself become an instrument for fostering trust. The challenge is to raise the banner of regionalism and establish region-wide institutions and attitudes that will give it practical meaning.

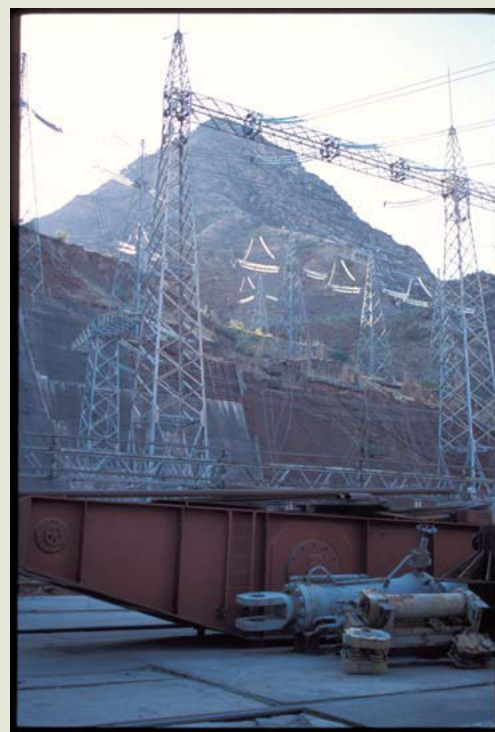
The potential benefits of regionalism are evident in the critical energy-water nexus. Downriver countries view water resources purely as a source for irrigation, but upriver countries see them mainly as energy resources such as hydroelectric generation. Both are zero-sum calculations and thwart serious investment in the region's non-hydrocarbon resources.

A framework water-sharing agreement reached in 1998 demonstrated that region-wide cooperation is possible. But the annually negotiated barter arrangements that the agreement created respond more to bureaucratic demands than to economic reality.

Institutional arrangements are needed also to harmonize trade, transit and customs, the licensing of transnational shippers, and regulations on trade, banking, border controls, and the settlement of disputes. This harmonization of regulations and procedures will occur only if regional leaders at the presidential and ministerial levels continue to consult with one another regularly.

This dialogue is deepening. New water and electricity management groups involving both upstream and downstream states are in place. Kazakhstan and Kirgizstan have both reached bilateral agreements on water with China, resolving potentially serious conflicts along the Ili, Chu, and Talas rivers. The Central Asia Cooperation Organization organizes regional consortia to design projects and mobilize external sources to pay for them.

In addition to multilateral meetings organized by the countries themselves, international



Harnessing Central Asia's water and energy resources offers an opportunity for both regional cooperation and economic development.

adopted an agenda of projects in transportation, trade facilitation, and energy and agreed to work together to mobilize the necessary international resources.

In a recent conference arranged by the Asian Development Bank, representatives of Afghanistan, Tajikistan, Uzbekistan, Pakistan, and Iran adopted a common program to remove barriers to region-wide road transport. Further initiatives involve a feasibility study for a Turkmenistan-Afghanistan-Pakistan-India oil pipeline and the adoption of a European Union-sponsored program for border management throughout the region.

Despite this fruitful start, the new sovereignties have much work to do before they will be enhanced by a framework of regional collaboration. For instance, restrictions still inhibit the flow of news and information among the states of Central Asia. There exist no locally controlled region-wide news services or even cooperative agreements among national services like Khabar (Kazakhstan) and Asia-Plus (Tajikistan).

Region-wide approaches are only now beginning in the field

of education, where national laws on licensing and accreditation have preserved educational autarky. However, the emergence of the International University of Kirgizstan and the American University-Central Asia suggest a renewed interest in region-wide cooperation. More recently, the establishment of the University of Central Asia by the Aga Khan Foundation and the presidents of Kazakhstan, Kirgizstan, and Tajikistan promises to bring innovative approaches to the alleviation of poverty across the entire mountain zone of Central Asia.

Other spheres can also play a role in fostering collaborative and region-wide approaches to development. Although some national athletic teams compete against one another, no sport has a pan-Central Asian athletic league. Culture, especially popular culture, and the arts have similar potential and also carry the possibility of reminding the public of the deeper commonalities that underlie national differences.

AT THE CROSSROADS

For centuries, Central Asia linked East and West and acted as a

bridge between great civilizations. With the collapse of the Soviet Union in 1991, the region reached a crossroads as newly independent states chose for themselves new paths forward. Now, a decade later, the region has once again reached a point of decision. More confident in their independence and with their national priorities defined, each nation must weigh its prospects as a small, remote market with limited ties to the global economy against its prospects as part of an integrated region with open borders and open minds.

The economic answer is clear: Regional cooperation is not an option for Central Asia. It is a necessity. It is now time for the new generation of Central Asians to capitalize on the natural and human wealth of their region and to create an environment that fosters business, creativity, and opportunity. The challenge is immense. For the brave, the dividends will be equally impressive.

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The economic answer is clear: Regional cooperation is not an option for Central Asia. It is a necessity.

financial institutions took the lead in convening ministerial conferences in 2002 and 2003. All regional states were represented as participants or observers, and senior officials from neighboring states were present as well. The conferences affirmed that region-wide economic cooperation is the key to both national security and poverty reduction. Further, they

INTERVIEW WITH TADAO CHINO, PRESIDENT, ASIAN DEVELOPMENT BANK

Regional Cooperation to Fight Poverty in Central Asia

Central Asia is a region of difficult challenges and vast opportunities. The Asian Development Bank (ADB) works with Central Asian governments to help them reduce poverty and to serve as an integral link between large and dynamic markets in Europe and Asia. “Regional cooperation is not an option but a necessity for Central Asia,” said ADB President Tadao Chino in an interview. Excerpts:



ADB President Tadao Chino (left) greets a guest at the Tajikistan Resident Mission's inauguration

How can regional cooperation benefit Central Asia?

The countries of Central Asia are uniquely interdependent. Because of the region's remoteness, integrated infrastructure, shared natural resources, and small individual country markets, regional cooperation provides a strategic framework for development. Last November in Tashkent, senior ministers declared the “critical and urgent importance of regional economic cooperation” in fostering political stability and security in Central Asia.

What are the main challenges facing the region?

The primary challenge is poverty. It is unacceptable that nearly a third of the region's population lives in poverty despite rich human and natural resources. Given the extensive interdependence of Central Asian countries, national development strategies should optimally be designed and implemented in an overall regional cooperation framework. Successful integration with world markets and the availability of physical and social infrastructure—essential for attracting foreign direct investment—can only realistically be achieved through a regional approach.

What is ADB doing to further cooperation?

It is important to emphasize that the pace, direction, and substance of regional cooperation depends principally on the countries of Central Asia themselves. The international community can play a supportive role. With regional cooperation in Central Asia still in its early stages, tangible progress will require careful nurturing, demonstration of win-win outcomes, and building of political will and mutual trust. While not glamorous, this approach has proven successful in ADB's regional cooperation program in the Greater Mekong Subregion.

In 1997, ADB initiated the Central Asia Regional Economic Cooperation (CAREC) Program. In 2003, the Program expanded to include the European Bank for Reconstruction and Development (EBRD), International Monetary Fund (IMF), Islamic

Development Bank (IsDB), United Nations Development Programme (UNDP), and World Bank. As a result, CAREC has become one of the principal forums for promoting regional cooperation. With buy-in from the countries and the prospect of coordinated efforts by development partners, CAREC represents the best bet for Central Asian economies to attract investment and achieve sustained economic growth.

Are there any initiatives to bring Afghanistan into the fold?

Afghanistan attended CAREC's First and Second Ministerial Conferences as an observer. Since then, ADB launched two initiatives to extend the benefits of regional cooperation to Afghanistan. In 2003, senior ministers from Afghanistan, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan established a forum to focus on building transport corridors linking Central Asia to warm water ports in Iran and Pakistan. Additionally, a feasibility study is being conducted for a gas pipeline for transporting natural gas from Turkmenistan to South Asian markets via Afghanistan. Both initiatives have significant potential for generating employment and income, and reducing poverty in Afghanistan by fostering greater cooperation among neighboring countries.

Central Asia Regional Economic Cooperation Program

Established 1997

Member Countries Azerbaijan, People's Republic of China (Xinjiang Uygur Autonomous Region), Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, Uzbekistan

Priority Areas Energy, water, trade, and transport

Secretariat Asian Development Bank

Institutional Framework Components

- Ministerial Conference
- Senior Officials' Meeting
- Sector Coordination Committees
- Project Working Groups
- National Focal Points
- Secretariat

Donor Participants (since 2003) ADB, EBRD, IMF, IsDB, UNDP, World Bank

Key Regional Investment Projects

- Almaty-Bishkek Regional Road Rehabilitation
- Dushanbe-Kyrgyz Border Road Rehabilitation
- Regional Power Transmission Modernization
- Regional Trade Facilitation and Customs Cooperation Program

Total Lending to CAREC Countries US\$2.6 billion, including US\$187 million in regional projects (as of April 2004, excluding PRC)

Technical Assistance Grants US\$175.8 million, including US\$14.8 million in regional technical assistance grants (as of April 2004, excluding PRC)

More Information www.adb.org/carec

“Regional cooperation is not an option but a necessity for Central Asia”

Tadao Chino
President, Asian Development Bank



A New Path for an Ancient Route

For centuries, Central Asia thrived as the meeting place of East and West. As a bridge between great civilizations, the region evolved as a center of trade, ideas and prosperity. Today, seven nations are reviving that age of hope and opportunity. Azerbaijan, People's Republic of China, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan and Uzbekistan are working together to pursue a shared vision of a region where goods, people and ideas can move freely. The Asian Development Bank is committed to helping these nations create a better future for their people and their region.



Rebuilding the Silk Road. Strength through regional cooperation.

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